



HIGHER
STANDARDS
WELCOME

2024 Legal Budgeting



A PLAYBOOK FOR

Agility-Based Budgeting

Table of Contents

Introduction	3
Part 1	4
Different Legal Departments, Universal Pain Points	
<ul style="list-style-type: none">• Doing more with much less• Accessing expertise around emerging risks	
Part 2	5
How Legal Departments are Addressing Pain Points: An Imperfect Response	
The problem with hiring full-time employees to:	
<ul style="list-style-type: none">• Address emerging risks• Improve cost efficiency	
Part 3	8
The Legal Budget-Building Process: A Potential Tool for Minimizing Pain	
Current models:	
<ul style="list-style-type: none">• Precedent-Based Budgeting (PBB)• Zero-Based Budgeting (ZBB)	
Part 4	10
A More Modern Model: Agility-Based Budgeting (ABB)	
<ul style="list-style-type: none">• A new legal budget model for economic volatility• How ABB reduces fixed costs and minimizes GC pain points	
Part 5	11
The Playbook: 7 Steps for Implementing ABB in 2024	
<ul style="list-style-type: none">• Using the 2024 budget process to variabilize the legal department's cost base• 7 steps to transition legal's largest line items from fixed to flexible	

► Introduction

Legal departments, universally, are experiencing unprecedented budget pressures in the wake of a recessionary economy. And yet, many in-house leaders still anticipate an increase in legal spend for the remainder of 2023. How do GCs reconcile increasing spend in a cost-controlled environment? They think they must spend more to get more – and they desperately need “more.”

- 99% of in-house legal leaders report that the volume and complexity of legal matters are increasing.
- But nearly all (92%) also warn that their department does not have the right talent and aggregate resources to meet these escalating needs and do its job effectively.
- Further, 99% say they have a shortage of specific expertise in their departments.

So, it's no surprise that most of the increased spend is going toward acquiring those in-house resources. Yet even with all that spending, 79% of GCs still acknowledge that additional permanent in-house lawyers will not solve their resourcing challenges. Why?

- First, 52% say the right lawyers are difficult to find and hire in this market.
- In addition, GCs cite challenges with hiring full-time staff for what is only a temporary/transitory matter.
- Finally, GCs acknowledge a need for more part-time, rather than full-time, expertise across a variety of specialties.

How will GCs fill the void between their escalating workload and what their in-house staff is actually equipped to handle? Law firms. The majority of GCs expect legal spend on law firms to increase. That is problematic for few reasons:

- First, with law firm rates rising at a historic clip, GCs are spending more but getting less for their money.
- Second, instead of limiting law firm use to the exceptional events for which they are best suited, GCs are actually using firms to handle the “overflow” work. GCs say the work that should be outsourced to a law firm is work that is too complex to be handled in-house or work that requires less institutional knowledge. Yet, 82% of GCs leverage law firms, not because the work

requires outside counsel, but because their staff is already at capacity.

- Third, 80% of legal leaders acknowledge that law firms are not a highly effective solution to their resourcing solutions, citing a lack of commercial and business acumen, the provision of conceptual rather than practical advice, and, of course, their expense.

What does all this increased spending on inappropriate resources suggest? It suggests that, for the majority of legal departments, their resource allocation process is inefficient and not aligned to the needs of legal or their stakeholders.

But there's a solution. As we enter the 2024 budgeting season, GCs can effectively use the budget-building process to fundamentally reexamine where and how they spend their budgets in order to navigate uncertainty and derive increased value from their legal spend.

The 2024 planning cycle represents an optimal time to shift dollars away from fixed costs and toward more variable spend in order to effectively mitigate against budget reductions, volume spikes, and unanticipated legal matters.

The report that follows offers a playbook for GCs to leverage new budgeting models to reduce fixed investments, variabilize their cost base, and improve legal outcomes.

“Our legal budgets were slashed in 2023. We expected that. But, our legal budgets have been slashed again for 2024.

