

# Working with external providers

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The legal supply chain reimaged:  
new advisory relationships for a new era

4 of 5





# The legal supply chain reimaged: new advisory relationships for a new era

## QUICK READ

- With nearly half (44%) of the average legal function budget spent on external legal providers, leaders of functions need to ensure they have the right mix of suppliers to support their needs.
- As legal supply chains diversify both incumbent law firms and industry disruptors have launched new legal delivery models.
- Our research shows some of these new models are popular with in-house leaders. 63% have used contract lawyers. 41% have used project-based outsourcing.
- However, use of other types of alternative provision such as operational outsourcing or consulting (whether business and regulatory, legal function design or legal service procurement) have not taken off to the same extent, although the stated future spending plans of survey participants suggest they will in the next three years.
- Those furthest ahead on their innovation journey have enhanced their supplier management capabilities and broadened their range of external providers to respond to developments in the legal services ecosystem and maximise the value of their external spend.

### The A&O perspective

In-house leaders have never faced as much choice about how they resource their legal needs. The next decade is likely to be characterised by a continued blurring of legal services models, as providers combine deep technical expertise, technology, flexible resourcing and consulting capabilities in new ways. As in-house legal functions move towards innovation maturity, Allen & Overy believes leaders will recalibrate their relationships with external providers. The most successful legal functions will be those that have a clear understanding of how they want their legal supply chain to complement internal legal resource. They will be first to harness new collaboration opportunities.

This is the fourth in a series of papers that makes up *The Allen & Overy Legal Innovation Benchmarking Report*. The report explores the realities of innovation and change within in-house legal functions today. The insight in our series was developed through in-depth benchmarking surveys completed by 92 senior leaders of in-house functions immediately prior to the onset of the Covid-19 pandemic. If you are interested in taking part in the benchmark survey to see how your responses compare to the leaders in our research, you can do so by contacting: [legalinnovation@allenover.com](mailto:legalinnovation@allenover.com)

## A diverse legal ecosystem

The modern in-house legal function aspires to be more efficient and more innovative and in doing so to enhance the value it delivers to internal business colleagues. Yet leaders of legal functions know these aspirations cannot be achieved in isolation. Success depends on being connected into a supply chain of trusted legal partners, technology providers and other suppliers of legal services.

In-house legal teams are just one important part of a vibrant legal ecosystem that is rapidly expanding and diversifying. This means smart supply chain management will be an increasingly important capability for in-house teams to master in future if they want to derive maximum value from their legal suppliers. Allen & Overy's research among 92 senior leaders of in-house functions shows that 41% of in-house functions have now recruited legal supplier procurement specialists into their team, and a further 5% are actively hiring for these roles.

Our research reveals that the most mature legal functions have utilised the expertise of procurement specialists to reimagine their legal supply chain. They openly embrace new legal service delivery models such as contract lawyers, project based outsourcing and legal function consulting to match the best type of provider with particular legal tasks.

## Budget: making external spend go further

Achieving greater value for money from legal spend is a significant motivating factor for in-house teams to adopt new delivery models. Among the in-house leaders interviewed for our research, an average of 44% of their total legal function budget is allocated to external spend with the remaining 56% spent on salaries, internal projects and other costs associated with running the legal function.

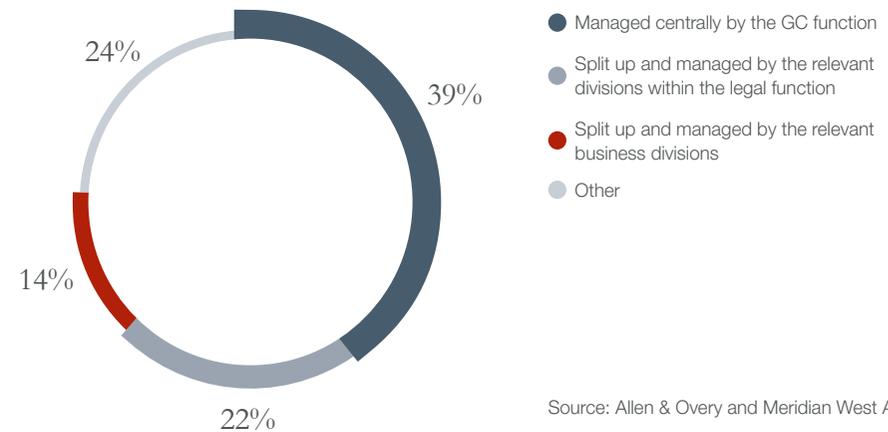
With the average legal department spending nearly half of its budget externally, it is imperative that functional leaders utilise that spend in the most cost-effective way. In recent years many in-house leaders have begun to set targets for performance improvement, fee innovation and added-value delivered by their legal supply chain. This trend is likely to intensify as functional leaders adopt a more disciplined approach to measuring both the outputs and the outcomes achieved by partners in their value chain.

