



REPORT ON LEGAL SPENDING IN RUSSIA

HOW THE KNIFE FALLS

A high percentage of legal departments in Russia sought discounts from external law firms last year for a wide variety of legal matters. For the first time, a new survey reveals how deep those discounts were and what actions legal departments are taking to reduce their costs

BY JEFFREY FORBES



ABOUT THE SURVEY

THE 2009 report, *How in-house counsel in Russia are managing their legal departments*, is based on the responses of 65 companies who took part in the survey by completing an extensive questionnaire. More than half the participants were from global 500 companies. The rest comprised international companies of European and CIS origin with a minority (10%) of respondents were purely local Russian companies. For the most part, the participants represented a cross-section of the market with companies from the finance, consumer goods, technology, energy, retail, healthcare, real estate and manufacturing sectors. Around half the companies employed more than 1,000 people and more than a quarter employed between 250-1,000 people.

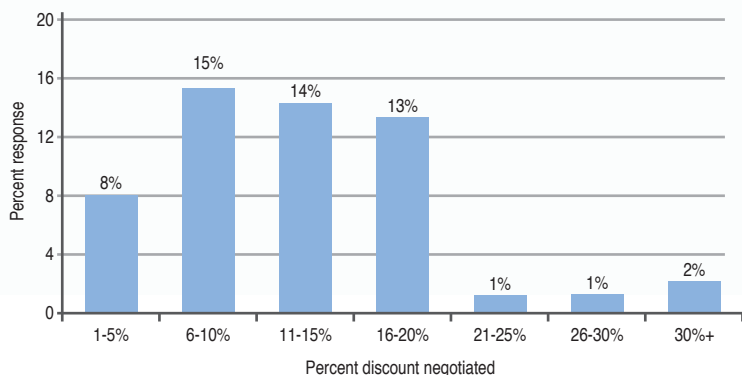
A complete version of the report can be downloaded from Martindale-Hubbell Connected (www.martindale.com/connected). ■

IN 2009 LexisNexis Martindale-Hubbell commissioned the Forbes Institute to conduct its fifth major study into the European legal services market. Rather than taking a regional approach, this report focused mainly on heads of legal departments at major companies in Russia and how they were dealing with the global economic crisis.

Even before the onset of the crisis, leaders of corporate legal

Table 1

Average discounts for complex, high profile, nonrecurring matters



departments in Russia were beginning to gain more influence in their companies (See our 2008 report, *How in-house counsel in Cen-*

the chief driver of the emerging shift in the balance of spending. According to the survey, more than three quarters of respond-

quarter (22%) were large foreign Fast Moving Consumer Goods (FMCG) companies.

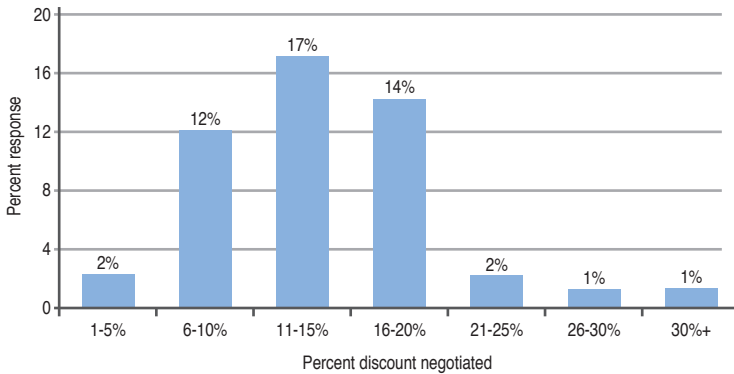
The survey data shows the economic crisis clearly had an effect on most companies in Russia during 2009. Legal departments sought discounts from external law firms and Tables 1-3 reveal the extent to which some law firms had to cut their fees.

For complex, high profile or nonrecurring matters, 83% of respondents said they negotiated a discount with their external law firms (Table 1). While the range of discounts received for such work varied, the majority of clients received a discount ranging from 6 to 20%. The average discount based on these responses was 12%.

When asked if they negotiated a discount with their external law firms for complex recurring matters (Table 2), 76% of respondents said that they had received a discount. The table shows the range of discounts they received for such work. The majority received a discount ranging from 11 to 20% and the average discount based on these responses was 13%.

When asked if they negotiated

Table 2
Average discounts for complex, recurring matters



tral & Eastern Europe select and retain their external counsel). Now they face even greater challenges to manage more risk and achieve greater results with fewer resources in the midst of market turmoil and uncertainty.

