



Best Practices Guide to Legal Analytics

Version 2.0

Foreword



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Sky Analytics

Nearly ten years ago at a previous company we were the plaintiff in a lawsuit that went five times over budget. While we were pleased with our counsel's performance and matter outcome, we were less enthused about the lack of transparency and accountability we found in our billing. As consumers of legal services we set out to find a service that could help us answer questions such as "Did we receive fair rates?", "Was our matter staffed properly?" and "Was this case settled in a timely manner?". After discovering that there was a lack of technology in the legal industry to address these issues, we set out to build the world's most powerful legal analytics platform to provide answers.

In the years since, we have built a cutting-edge product and rapidly growing benchmarking database, but most importantly *we have listened to our clients and learned a lot.*

In this *Best Practices Guide to Legal Analytics* we are excited to share with you our collection of the latest strategies used by leading legal departments, leveraging data to make more informed decisions. Whether you are looking to reduce outside legal spend, obtain higher quality counsel or drive diversity, legal analytics is fast proving to be a game-changer in the legal industry.

Lastly, we urge you not to get caught in the details; just get started and learn as you go. Thank you for exploring this guide and we look forward to working with you in the future!

Sincerely,

A handwritten signature in black ink that reads "Doug Ventola". The signature is written in a cursive, flowing style.

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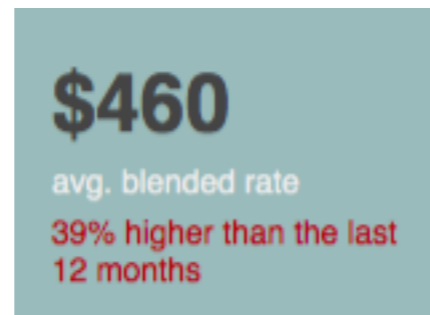
Setting the Foundation

Track Key Performance Indicators

Peter Drucker observed, "What is measured improves." Indeed the first step towards improvement is identifying a few key metrics to monitor on a regular basis. Key Performance Indicators (KPIs) offer easy-to-understand, broad level metrics for measuring your legal department and practice areas. By sharing these KPIs internally your team will naturally work to improve the metrics over time.



What is your spend in the rolling past 12 months? Is it rising or falling?



What is your department's true effective rate or "average blender rate?"
(A blended rate is the average rate across all timekeeper weighted by hours billed.)



What is your average cost per matter for a given matter type?

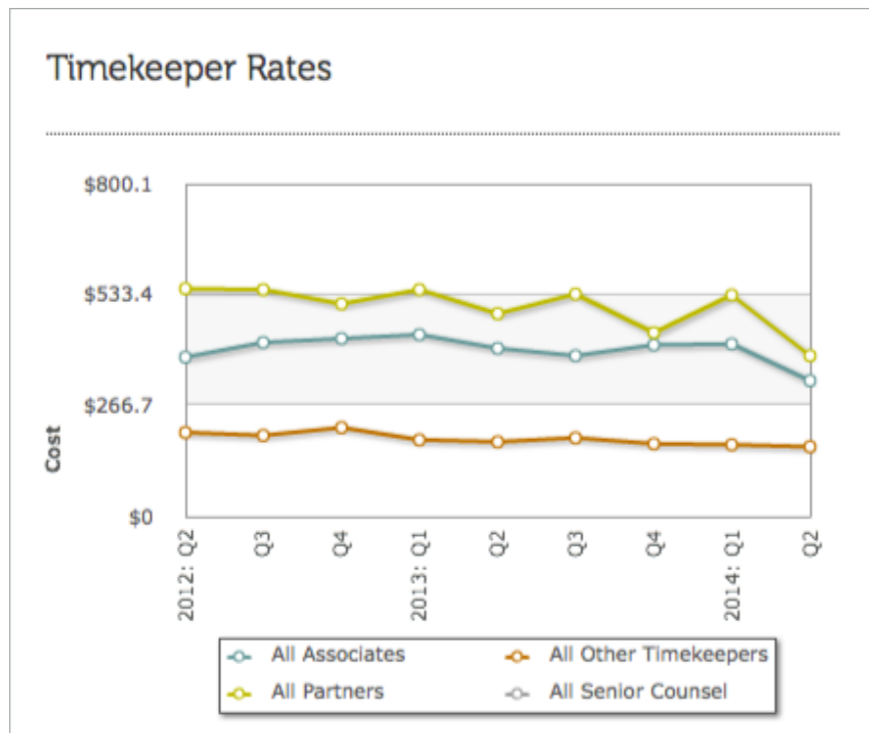


And how long do these matters take to close?