"We recently implemented an outside legal spend productivity project," says the Head of Legal Innovation at one US-based industrial manufacturer interviewed for our research. "The goal of that project is to achieve a year-on-year 5% productivity improvement in outside spending. I need our external legal providers to be innovative in offering alternative and value-based fee

arrangements, and not just discounted hourly rate models."

Those leaders who have greater centralised control over legal spend within their organisation may find it easier to reimagine how their total spend is deployed without having to resort to salami slicing across multiple legal budgets controlled by different business divisions. However, Figure 1 suggests that only four in ten legal departments today retain centralised control over the entire legal spend of their organisation. In most organisations legal spend is either devolved to business units or managed in a hybrid capacity.

**Figure 1: Is the overall budget for external legal resources in your organisation...?**



Source: Allen & Overy and Meridian West Analysis

## Allocating legal activities to appropriate resourcing models

To manage their budgets effectively, in-house leaders need to ensure that the right legal tasks are carried out by the right types of provider within their supply chain. Our research reveals that the majority of legal activities are still primarily carried out by internal legal resource. For example, 88% of the organisations surveyed rely on input from their in-house legal team for business line contracting, 80% for addressing regulatory and compliance needs and 78% for support with strategic transactional work, supply chain procurement, litigation and company secretarial activities.

Where external legal resource is currently utilised, it tends to be focused on areas

where in-house teams lack depth of resource to cope with a spike in demand or require access to specialist knowledge and experience. For example, outsourced legal firms continue to be relied on to supplement internal capability and resource for litigation work (75% use a law firm to support this activity), strategic transactional work (65%) and corporate real estate work (57%).

Our research also shows that, although there is a move towards providing tools which allow for greater self-serving of legal needs within the business, these are only regularly utilised by fewer than one in 10 of the organisations we surveyed.

## Forward-thinking in-house functions open to resourcing experiments

Our research findings suggest that a majority of organisations still maintain a fairly traditional view of the in-house legal function as the 'go to' provider for legal knowledge and capability within the organisation. However, functional leaders will need to consider whether an internal centre of excellence model for the legal function will

be the most scalable and cost-effective model to address their organisation's future needs. The most innovative legal functions in our research actively embrace a more facilitative role, in which they draw on a more diverse legal supply chain to equip the organisation with legal knowledge and expertise.



Allen & Overy's research from 2014 among in-house counsel – *Unbundling a market: the appetite for new legal service models* – highlighted the emergence of a trend for in-house leaders to diversify the legal providers with which they partner. *Unbundling a market* revealed that, although alternative resourcing models such as document review services or online legal solutions were used by less than a third of in-house teams, numbers using this new models were anticipated to grow over the next five years.

More than half a decade on we see the continued penetration of these alternative legal delivery models across the market. Figure 2 shows that nearly two-thirds

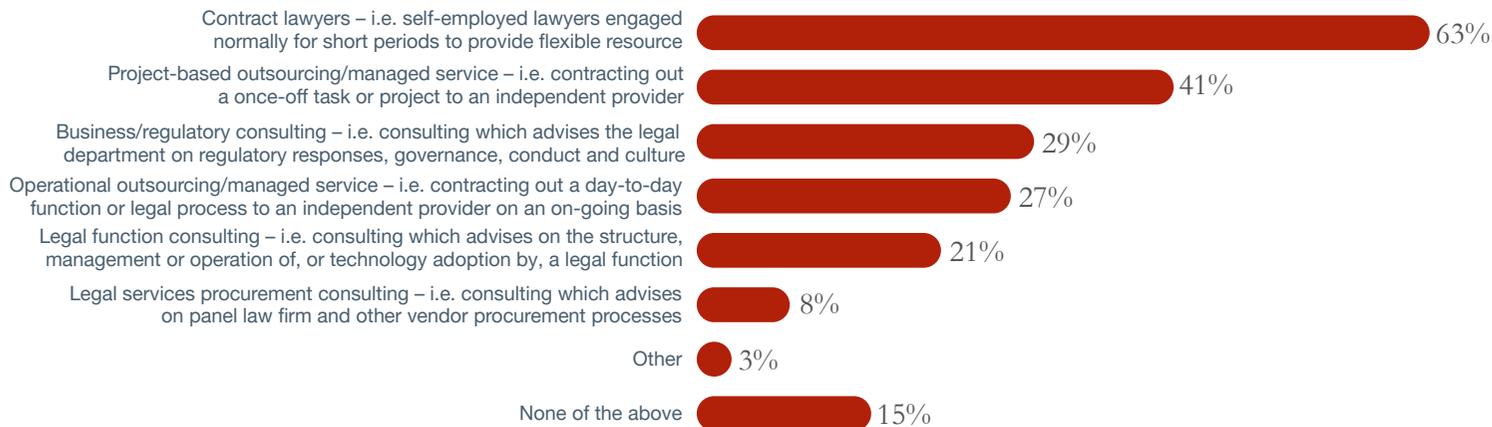
(63%) of legal functions have used flexible resource such as contract lawyers. More than four in ten (41%) have experience of using project-based outsourcing to help with a one-off task or project. This might, for example, relate to an eDiscovery exercise, a contract portfolio review or a large-scale regulatory change programme such as LIBOR contract repapering or GDPR compliance.