We have more work than we've ever had. It's the most trying time to be a GC I've ever experienced in my long career.”

GC OF FORTUNE 500 FIRM

► Different Legal Departments, Universal Pain Points

Usually, different GCs
have somewhat unique
and different pain points.

Now, however, they face
two universal issues:

More work

99%

of legal leaders say the
volume and complexity
of work are growing



98%

of legal leaders say
their budgets to
address this work
will decrease

Less budget

1

The Need to Do Much More with Much Less:

Nearly all in-house legal leaders (98%) say their legal department budget has been cut as a result of economic conditions and ongoing volatility—including more than half (56%) who say the budget has been cut a great deal.

But even as budgets shrink, workloads rise; virtually all legal leaders (99%) report their department is seeing an increase in both the volume and complexity of legal matters.

These compounding issues create a perfect storm for GCs struggling to maintain a staff capable of doing more with less.

2

The Need to Access Expertise Around Emerging Risks and to Address Uncertainty:

In addition to increasing legal workloads, a recessionary environment has changed the kind of lawyers that are in demand. Labor and employment (L&E) issues are now at the forefront of enterprise legal matters, given still lingering questions about return-to-office and real estate footprint reduction.

Privacy and cybersecurity specialists have also continued their rise to prominence given the operational risks of a remote work model. In addition, GCs are now also dealing with wholly unanticipated legal issues and niche specialty practice needs, such as the commercial implication of Artificial Intelligence. Concerningly, 99% of legal leaders report that they have a shortage of specific and required expertise in their departments.

► How Legal Departments are Addressing Pain Points: An Imperfect Response

Some corporate legal departments (the ones that are not dealing with headcount freezes) have responded to these universal pain points by trying to shift legal spend away from historically expensive law firms toward additional in-house hires.

According to a Harvard report, GCs expect in-house headcount to increase over the next three years. Regarding those hires, a Gartner study found another important shift: a 21% increase in the share of specialists versus generalists among in-house staff.

It is clear that GCs are trying to control costs by adding specialized expertise so they can more effectively navigate work away from expensive law firms. It is also clear, however, that shifting from external firms to internal full-time employees (FTEs) is an imperfect solution for dealing with the pain points at play.

1

The Problem with Hiring FTEs for Emerging/Unanticipated Risks

“I have needs for specialists I never dreamed of having — specialty practice areas I’d never even heard of.

And it’s always changing—one month I need a contractual expert, the next month I’m dealing with some remote area of privacy-based employment law.”

GC OF MID-MARKET GROWTH COMPANY

Unprecedented legal issues often emerge suddenly. Legal departments that rely on FTEs alone do not possess the speed or flexibility required to address emerging issues in a fast-changing marketplace. As a result, any full-time hiring decisions the GC makes related to specialists are inherently based on previous needs, and will frequently not reflect future needs. Given the nuances and duration of the hiring process, these specialists are also often onboarded too late to actually be responsive to the risk at hand. In order to mitigate emergent risks, GCs must be able to match the right in-house-ready talent to current legal matters in a real-time and reactive manner.

The ability to sync resources to a fast-changing landscape not only improves risk management, but also enables more value from legal spend. Emerging risks rarely create the steady drumbeat of work to warrant a full-time hire. These matters tend to be both fluctuating and unpredictable. Instead of overinvesting in fixed costs by hiring an FTE with questionable long-term utilization prospects, GCs can leverage flexible, on-demand, cost-effective legal talent to variabilize spend. These on-demand lawyers can be integrated into the team immediately, in a full-time or part-time capacity and for a long- or short-term duration, reducing the investment in both permanent spend (underutilized hires) and the costs of law firm talent.

Just as important, because this strategy ensures that GCs can access the right lawyers with the right expertise to address in-the-moment legal issues, it also measurably increases the speed of issue resolution and improves legal outcomes.