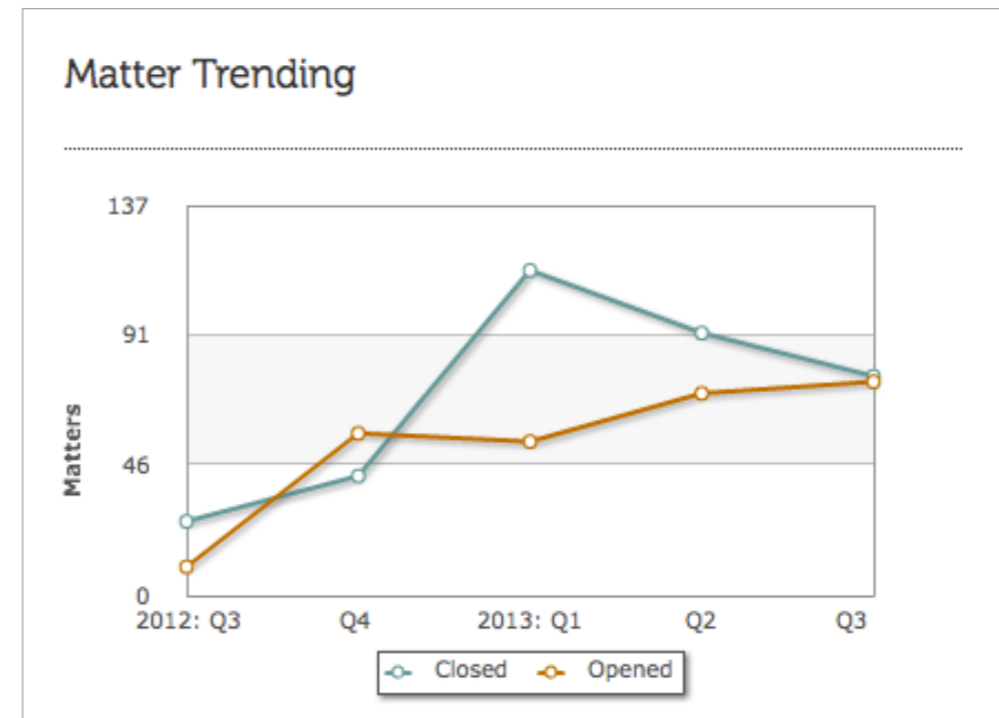
Setting the Foundation

Monitor Department Trends

A key to successfully employing legal analytics is not just taking a one-time snapshot of key metrics, but also monitoring how these metrics evolve over time. In other words, it's helpful to understand your effective rate, but it is even more helpful to understand whether your effective rates are rising or falling. Knowing whether the department's caseload is increasing or decreasing is more useful than simply the volume of open matters.



Timekeeper rate trending analytics can help show whether your rate negotiation strategies are having a positive impact or not.



Monitoring department caseload can help better balance internal and external staffing needs.

Setting the Foundation

Continually Improve Your Data

In order to obtain quality, trustworthy analytics, you must strive to feed your analytics platform good data. What is good data you may ask? There are several key factors that determine quality data: robust line item descriptions, UTBMS task coded line items, categorized matters, and non-block billed line items. The good news is that you can still get started even if you don't have all of these practices in place yet. In fact, a robust analytics platform will help you identify your data deficiencies. Leading legal departments use this insight to work with their outside counsel to improve their invoice data quality over time.

88.0%
Entries with Block Billing

Block billing (time entries that have multiple descriptions) inhibits transparency into tasks performed. Identify firms and attorneys with high levels of block billing and share this data with your counsel in an effort to improve data quality.

Top Ten Block Billing Timekeepers

Timekeeper	Position	Percentage Block Billed	Block Billed Hours
	Associate	99.0%	1,710.22
	Partner	93.9%	1,675.98
	Partner	98.2%	1,302.40
	Partner	98.5%	1,281.47
	Associate	98.5%	1,275.77
	Partner	97.7%	1,190.10
	Partner	95.3%	1,109.30
	Associate	91.0%	1,071.64
	Associate	98.2%	1,053.60
	Partner	94.6%	1,016.23

Managing Outside Counsel

Monitor firm relationships

There are many factors that go into measuring firm performance and efficiency. The complexity and significance of the firm's caseload will determine which metrics are most valuable. For instance, for "bet the company" litigation, case outcome is key and average blended rate may be secondary. For more routine, repetitive, work staffing efficiency and average cost per matter may be better measurements. Here are a few examples of metrics that can be tracked at the firm level...

