CORPORATE COUNSEL

Outside Firm Convergence, Alt Fee Trends Continue

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The last few years have seen legal departments looking harder for new ways to work smarter. A great deal of that involves how they interact with their outside counsel partners. New data collected by LexisNexis CounselLink shows that several major trends in how corporate legal departments work with outside firms are continuing.

The 2014 Mid-Year Edition of Lexis' Enterprise Legal Management Trend Report (called midyear because it looks at data collected during the 12 months up to June 30, 2014) reveals that one of the most important trends of the last couple of years—the consolidation of the number of law firms companies are using (commonly called convergence)—is still going strong.

According to the report, 50 percent of companies in the data pool have 10 or fewer law firms accounting for at least 80 percent of outside counsel fees. "I think it's cost management, it's finding better ways to be efficient with the firms that they are working with," Kris Satkunas, director of strategic consulting at LexisNexis and principal author of the report, told CorpCounsel.com. Growth of consolidation has been solid in recent years, but in this particular report, it looks like the number of companies in the middle tier of consolidation—those with 50-80 percent of their billings going to their top 10 firms—is increasing the fastest.

It's also interesting to note that consolidation rates vary by the company's industry. For example, nonpharmaceutical manufacturing companies are consolidating a great deal—69 percent have consolidated their legal work. "I think it, in part, has to do with the types of legal work that the industry has," Satkunas said. "Manufacturing is certainly going to have a fair amount of corporate work and commercial work and employment work, things that we are seeing being more consolidated." Retail trade companies also posted a very high consolidation rate at 71 percent, while such industries as insurance and professional, scientific and technical services came out on the bottom.

There were other important takeaways from the report. The data showed that the use of alternative fee arrangements is holding steady, with nontraditional hourly billing coming at least partially into play in 11 percent of matters studied. Satkunas believes there is still room for growth in the use of AFAs, and although the overall numbers have remained stable, the report showed that some matters are more frequently being handled using AFAs. "I think it's worth paying attention to where AFAs are starting to catch on more and more," she said. Specifically, intellectual property and trademark law appear to have caught on for increased AFA use in 2014.

As for hourly rates that firms are charging their corporate clients, the biggest firms—those with 750 or more attorneys—are still pulling in the biggest bucks. The median partner hourly rate at one of these big firms was $655, significantly higher than the median partner rate at the next largest category of firm—$490 per hour. Legal departments hiring the smallest firms, those with between one and 50 attorneys, can expect a relative bargain, a median $275 per hour.

The report also broke down what companies pay law firm partners by the hour based on the type of matter. "It's not going to be a shock to anybody to know that corporate legal work carries one of the highest rates, as well as M&A and regulatory compliance work," Satkunas said. M&A was the most expensive type of matter to have a partner work on at $593 per hour, followed by corporate, general and tax at $550 and regulatory and compliance at $476.