The Problem with Hiring FTEs to Improve Cost Efficiency

GCs have responded to the “do more with less” mandate by shifting work from law firms to FTEs. While the strategy may reduce costs, it does not necessarily drive superior cost efficiency.



There are a few important points to address around this issue:

First, hiring FTEs can be more expensive than anticipated, as salary and bonuses alone are insufficient measures of cost per permanent legal hire. Employing a permanent lawyer involves a host of variables in addition to salary and bonuses, including equity-related costs, benefits and taxes, bar association fees, facilities and related overhead costs, training and development expenses, hiring and recruiting, exit spend, and more. Other factors such as geographic region, industry experience, tenure, and practice area specialty also substantively influence spend per lawyer.

Second, shifting work from the most expensive option (the law firm) to a cheaper, but permanent, cost (the FTE) may nominally reduce spend, but it does not drive optimal value from that spend.

The addition of more in-house lawyers not only increases fixed costs, it creates a tendency to staff according to the peak volume of work, rather than an average baseline volume of work.

Third, for many companies, hiring cuts and mandated freezes make this option moot.

Finally, it also fundamentally ignores the “agile option,” which enables GCs to build variability into their cost base, while at the same time staffing for acute risks.

The agile option does not simply compare the cost of a single full-time hire to external law firm spend. It instead empowers GCs to reimagine the cost of an employee as a bucket of additional budget. That budget may be used more efficiently on a single flexible lawyer than it can on an FTE or law firm, or it may be more effectively divided and deployed across multiple on-demand lawyers to address numerous workstreams and subspecialty needs.

Agile talent is not only another option beyond FTEs and firms—it can be a strategic tool, especially during headcount freezes, to meaningfully reallocate spend, increase value, and enable GCs to regularly reevaluate their budgets as needs and priorities change.

► The Axiom Savings Calculator

EXAMPLE

A banking client requires a New York-based capital markets lawyer with 11-15 years of experience. The calculator compares the cost of hiring a full-time lawyer versus engaging flexible talent.

In this example, the calculator estimates the savings from engaging an Axiom lawyer as \$85,000 annually, or a lifetime savings of \$255,000.

1 LAWYER QUALIFICATIONS AND OTHER INPUTS

Country	U.S.	Practice area	Capital Markets
State	New York	# of new hires	1
Industry	Banking	Do you pay severance?	No
Lawyer years of experience	11-15	Average in-house tenure	3

2 HIRE A NEW IN-HOUSE ATTORNEY

Average Annual Salary	\$275,000	
Bonus	\$96,250	35%
Benefits & Taxes	\$68,750	25%
Equity	\$55,000	20%
Facilities Costs	\$27,500	10%
Training & Development Costs	\$13,750	5%
Hiring Costs	\$41,250	15%
Exit Costs	\$4,583	5%
Bar Dues and Other Costs	\$8,250	3%

3 FINANCIAL SUMMARY: FULL-TIME VS. FLEXIBLE TALENT

Cost of Hiring an In-House Attorney	
Annual	\$590,000
Lifetime	\$1,770,000
Cost of Using Axiom	
Annual	\$505,000
Lifetime	\$1,515,000
Savings from Using Axiom	
Annual	\$85,000
Lifetime	\$255,000

THE BOTTOM LINE

Shifting spend from external to internal resources is an imperfect budgeting solution to address GC pain points because it **overinvests in fixed costs**.

Legal departments should instead follow the opposite budgeting strategy. GCs—particularly during times of uncertainty and economic volatility—**should variabilize as much of their cost base as possible in order to have the flexibility** to adapt to evolving marketplace and legal needs in the moment.

▶ The Budget-Building Process: A Potential Tool for Minimizing Pain

The budget can and should be used as a primary driver to variabilize spend. Using it effectively to that end requires a different approach for the 2024 budgeting process.