Russia is different from other major markets because of the high number of blue chip companies that maintain their legal budgets no matter what. Even if margins get tight, management will decree that no legal costs will be incurred. And even when these are absolutely necessary, they still have to be signed off by the general director.

The report, *How in-house counsel in Russia are managing their legal departments*, provides an inside view on the challenging task of managing a corporate legal department in Russia under extraordinary circumstances. It also provides law firm leaders with important benchmarks, indicating that the relationship between in-house counsel and external law firms is set to undergo a change.

The global recession has been

ents (78%) said they reduced their legal budget for 2009. Not surprisingly, the hardest hit budget item was external legal costs (36%). Equally unsurprising, only 8% of respondents said they reduced mostly internal legal costs. However, 22% of respondents said their legal budget was not reduced at all. Who were these dream clients? A further analysis of the data revealed that more than a third (36%) were mainly foreign financial services companies and nearly a

Table 3
Average discounts for routine and commodity matters

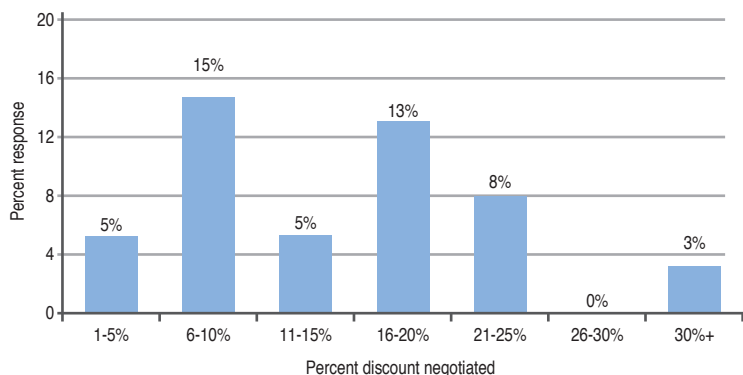


Table 4

Actions to reduce external legal costs

Negotiating fixed fee arrangements to ensure we stay within budget.

Prohibiting increased billing rates without approval on matters for the duration of the matter.

Identifying more work that can be moved in-house to save money and add value.

Prohibiting increased billing rates without approval with all of your external law firms.

Obtaining budgets from outside counsel for work to be completed and monitoring them.

Using outside counsel who have a greater depth of knowledge of our industry.

Negotiating discounts with external counsel without any guarantee of work in future.

Finding the same quality of external counsel who are willing to work at cheaper rates.

Negotiating hourly rates with a cap to try and contain legal spending.

Networking with in-house counsel to get general advice and share their experiences.

Networking with external counsel to get general advice and share their experiences.

Using in-house staff to review bills/invoices to catch errors and overcharges.

Using outside counsel who are more pro-active in finding ways to reduce costs.

Being more diligent with law firms to disclose actual or potential conflicts of interest.

Limiting outside counsel to use only designated core staff on assigned matters.

Negotiating discounts with external counsel in return for guaranteed work in future.

Limiting who and how much can be billed by law firms for their internal meetings.

Negotiating to pay outside counsel less for travel time or expenses (i.e. flight upgrades)

