



How to Modernize Your Legal Supply Chain Through Effective Strategic Partnering

Interviews and Profiles

Law Department Management



How can in-house counsel strengthen their links with outside vendors? According to Pearson general counsel and chief legal officer [Bjarne P. Tellmann](#), it starts with strategy and perspective: “We must run our legal departments like a business by focusing on cost, by measuring what we do, and by

carefully thinking about process.” In this conversation with Tellmann, the award-winning general counsel, author, and former *ACC Docket* Career Path columnist discusses the best “partnering” approach, updated legal vendor processes, and the future of legal supply chain management.

Krystal Studavent: According to the [2018 State of Corporate Law Departments Survey](#) by Thomson Reuters and Acritas, modern corporate legal departments embrace innovation, are data-driven and work collaboratively with other parties in the legal ecosystem to create an optimal result. In the survey, Matt Fawcett, senior vice president, general counsel, and secretary of NetApp states, “As more of our legal work is provided by an increasingly diverse array of outside providers, a ‘partnering’ approach will achieve better results than a ‘vendor’ approach.” Would you agree? How would you define a “partnering” approach?



Bjarne P. Tellmann: I think it is a great question and I would agree. By the way, I am a big fan of Matt Fawcett. I think he does very interesting and innovative things at NetApp. The way I see it is, I think that if we step back and look at it more broadly, viewing the entire legal ecosystem with its entire system of providers, we will see more and more of an emergence of what I would call a true legal ecosystem.

A true legal ecosystem in the sense that there is an increasingly diverse array of providers that cover all sorts of niches in terms of legal service needs springing up across the value chain, and that ecosystem is beginning to create alignment between parties within that system that enable them to interact and create value for each other. Sometimes those interactions are going to be one-offs and sometimes they are going to be firmer, more stable, and more lasting partnerships.

Therefore, I do agree with Matt in the sense that we are moving more and more to a partnering model, but I don't think partnering is going to entirely subsume one-offs. I think that as that ecosystem gets more complex and as our needs diversify and become more multifaceted, what we are going to find is, in some instances, we are going to be diving deep with a few long-term partners, and in other instances, we are going to be more driven by collaboration on a short term basis with a

particular provider that will generate value.

I think what will disappear is the old-fashioned vendor model, which is a relatively thoughtless collaboration with a supplier. There is going to be much more sophistication in understanding the value add on both sides of the fence, which will color those shorter-term relationships that remain.

Studavent: When we talk about the “old-fashioned vendor model,” I think about the model that only included traditional law firms, and in the past, sending business to the same firm for years. In your opinion, do you think traditional law firms will be mainstay partners in the future legal ecosystem? Will the future legal ecosystem be an amalgamation of traditional law firm providers and Alternative Legal Service Providers (ALSPs), or do you think it will mostly consist of ALSPs?

Tellmann: I think it depends on how far in the future that you look, but my guess is that law firms will play an important role in the future legal ecosystem, but what a law firm is and what a law firm does will evolve and will change over time. I think you will see a shrinkage of law firms that exclusively provide black-letter law advice or the profession of law advice and there will be niche firms that exclusively provide black-letter law in very exclusive areas. I think that there will also be the emergence of law firms that will take on a broader array of work, both legal and potentially non-legal.

Now, how fast that moves will depend on a lot of factors, including what clients are demanding and the regulatory environment, which we are already seeing in our sister market, the United Kingdom, where the Legal Services Act of 2007 abolished limitations on non-lawyers owning legal businesses. We are also seeing law firms, particularly middle-market law firms, begin to step out of the traditional role and explore how they might go public, how they might take on business related services, and really wade into the same space as ALSPs. I think it is a moving target.

Studavent: What do you look for in a legal strategic partner?

Tellmann: I think there are different variables. If looking for a long-term partnership vs. an ecosystem interaction, meaning you are just looking for one-off value with a firm or company that can work with you on a short-term basis, the first thing that I would look for is the capability and the willingness to collaborate long-term for mutual benefit.

Second, I would say that you also want to look for knowledge of your industry, knowledge of your business, and being able to have a level of trust, which is very important. You must ask yourself is this a partner that I can trust, and almost more importantly, is this a partner that can trust me. Trust is vital because it is the precursor to transparency.

If we are going to work together as partners, we need to be as transparent with each other as possible. I must be able to tell you what my real concerns are, whether that is budget or otherwise, and you must be able to tell me things like what your cost drivers are, what your profit margins are, and other important information to find something that works for both parties.

It really is no different than finding a partner in your personal life — you want someone who you trust, you want someone who knows you, you want someone who is committed to a long-term collaboration for mutual benefit.