4.00

timekeepers per matter

-18% lower than similar firms employed

Does your firm
staff efficiently?

15.5

average years of experience per partner

-12% lower than similar firms employed

Are you getting
less experienced
attorneys?

\$2,751,679

average cost per matter

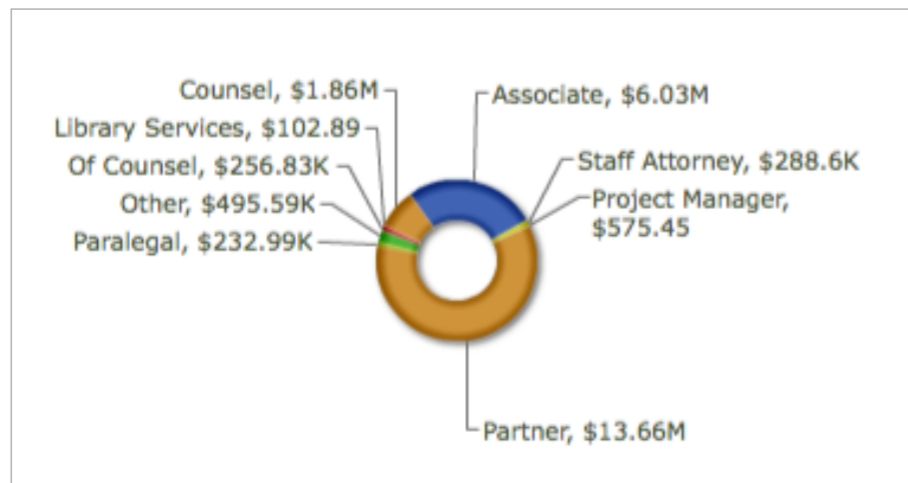
5,183% higher than similar firms employed

Is your firm closing matters at a
competitive cost?

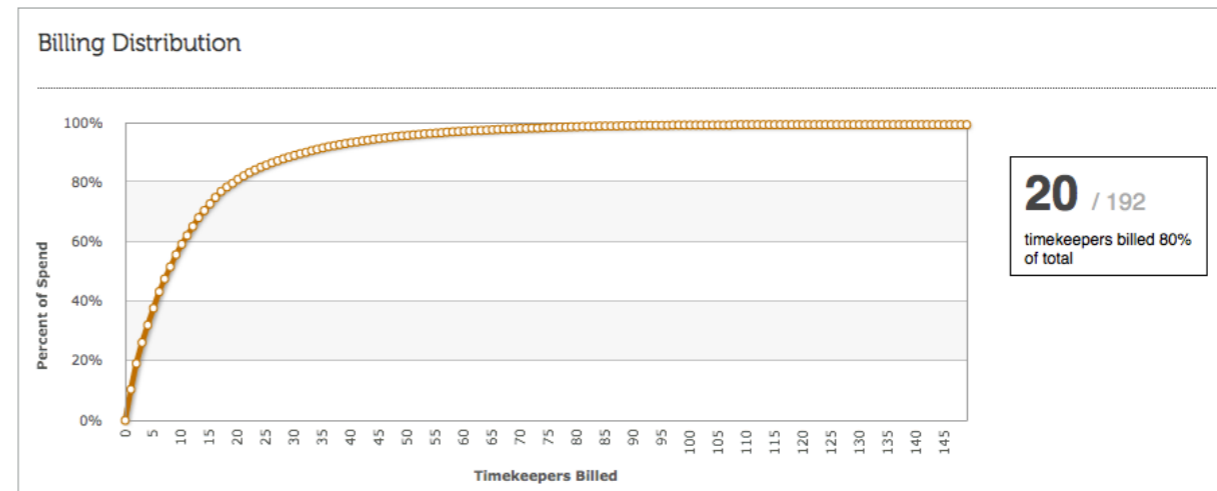
Managing Outside Counsel

Monitor matter staffing mix

While some may choose not to question a chef's mix of ingredients, legal matter costs can take on a life of their own and warrant the monitoring of a law firm's mix of "ingredients." Leading legal departments are monitoring top matters for not only staffing mix (e.g. percentage of hours billed by associates), but also staffing concentration. In other words, has the matter been staffed across a broad number of legal professionals or a core team? The former can lead to excessive billing as timekeepers unnecessarily come in and out of matters.