However, Figure 2 shows that other delivery models such as legal function consulting, operational outsourcing and procurement consulting are used by a relatively small proportion of organisations. The significant growth in penetration anticipated in 2014 has not yet come to fruition. Nearly one in

six (15%) of the legal functions we surveyed have not yet adopted any of these newer legal solutions.

We are beginning to see divergence in the market, with forward-thinking legal functions forging ahead and others adhering to the traditional model. The most active legal functions in our survey show a greater tendency to adopt these new models. For example, among those furthest ahead in their innovation journey – those in-house functions we call the 'engaging' segment – 81% have experience of using contract lawyers, 46% use business / regulatory consultants and 38% have experience of using legal function consulting.

**Figure 2: Does your part of the legal function use any of the following external resourcing/advisory models?**



Source: Allen & Overy and Meridian West Analysis

## Future resourcing models: are we at a tipping point?

Although the headline adoption rate suggests that many in-house functions have been slow to embrace innovative delivery models, the reality is that the past five years have witnessed a blurring of boundaries between legal supply chain categories. In-house leaders do not typically compartmentalise their supply chain according to business model, but instead focus on building an ecosystem of suppliers based on which providers are best resourced to address specific legal tasks.

These choices involve navigating trade-offs between a range of factors: price versus quality, scalability versus niche expertise, onshore versus offshore solutions, and technology-led versus people-led models. In the final paper in this series we will explore in more detail how in-house teams are factoring these trade-offs into their adoption of legal technologies to achieve better business and legal outcomes.

As in-house leaders have become more open to experimenting with new supplier models, traditional law firms have also embraced innovation to defend their share of legal work. Our survey results suggest law firm incumbents have been successful in this diversification strategy. There is just as much openness to use law firm incumbents for these new services as for other industry disruptors.

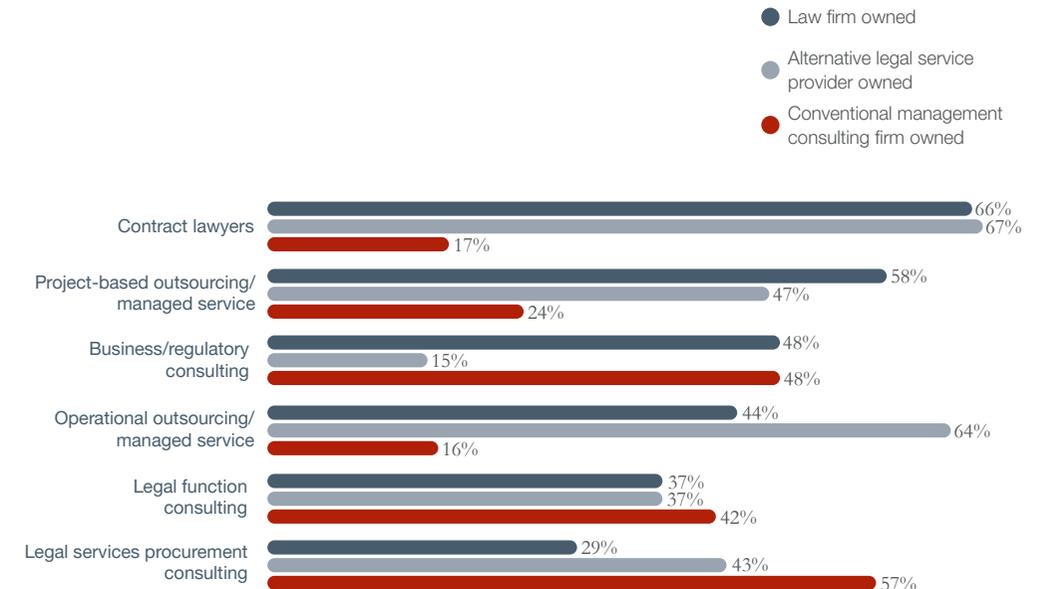
For example, Figure 3 shows that 66% of in-house leaders with experience of using contract lawyers say they had used a contract lawyer solution owned by a law firm. Similarly, 58% of those who have experience using project-based outsourcing or managed service solutions say they had done so through a law-firm owned model, compared with 47% who had used a model owned by an alternative legal service provider.