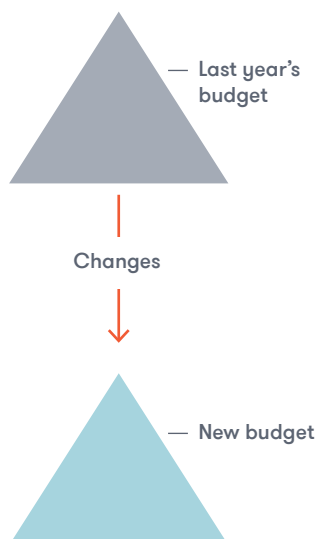
As we outlined in [last year's report on the state of legal budgeting](#), there are two primary models for legal budgets:

1

Precedent-Based Budgeting

Precedent-Based Budgeting (PBB) is also known in financial nomenclature as incrementalism. PBB is an approach whereby last year's budget is taken as the base. The go-forward budget is then prepared by making incremental changes to the previous year's budget.

In a legal context, that budgeting approach would account for myriad broad categories—some substantive, others smaller and more administrative— but all critical puzzle pieces accruing toward a final CFO-blessed number.



While GCs categorize budget buckets differently, they tend to be some combination of the following:

- ▶ **Full-Time Employee Costs**
The fully-loaded costs of each employee (attorney, paralegal, legal operational professional, administrative personnel, etc.) within the department. This number must be inclusive not only of salary and benefits, but also of bonuses, equity costs, employment taxes, hiring and training costs, etc.
- ▶ **Outside Counsel and Contractors**
A straightforward category that is subdivided into law firms and non-law-firm legal providers.
- ▶ **Legal Matter/Litigation**
Spend on court cases, litigation, or issues related to ongoing or emerging legal matters (litigation, employment, IP, commercial, real estate, privacy, regulatory and compliance, etc.).
- ▶ **Technology**
Includes remote work tools, shared enterprise software, and dedicated legal technology tools, such as subscriptions to software-based platforms like Westlaw, Lexis, etc.
- ▶ **Allocations**
Legal's share of the corporate overhead in terms of rent, utilities, etc.
- ▶ **Education and Accreditation Fees**
CLE and conference attendance, state bar fees, membership in organizations like the ABA, CLOC, ACC, etc.
- ▶ **Travel**
Self-explanatory.
- ▶ **Team Events**
Offsites, holiday parties, virtual events.
- ▶ **Miscellaneous**
Everything else, like translations, notary license fees, trademark services, etc.

The benefits of incremental budgeting are clear. It simplifies a laborious process by not forcing the GC to reinvent the wheel every year. However, it assumes that all current activities and costs are still required, without real reexamination. If there are any inefficiencies, it ensures they continue relatively unabated. As such, PBB is an obstacle to meaningfully addressing the foundational problems in the structure of the budget and the legal operating model it serves.

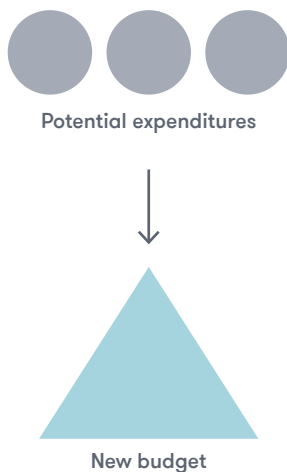
Given the ongoing “cut-back” environment, legal leaders of companies that employ a PBB approach must also learn how to address a target budget number that is less than what was spent the previous year. When CFOs use incrementalism to cut spend universally, it can create real issues for GCs attempting to navigate what to cut, what to maintain, and how to increase budgets for anticipated future needs.

Finally, because incremental budgeting inherently looks backward rather than forward, it is typically not conducive to a changing business landscape, much less a recessionary economy.

2

Zero-Based Budgeting

Some GCs have introduced Zero-Based Budgeting (ZBB), often at the direction of their CFOs or as part of a larger enterprise budgeting strategy. ZBB requires managers to build their budgets from zero on an annual basis, justifying each expenditure. It employs a complex methodology that breaks costs into decision packages, assigns each package to owners with differing perspectives, and requires decision makers to force-rank priorities.