Is 60% partner time appropriate for this matter?



If 20 timekeepers are billing 80% of the billed total, are the other 172 timekeepers necessary and efficient?

Managing Outside Counsel

Capture qualitative feedback

Legal departments increasingly look to drive value received from their outside counsel. While everyone has a different definition of value, one could argue that value is simply results delivered divided by price paid. Quantitative billing metrics related to price paid are easy to obtain, but qualitative metrics that capture results are more difficult to come by. As a start, many companies look to capture satisfaction scores as a proxy for results delivered. Keeping satisfaction surveys short and concise is a best practice that drives internal participation.

Poor 1 2 Average 3 4 Excellent 5

Understands Objectives

Expertise

Works Well with Others

Efficiency

Stays within Budget

Results Delivered

Recommendation

Write a review: (optional)

Very professional and responsive.

SUBMIT

In-house counsel can rate outside counsel on several key factors.

3.3 / 5
satisfaction rating
[view details](#)

Weighted Rating	3.3
	based on 9 reviews
Understands Objectives	3.3
Expertise	3.2
Works Well with Others	3.2
Efficiency	3.3
Stays within Budget	3.3
Results Delivered	3.2

Individual satisfaction scores get aggregated to the law firm level.

Managing Outside Counsel

Consolidate firms

Utilize data filters to first identify firms performing similar work.

Region
- South East

Matter Type
Debt Collection

Consolidating a number of firms doing similar work is a key legal spend management strategy for companies with high volumes of outside counsel billings. Qualitative and quantitative assessments should both play key roles in identifying which firms to award ongoing business. It is important to compare firm performance across similar matters for the best apples-to-apples comparison. Then metrics such as Average Cost per Matter, Average Matter Duration, and Average Blended Rate become extremely useful in selecting the firms that outperform their peers.

Firm	Billed Total	Hours	Matters	My Avg Cost per Matter	My Avg Blended Rate	Diff from Sky Rate	Sky Billing Precision Score
★ [Firm] LLP	\$14.6M	47,155.4	9	\$1,618,992	\$293	-4.3%	★★★★★
★ [Firm] LLP	\$725K	15.4	3	\$241,652	\$330	8.0%	★★★★★
★ [Firm] LLP	\$474K	1,209.7	3	\$158,115	\$457	49.7%	★★★★★

Stack ranking the resulting firms by Average Cost per Matter (for similar types of matters) can reveal stark differences in not only matter costs, but average blended hourly rates, as well.

Managing Outside Counsel

Negotiating Rates

In-house legal departments are often tasked with reviewing incoming rate requests from their firms. These rate requests often go unchecked and are approved by the hiring in-house attorney whose primary motivation may not be cost containment. As such, leading legal departments are leveraging real-time rate benchmarking to compare requested rates against thousands of similar attorneys. Factors such as bar admission date, area of expertise, firm size and the timekeeper's location allow computer algorithms to quickly pinpoint fair market rate comparables.

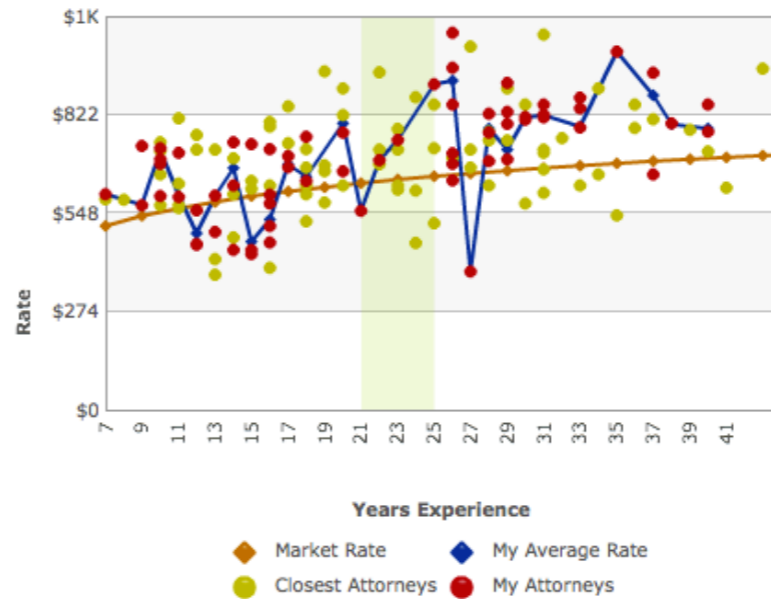
What are comparable attorneys charging?