I also think that when you get past those threshold questions, you still then have a population of potential partners that know you, that are transparent and trust you, and that are committed to having a long-term relationship with you. You must then make choices about which partners fit where and how and this is where I think you have a second order of factors that you want to consider.

I think the first is the variable of cost vs. risk, how expensive are they vs. how much risk am I taking on. Some categories of matters are going to be lower risk where cost is a much bigger factor and then other matters are going to be high-risk, where there is lower importance with the cost factor.

For example, when you are dealing with a matter that could “blow up the ranch,” you want the best in the business. For existential lawsuits or existential deals, the cost factor of the law service is going to be less of an issue vs. a routine matter that happens all the time. For cost vs. risk analysis or long vs. short term analysis, you must ask is this the type of matter that will last a long period of time, like let’s say a decade, such as a large antitrust investigation, or is this a shorter-term matter that I am looking to settle quickly.

There is also this whole piece around fit, which I think is important, referring to cultural fit. You should ask the following questions: Is a firm or ALSP the right fit for your company? Do they have the same outlook that your company has in terms of how they handle legal service? Is their risk appetite aligned with yours? Are they pragmatic, but also, do you get along with the people? Are these people that you feel you could be in the trenches with when things get rough?

Studavent: There has been an increase in legal spend this year with a lot of the spend dedicated to insourcing and an uptick in spend for ALSPs. Do you anticipate that the legal spend for partnering with LPOs and ALSPs will increase dramatically over the next five years?

Tellmann: Do you know the famous quote by Yogi Berra: “It is hard to make predictions about the future.”? I think that is true, but we can anticipate an increase in legal spend. Certainly, from our perspective, that is the case.

I think the current spend, when you look across law firms, and I remember doing this for my book, fluctuates between 13 to 16 percent that is spent in the “other” category, which includes ALSPs. You have internal spend, external law firm spend, and “other” spend, which on average is 15 percent of external spend.

Pearson currently spends about 15 percent in the “other” category. I think that spend will grow and the reason I think that spend will grow is if we look at the trend over the last five years, it has been to insource more and more work because legal departments have realized that (1) it is cheaper by about one-third of the cost of an external law firm to have someone in-house and (2) qualitatively, it is better.

There has been a lot of rationalization with the piling on of resources internally, and I think that is what is going to happen over the next five years due to the pressure that continues to mount on corporate legal department spend. The only place that we can look to shift a higher volume of work now is internally and be sure that we are managing or stewarding the internal shift in a rational way.

To do that effectively, we should reduce fixed headcount in two areas: (1) routine work (where transaction service centers/LPOs become an important partner) and (2) higher value-add areas of

our internal legal organization where ALSPs come in. I think that this trend where we rationalize our internal spend by pushing out a lot of the routine work and by creating a surge capacity internally with “super-temps” who can surge out and support a smaller base of internal people is formalizing, so that we reduce our fixed headcount over time.

That is certainly happening at Pearson. We just launched our transaction service center this year, which we are rolling out in multiple waves, moving up the value chain in terms of what that transaction center takes on. We developed the service center in collaboration with an LPO provider. Our focus now is to create closer relationships with ALSPs to develop surge capacity, so we create a smaller base of fixed headcount, and have a larger capacity to surge out where needed.

Studavent: In-house legal demand is expected to outstrip in-house legal resources by 2020. How do you proactively prepare for this challenge?

Tellmann: I think the short answer is we must run your legal department like a business by focusing on cost, by measuring what we do, and by carefully thinking about process. We must think about service delivery, evaluating how we provide and deliver the services that we are being asked to do. We must think about organization structure by asking questions like how I have set up my organization; what is the model that I am trying to put in place; and what works best for the kind of company that I am servicing.

We must think about technology on top of all that by figuring out ways to enhance what we are doing in all areas with the right tools. We must also focus on talent by choosing the right people for the right roles to do the right work. Every business is facing the challenge of constantly reducing costs and constantly increasing its workload, so I think that rather than reinvent the wheel, we must take our cues from CEOs who are dealing with these issues every day and do the same thing.

Studavent: How helpful are RFPs when it comes to identifying the right strategic partners?

Tellmann: I think that RFPs are critical. I think without them you are just running on gut instinct rather than on numbers and really measuring what it is you are trying to evaluate when you are looking at different providers. I think there are a whole range of skills you could include in RFPs, which includes KPIs, some of which may include track record, skills and expertise, problem solving ability, strategic thinking, diversity, which we strongly focus on at Pearson by evaluating how diverse a firm is, what are they doing to improve their diversity scores, who shows up at meetings, how are partners talking about diversity, and other factors.