ZBB’s focus on exposing and eliminating unproductive costs and understanding cost drivers has earned it a renaissance since its introduction in the 1970s, particularly among CFOs seeking more sophisticated value-creation tools. It’s an interesting concept for GCs to consider, given it is particularly applicable to costs not directly related to revenue.

ZBB’s many benefits include:

- ▶ **Mission Focus**
Achieves a well-justified budget aligned to legal strategy and anticipated future needs, rather than history.
- ▶ **Cost Reduction**
Avoids automatic budget allocations based on precedent.
- ▶ **Communication**
Increases inter- and intra-department coordination, which can bolster legal’s reputation as a business enabler.

ZBB requires GCs and other relevant legal stakeholders to ask the kinds of questions they may not have asked prior: Is the activity really necessary? If so, what other ways are there of carrying it out? Because ZBB rigorously challenges assumptions, it can also enable GCs to dramatically improve efficiency and transform their operating models.

Critics of ZBB, however, caution it can be extremely bandwidth-intensive, time-consuming, and complex. For GCs who are overwhelmed, overburdened, and resource-constrained, that critique makes the ZBB exercise far less attractive.

▶ A More Modern Model: Agility-Based Budgeting



Enter a new budget model for economic volatility: Agility-Based Budgeting (ABB).

ABB combines the best of PBB and ZBB models, while avoiding the pitfalls and problems of each.

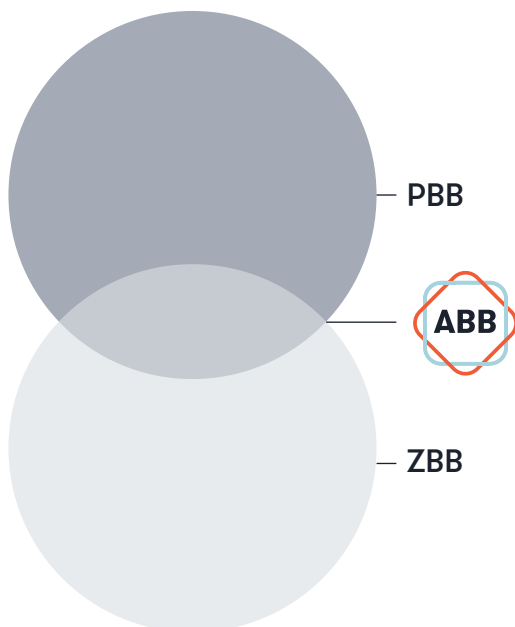


ABB enables GCs to leverage an incremental model to address the majority of legal budget line items (including technology, allocations, education and accreditation fees, travel, team events, miscellaneous, etc.). Building from historical norms for most line items limits the burden of the budgeting exercise on an already overtaxed GC.

Like ZBB, it empowers the budget owner to more thoroughly investigate disproportionately large line items within the budget. As it pertains to legal budgets, the two disproportionately bigger buckets of spend are always headcount and law firm fees. Unlike ZBB, however, ABB does not require the GC to build a budget from scratch. Its focus is instead on shifting spend: How can GCs transition from fixed costs to more variable, cost-effective spend?

ABB's (healthy) fixation on removing the fixed costs that create obstacles to legal department performance, agility, risk mitigation, and operational efficiency makes it the perfect tool to address the now-universal GC pain points. For that reason, as we enter budgeting season, ABB should be considered as a modern solution for infusing the legal department with the agility and variabilization of spend required to minimize costs, address specialty needs, mitigate risk, and improve legal outcomes.