Market Comp Rate:
\$641 /hr

What does your historical data say about your rates for comparable attorneys?

My Comp Rate:
\$743 /hr
-15.9% above market comps

Rate Distribution Analysis



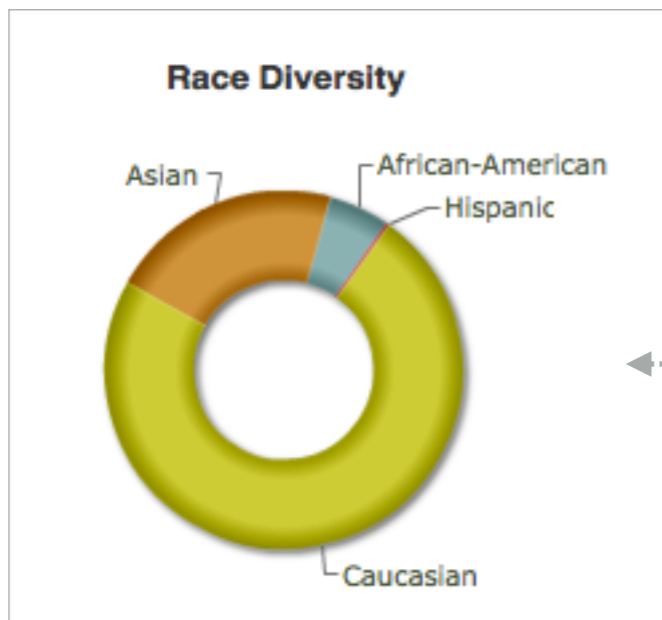
Rate distribution allows you to see where your rate request lies on the spectrum of market data.

Managing Outside Counsel

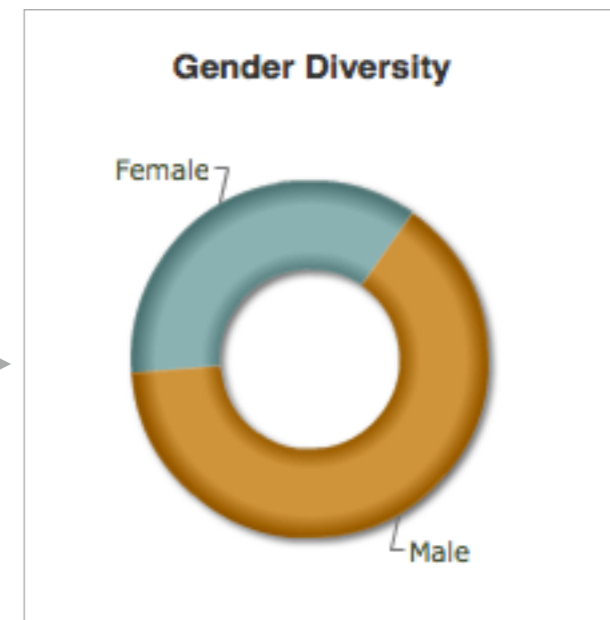
Drive Diversity

Research has proven that diversity can unlock innovation and drive market growth.* As such, many leading corporations are not only driving diversity internally, but also with their outside counsel. Measuring diversity has traditionally been a very manual task, but modern analytical tools can make monitoring diversity metrics from many angles a snap. As a best practice to get a true picture of outside counsel, it is important to analyze diversity by hours billed, not by headcount.

* Source: [*Harvard Business Review: How Diversity Can Drive Innovation*](#)



To truly measure diversity in outside counsel you must measure diversity by hours billed not by headcount.



Managing Outside Counsel

Find the Right Counsel for the Job

With thousands of attorneys to choose from and many different factors to consider, finding the right counsel for an upcoming matter can become a daunting challenge. By combining qualitative research with quantitative analytics this task can be made much simpler. Research companies, such as The Legal 500, rank firms and attorneys by practice speciality based on peer and client reviews. Layering this type of qualitative ranking assessment along with quantitative billing metrics, such as Average Matter Cost or Average Blended Rate, can be a powerful combination when locating the right counsel for the job.

What practice area expertise do you need?
- Counseling: Intellectual Property: Patent Prosecu

In what region do you need representation?
- North East

What size firm are you interested in using?
All

Do you want to limit to firms you've previously used?
No

Select practice area expertise, region and firm size to identify matching firms...