I have horror stories where we have had law firm panel candidates come in and when we ask about diversity, they talk about pro bono, which shows they don't fully understand diversity and inclusion. Teamwork, responsiveness, communication style, their understanding of your culture, quality of output, the technology employed, and office locations are several factors that could be measured. The list is almost endless. I recommend as a best practice to create a list of 10 KPIs that you want to measure that are relevant to a category of work or to your company and use that data to help steward decisions made from RFPs.

Studavent: What questions should GCs be asking their strategic partners to find out if they are receiving the most value for their legal spend?

Tellmann: We have touched on this throughout our conversation. General counsel should be asking about cost vs. risk, long vs. short term, how do you want to use the firm or company, be looking at fit, and considering KPIs we talked about.

To boil it down, it is analogous with tractors and Ferraris. Both can be very useful but they each have their specific uses. If you try to use a tractor where you would typically use a Ferrari, it won't work. It would be embarrassing for you to drive up to the nightclub in a tractor, but vice versa, if you try to use a Ferrari to plow your fields, you are also in trouble.

All of that to say, you really must think about the right fit for the right work or the right situation, and I think that is the key to all questions that should be asked.

Studavent: In your opinion, what kind of work is best allocated to law firms, and what kind of work is best allocated to ALSPs?

Tellmann: The best work to allocate to law firms is what in my book I call the "middle 60," which is the level of work at the very top that is highly specialized, highly tailored, and is challenging to outsource to ALSPs (deep level expertise or particular sub-areas like ERISA) where you really want law firms to handle the work. If it is a regular feature of your practice, you want an in-house expert to handle the work.

For the work at the base/lower tier of the pyramid that includes routine and transactional work, you either want self-service or you can have a transaction service center as we discussed earlier where you hire an external LPO provider to manage.

In the middle quadrant, between those two extremes, I think that is where ALSPs can really add value, because you still need lawyers with good legal acumen and five to 10 years of experience who are valuable and flexible in terms of what they can tackle. That is prime real estate for ALSPs.

Studavent: Traditional legal departments are often siloed from the rest of the business. How do you break down those silos and effectively partner with the various business units with which you work?

Tellmann: I think there are two important dimensions to that. Dimension one is making sure that your legal department employees are sitting on business teams, so their identity is not exclusively with the legal department. They report on a solid line into the legal department, but they have a dotted line into the business.

For instance, let's say your task is to be the lawyer in charge of a specific geography, you should sit on that geography's leadership team. You are an integral part of that team and should play a major part in team meetings and provide strategic input. I think that is important. There is an important balance with this, by not creating so much loyalty for the business team that you forget you are a guardian as well as a business partner.

Dimension two is internally within the legal department. You want to make sure that you are assigning projects across teams. If someone sits in North America for many years, move them over to product development. Throw people a little bit off the deep end and give them support. Give them short assignments and rotational assignments to see what they can handle.

Increasingly, we are thinking that we should develop special operation teams comprised of mobile, highly skilled, and interchangeable legal professionals who can be deployed to cover crises in different parts of the business and who don't necessarily owe their loyalty to any parts of the business. I think this can help to break down silos. We try to do as many spontaneous efforts we can to ensure interaction.

Make sure if there is a specialty project that you are assigning it to someone who has never worked in that space and make sure you have people on that project from across the business. If someone goes on maternity leave, rather than fill that with an external provider, why not plug that gap with someone from another part of the business, and then work with an ALSP to fill that person's role. General counsel and corporate legal departments can find ways to move things around and shake things up, which is critical to breaking down silos.

Studavent: What do you think the legal supply chain will look like in the year 2030?

Tellmann: 2030 seems so far out. It is difficult to predict what will happen. I think it is safe to predict that the legal ecosystem we have been talking about in our conversation will grow and proliferate. I think it also safe to say that there will be a growing focus on the business of law rather just the profession of law, increasing the number of legal service providers in the ecosystem who are looking to help us manage our legal business, rather than just giving us black letter law advice.

The third trend that seems safe to predict is that we will see an increased use of technology, including self-servicing tools, AI, and so on. I think at the premium end of the spectrum where we have tailor-made, bespoke legal advice provided by extremely expensive legal counsel is going to continue to shrink dramatically and we will see law firms either evolve into efficient businesses or they will disappear.

The firms that are willing to think about turning what they have into an effective functioning business, where they integrate business professionals, run their business effectively with professional management teams, and think long term and strategically will survive. The firms that don't will not. I think the big question that remains open is to what extent the traditional pyramid model that all law firms today run on will blow up by 2030.

True innovation will come when law firms realize that the traditional pyramid model is so broken and antiquated and that what is needed is a completely different and modern model that focuses on output rather than input. I think movers in that space will capture a big part of the future legal market.

[Krystal N. Studavent](#)



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