► The Playbook: 7 Steps for Implementing ABB in 2024

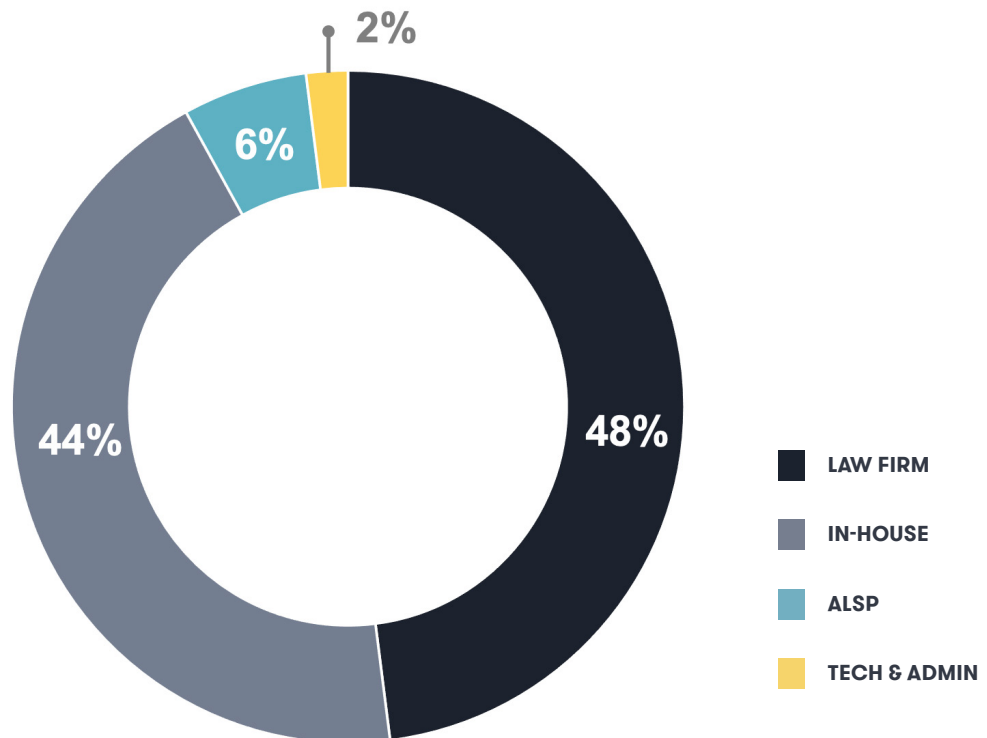


Implementing ABB effectively requires a dedicated effort during the budget-building process to shift spend away from headcount and law firm fees and toward high-caliber, flexible, on-demand resources.

Many innovative GCs who lead high-performing legal departments are already variabilizing their cost base—a point highlighted by the Harvard report, which found that the overwhelming majority (85%) of GCs anticipate that alternative legal services providers will account for a bigger percentage of their overall legal spend over the next few years.

While it is an impressive statistic, and a nod toward industry modernization, current data on enterprise legal spend from HBR Consulting indicates how much more spend must be shifted in order to meaningfully variabilize the legal cost base. FTEs and law firms currently represent 44% and 48% of total legal spend, respectively. Flexible, on-demand, high-quality legal talent remains a very small slice (6%) of the enterprise legal pie.

► Distribution of Legal Spend



7 Steps for Implementing ABB in 2024

To substantially move the agility needle, GCs must budget accordingly, shifting a greater percentage of their spend toward high-quality, cost-effective, flexible legal talent.