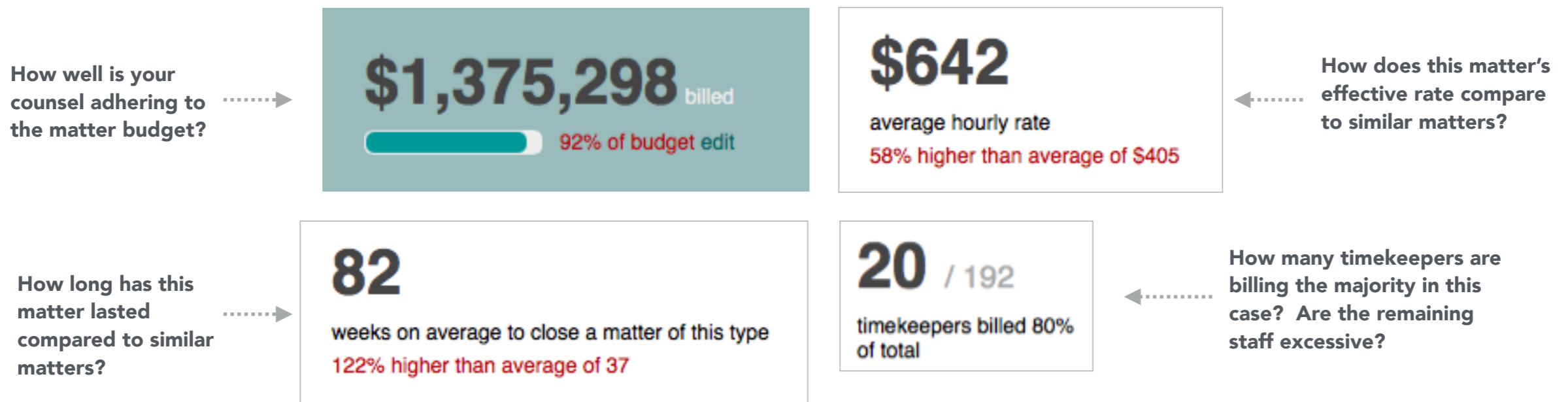
Firm Name	Legal500 Tier	Billings (Last 12 Months)	Hours (Last 12 Months)	Avg Matter Cost	Avg Matter Duration	Blended Rate
Kirkland & Ellis LLP	1	\$19,700,372	33,760	\$426K	45	\$402
Sullivan & Cromwell LLP	1	\$8,612,222	10,242	\$987K	34	\$1,058
Mayer Brown LLP	1	\$4,216,341	8,162	\$323K	38	\$561
Schulte Roth & Zabel LLP	1	\$2,751,679	7,424	\$1.4M	38	\$712
Davis Polk & Wardwell LLP	1	\$1,623,899	1,979	\$722K	57	\$1,003

...and then stack rank firms by qualitative metrics like Legal500 rankings or quantitative metrics like Average Blended Rate.

Managing Matters

Track Key Performance Indicators

There are many useful metrics available when analyzing a matter. The type of matter with regards to complexity and significance will largely determine which of these metrics will matter most to your company. In other words, Average Hourly Rate may be a key performance indicator for routine, repetitive cases, whereas adherence to budget may be more important for more complex cases.