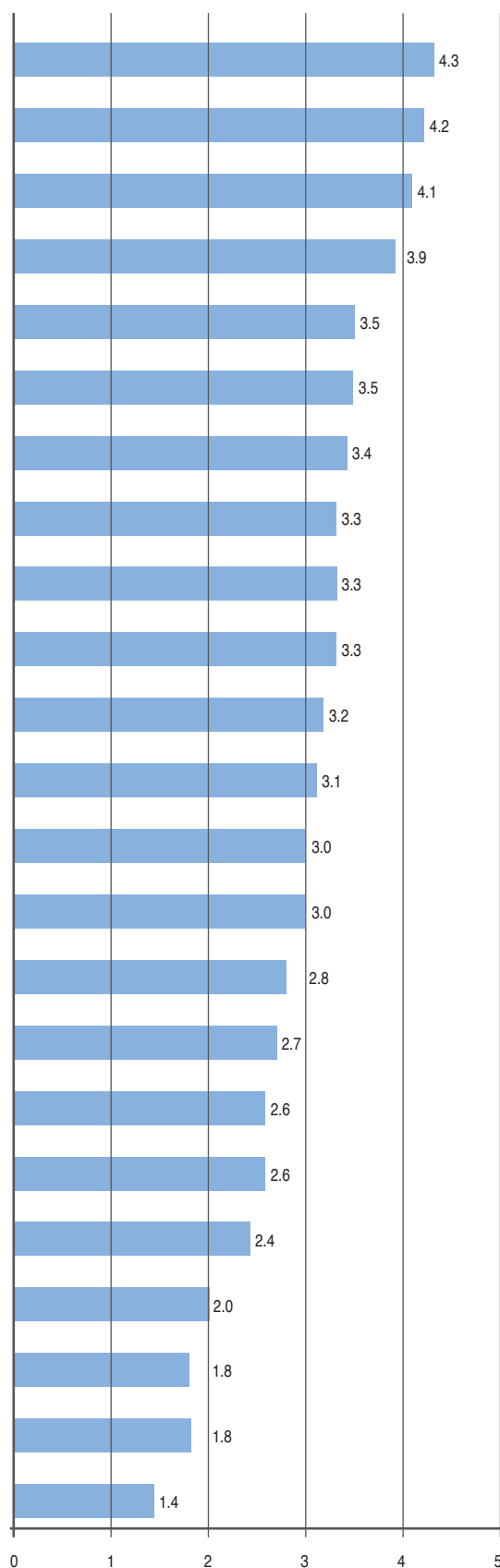
Amending outside counsel guidelines to address areas for cost cutting or savings.

Restricting law firm disbursements to a percentage of the fees they bill for matters.

Using special software to review bills/invoices to catch errors and overcharges.

Taking a secondment from a law firm to move some work in-house more cheaply.

Using an external service to review bills/invoices to catch errors and overcharges.



a discount with their external law firms for routine and commodity matters, 76% of respondents said that they had (Table 3). Looking at the range of discounts clients received for such work, the two largest groups received a discount ranging from 6 to 10% and 16 to 20%. The average discount based on these responses was 14%.

These three tables confirm several assumptions about fees. Firstly, the more important the matter, the more resistant it is to pressure from discounts. In this instance, clients are not looking for cost savings with ‘bet-the-company’ work but the best legal counsel they can afford. Secondly, routine and commodity work will always come under the highest fee pressure. As Table 3 shows, discounts were wideranging with no real pattern emerging. This is clearly an area that seems ripe for either outsourcing or virtual law firms to handle high volumes of work at discount prices. Finally, when it comes to more complex work, the data showed that the vast majority (over 80%) of the discounts ranged from 6 to 20%.

Seen in the specific context of the local market, Russian-based clients appeared to have greater bargaining power. The combination of the abundant choice of law firms and the particular culture of Russian capitalism — which tends to be less forgiving and sentimental compared with its European equivalent — meant that in-house counsel were able to extract higher fee discounts than expected for top-line work.

Although it may be interesting to see what kind of discounts clients got, the more strategic data can be found in Table 4 which shows how clients are prioritiz-

ing their actions when it comes to reducing external legal costs while still maintaining quality. From a menu of 23 choices, respondents chose four actions which they considered their highest priority. On a five-point scale these included: negotiating fixed fees (4.3); prohibiting rate increases on current matters

crisis was a wake-up call for most firms to think long-term instead of coasting on the gravy train of a booming market before the bottom fell out.

Third, law firms ought to work more efficiently. Innovation continues to be driven by clients. But as the Russian market matures and becomes more global,



without approval (4.2); moving more work in-house (4.1); and prohibiting increases in billing rates from all external law firms without prior approval (3.9). Surprisingly, these actions had a higher priority than negotiating a discount (3.4) and using other quality law firms who are willing to work at cheaper rates (3.3).

The survey report concludes with six recommendations for law firms. The first is that they become more competitive. This may seem obvious but many firms in Moscow owe much of their success to the high growth and size of the market. Therefore, few were prepared when the crisis hit, and there are plenty of partners who still think denial is a river in Egypt.

Second, law firms should plan more strategically. The current

firms will have to adapt or suffer the consequences.

Fourth, law firms should adopt fixed fee pricing. If the top priority for clients is to negotiate fixed fees then the writing is on the wall. Firms must adapt to this change or risk becoming marginalized.

Fifth, law firms should become more industry focused. The survey shows that the fifth highest priority when it comes to reducing external legal costs is to use outside counsel who have a greater depth of industry knowledge.

Last, law firms ought to measure client satisfaction. Our 2008 in-house counsel survey exposed most law firms in the CEE region for not implementing this best practice. Law firms ignore this latest reminder at their own peril. ■