1

Leverage a PBB model for legal line item costs

(excluding headcount and legal providers)

- ▶ For all additional line items, use last year's budget as a base, but use a light-touch ZBB approach to pressure-test need and impact of spend where the market has really impacted line items, spend, and variables.
- ▶ Prepare the go-forward budget for the remaining line items by making incremental changes (increases or decreases) to the previous year's budget based on real impact and new enterprise priorities. Line items include:
 - Technology
 - Education and accreditation fees
 - Travel (with notable reductions given ongoing Delta concerns)
 - Team events (see Travel)
 - Miscellaneous

2

Conduct an FTE audit to determine the true costs of salaried in-house lawyers

- ▶ Consider costs beyond base salary and bonuses, including:
 - Equity-related costs
 - Benefits and taxes
 - Bar association fees
 - Facilities and related overhead costs
 - Training and development expenses
 - Hiring and recruiting
 - Exit spend
 - Remote technology

3

Employ ABB for internal spend shift: Identify internal positions primed for flexible talent

- ▶ Review the internal legal organization chart.
- ▶ Identify which positions are core-critical, requiring embedded subject matter expertise and institutional knowledge.
- ▶ Identify positions that are well-suited for flexible talent:
 - A second-level need for a competency that already exists within the full-time team
 - Unexpected demand for critical, but not continuous, expertise
 - A new initiative, project, or transaction requiring a surge in support
 - Open positions that have not otherwise been labeled core-critical

4

Employ ABB for firm spend shift: Identify external law firm spend primed for flexible talent

- ▶ Review external law firm spending by firm, by legal practice area, and by matter.
- ▶ Identify more routine or business-as-usual matters that are outsourced to law firms for convenience, lack of internal resources/expertise, or overflow support.
- ▶ Consider more cost-effective, high-quality, flexible resources from legal talent providers, which can provide savings of 50% or more compared to these law firms.

5

Create a forecasting plan within the budgeting exercise

- ▶ While a budget sets detailed targets for the year ahead, the quarterly forecasts that follow provide the latest outlook, based on actual results.
- ▶ An ABB approach to annual budgeting must include more dynamic forecasting as the year progresses to reassess market realities and legal department demand. This forecasting will then inform near- and medium-term decision making.
- ▶ Create a quarterly forecasting process and calendar (to begin in April of 2024) to capture the material deviations from budget plans and to arm legal leadership with timely information to evaluate root causes and adjust plans accordingly.

6

Foster executive buy-in and develop meaningful KPIs

- ▶ Communicate the intent of ABB to stakeholders so they become co-advocates of the initiative. Stakeholders include:
 - The core-critical in-house team
 - Business department heads and functional leaders
 - CFO/Finance (if working with the CFO, articulate the intent and desired outcomes of the ABB model to foster cooperation on FTE and law firm audits)
 - CEO and other C-suite peers
- ▶ Create transparent KPIs to share with stakeholders in order to calculate/demonstrate success. KPIs include a commitment to shift X% of firm/FTE spend to variabilized costs, leveraging on-demand lawyers.

7

Engage the right external partner

- ▶ Contact Axiom for support, consultation, and assistance building your ABB.
- ▶ Axiom can offer guidance around:
 - Identifying positions and legal matters best primed for flexible talent success.
 - Creating a budgetary framework, leveraging our:
 1. Real Cost Calculator to compare costs between flexible and in-house lawyers for specific open positions.
 2. Law Firm Savings Calculator to demonstrate how shifting work from law firms toward flexible talent can reduce outside counsel spend.
 - Establishing benchmark KPIs beyond cost to measure results.
 - Accessing the right flexible talent for your specific pilot needs.



Axiom is where legal teams go to find the right talent for everything from everyday in-house tasks to complex in-house and outside counsel work. Too many legal departments are stuck having to choose between paying the high fees of their law firm, hiring full-time employees they don't need, or turning to a low-cost agency that can't meet their quality standards. At the same time, top lawyers want to work on challenging legal matters, but they want more control over how, when, and where they practice. Both are forced compromises that no one should have to make. Axiom shares and meets the higher standards of its clients and lawyers, with our "work smarter, adapt faster, go further" approach – connecting growing mid-market and Fortune 500 companies with the world's deepest bench of experienced, highly qualified legal talent. With a net promoter score of 46, 99% of clients recommend us, and four out of five rate our lawyers as equal to or better than lawyers from a law firm. **Axiom. Higher standards welcome.**

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