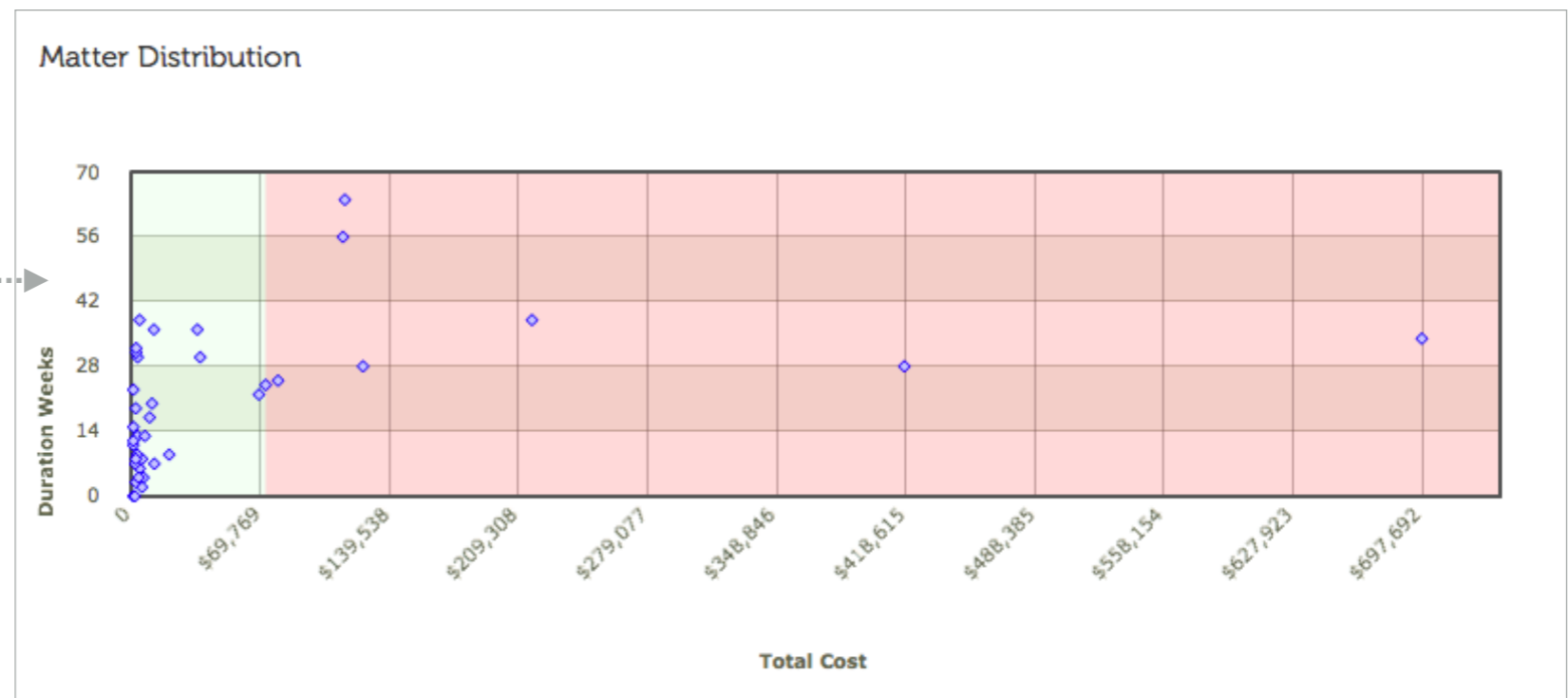


Managing Matters

Forecast Matter Costs

While it is true that every matter is unique and there are many factors that can determine how much a case will end up being billed, it is also true that the legal industry is not immune to the law of averages. If one analyzes a large swath of similar matters they will most likely find a large concentration of matters that fall within certain cost and duration perimeters and a smaller number of outliers that don't seem to adhere. Seeing the larger picture by analyzing your own historical data, or an industry-wide database, can help your budgeting process by planning for the best and worst case scenarios.

When analyzing historical matter costs to help budget for an upcoming matter, it is helpful to ask "Do we expect this matter to be relatively routine or do we foresee potential complications?" (80% of matters in green, top 20% represented in red)



Identifying Savings Opportunities

Reduce Junior Associate Billing

While there is certainly a role for first year associates in some matters, many companies look to guard against excessive billing by these junior associates. Some companies prefer not to “pay to train” and prohibit first year associated billing altogether. As a best practice, leading legal departments are setting limits on the percentage of the total hours billed by junior associates on a matter level. Some matters may warrant less experienced associates in the mix to reduce fees, whereas in others matters this staffing practice is not welcome.

Search for hours billed by associates with less than one year of experience, for example

Maximum Years of Experience
1

Matter	Associates	Hours Billed	Avg. Rate	Differential	Total Hours Billed	% of Hours in Matter
Matter 259924	8	2,571.0	\$799.53	\$2,055,600.00	9,327.5	27.6%

In this case, 27.6% of hours billed were by junior associates billing nearly \$800 per hour.

Identify Savings Opportunities

Better Manage Rate Requests

Most companies do not have a defined process to properly manage incoming rate increase requests. Rate decisions are typically left to practice managers who may have a conflict of interest. Implementing a formal rate review process that incorporates market intelligence balanced with practice manager input often offers the quickest and easiest means of realizing cost savings for most legal departments.