Even in the field of business or regulatory consulting, law firms are as likely to be used as conventional management consulting firms: among the in-house functions with experience of business or regulatory consulting 48% have used a traditional law firm, and 48% have used a conventional management consulting firm.

In-house leaders, therefore, are looking to their traditional law firm provider relationships to offer examples of service delivery innovation and improvement. At the same time in-house leaders display greater openness to trial new providers with alternative delivery models than ever before.

This suggests that, although we may be reaching a tipping point in comfort levels for adopting new legal delivery models, the winners and losers across the legal supply chain are not yet clear.

**Figure 3: Are the external resourcing/adviser models which your part of the legal function uses...?**



Source: Allen & Overy and Meridian West Analysis

## Adviser and supplier relationships: how to move to your next stage of maturity

Regardless of your starting point, here are three ideas to help your legal function move to its next stage of maturity in the way it manages its adviser and supplier relationships.



### **1: Identify opportunities for business colleagues to self-serve their legal needs.**

Our survey shows that there remains relatively little opportunity for colleagues across the business to self-serve their legal needs. Instead they rely on the in-house function as their 'go to' support. This model is overhead intensive and may not be sustainable in a cost-sensitive post-Covid-19 environment. Have you mapped out what tasks can be realistically undertaken by business colleagues with more limited intervention from the legal function, and what tools are required to enable self-service?



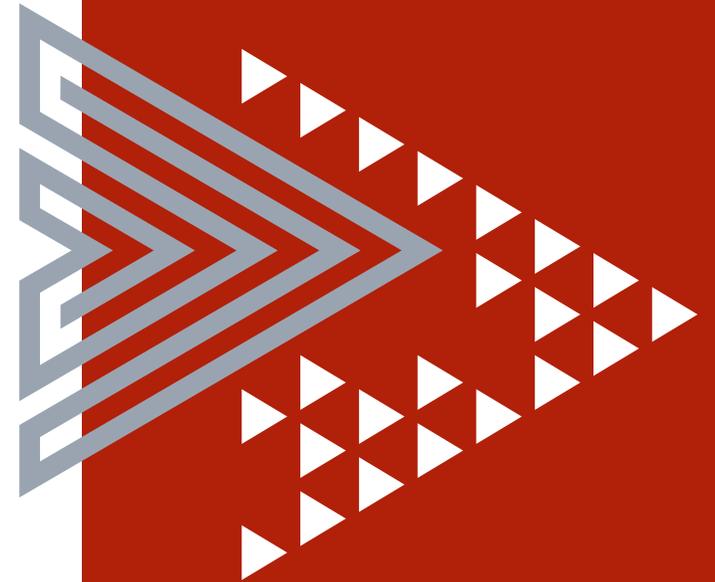
### **2: Analyse the cost-benefit of utilising different legal delivery models.**

Embracing a more diverse supply chain of legal providers may enable you to achieve greater efficiency from your overall legal spend. However, it also requires enhanced supplier management capabilities within the in-house team. Have you identified what legal activities carried out in-house could be delivered more cost-effectively through an outsourced legal solution?



### **3: Recalibrate your law firm relationships to achieve a win-win outcome.**

Do you understand what resourcing models your panel law firms use to service your legal work? Choosing to work with law firm providers which operate a range of different service delivery models can provide greater flexibility without the challenge of managing a fragmented supply chain. Open conversations with your traditional legal suppliers will help you to understand their approach to legal delivery model innovation and how this will benefit you.



Our final paper in this series, *Beyond the hype: a pragmatic approach to legal technology adoption and better data management*, explores how in-house leaders are investing in new technologies and data solutions to improve the efficiency and effectiveness of work delivered by the legal function. It will be available to download on **15 December 2020**. You can read it [here](#).

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**A&O Consulting** can help assess current routines, hiring and legal services procurement practices, and identify opportunities for optimisation in these areas.

A&O is active across the 'alternative provider' market with the benefit for clients that all those services are fully integrated with our global law firm platform.



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## Methodology

The insights in the series of papers that makes up **The Allen & Overy Legal Innovation Benchmarking Report** were developed through in-depth benchmarking surveys completed by 92 senior leaders of in-house functions. Respondents held senior legal or operational roles (e.g. General Counsel, Head of Legal Operations) within their respective organisations. Organisations spanned 18 different countries globally. 60% of those surveyed came from organisations with a global annual turnover of more than USD5 billion. Participants represent a broad cross-section of industry sectors, with 81% identifying themselves as belonging to a highly regulated sector.

*Please note that due to rounding, percentages in some charts may not always appear to add up to 100%*

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