Maria **ADJUSTED** Rating: - n/a billing precision score

Comp Rate Advisor	Request Analysis	Recommendation
Comp Rate = \$495	Current Rate \$480 → Requested Rate \$615	Reject
Factors: Position: Associate Office: Chicago, IL Years Experience: 7 Firm Level: 1	The requested rate is 28.1% higher than the current rate. The requested rate is 24.3% higher than the Comp Rate. Range for Associates at similar-sized firms: \$370 to \$700	Reasons: <ul style="list-style-type: none">The requested rate exceeds the Right Rate™.Rate increase exceeds 15%.
Other Considerations: <ul style="list-style-type: none">0% block billing0% ext. hours0.00 hours billedPractice: Finance & Securities	Notes <input type="text"/> (Maximum characters: 500)	Your Recommendation: Counter: \$495 Final Decision: Approve Adjusted Rate

← How does the timekeeper's requested rate compare to market comparables? Are you taking into account other factors, such as satisfaction scores and billing practices?

Identifying Savings Opportunities

Manage Excessive Hours Billed

The legal industry is well-known for long hours, and working seven days per week is not uncommon. Attorneys are only human and their productivity decreases as they are overworked. Certainly, no one is as productive in the fifteenth hour of billing as they are in the first hour. With this in mind, leading legal departments guard against excessive hourly billing via billing guidelines. These guidelines should be monitored on an ongoing basis. As a best practice, many legal departments will either cap the amount of hours that an individual timekeeper can bill on a daily, weekly and/or annual basis.

Identify hours billed over thresholds, such as 10 hours per day or 2,080 hours per year.

A settings panel with three tabs: 'Daily' (selected), 'Weekly', and 'Yearly'. Below the tabs is a label 'Threshold for Hours Billed' and a dropdown menu showing '10 hours'. At the bottom is a teal 'UPDATE' button.

Timekeeper	Total Hours Billed	Excessive Hours Billed	% Over Threshold	Avg. Rate	Differential
Zachary	389.0	99.0	25.4%	\$800	\$79,200.00

A quarter of this attorney's hours billed were billed over 10 hours per day. Is this reasonable?

Identifying Savings Opportunities

Reduce Discovery Spend

As discovery has been traditionally a major cost driver in litigation, it was one of the first processes to undergo a digital transformation in the legal industry. Leading legal departments now outsource much of their discovery work to companies that offer software and services specifically designed to lend drastic efficiencies to once manually intensive labor. In order to determine if this strategy is a fit for your organization, the first step to identify discovery work and quantify potential savings. Once you have assessed the opportunity you will be better prepared to engage an eDiscovery provider and capture future savings.

Select a targeted alternative hourly rate for outsourced discovery work.

Alternative Price
\$100 /hr

Discovery Task Spend

Total differential identified: **\$2,394,019.85**

Firm						Total Differential
[Redacted] LLP						\$1,119,300.05
Timekeeper Name	Position	# of Matters	Discovery Hours Billed	Discovery Total Billed	Avg. Rate	Differential
Catherine [Redacted]	Associate	4	793.8	\$396,471.72	\$501.56	\$317,091.78
Travis [Redacted]	Paralegal	3	789.7	\$238,542.63	\$302.23	\$159,572.42
Nathaniel [Redacted]	Associate	1	182.5	\$105,734.83	\$582.33	\$87,484.86

Quantify potential savings by comparing the average rate for each timekeeper at a firm to the previously selected targeted rate.

Summary

“You don’t have to
be great to start,
but you do have to
start to be great.”

- Zig Ziglar

Better transparency into market forces and billing dynamics are driving a massive metamorphosis in the legal industry. Legal departments are identifying clear inefficiencies within their outside vendor relationships and demanding change. In some instances this change is as simple as implementing billing guidelines and in other instances it is as significant as non-hourly billing models or shifting business to new firms.

As with every industry, disruption creates opportunity for those who seek to embrace change and leaves those resistant to change behind. Marc Andreessen, general partner of the highly successful venture capital firm Andreessen-Horowitz, says “we are in the middle of a dramatic and broad technological and economic shift” in his Wall Street Journal essay “[Why Software Is Eating The World](#).” Nearly every industry from retail to telecom to healthcare and education is undergoing this “fundamental software-based transformation.” Mr. Andreessen concludes, “Companies in every industry need to assume that a software revolution is coming.”

While software will never replace an attorney’s expertise or judgement, it is surely poised to revolutionize the legal industry nevertheless.

All of this change may seem daunting, especially if numbers and analytics aren’t your forte. And, frankly, this is fine and maybe somewhat normal. But don’t get overwhelmed and let this stop you. Just get started and learn as you go. Simply put, opening this door will lead you down new paths to efficiency that were not apparent before.

We thank you for reading this guide and invite you to send us an email at feedback@skyanalytics.com if you have any questions or feedback.