

AOL

Digging In: A Forensic Approach to Spend Analysis

For a company focused on providing its customers with services and tools to help sift through the oceans of data available on the worldwide web, a legal department with only limited visibility into its own spend just wasn't cutting it. Millions of dollars were being lost due to the inability to effectively enforce outside counsel billing guidelines, so AOL went in search of technology to solve the problem. Beyond realizing the savings that a legal spend management solution could provide, the department's leaders had a vision of strategically using spend data to develop and evaluate alternative fee arrangements (AFAs), make better sourcing and staffing decisions, and reduce matter and litigation lifecycles.

"Billing guidelines and fee arrangements are useless without the ability to enforce them or measure their performance," insists J. L. Novak, general counsel – AOL Access. In 2004, AOL implemented DataCert's Advanced Invoice Management System (AIMS) solution to capture invoice data electronically, improve internal efficiency, and automate the enforcement of billing guidelines and AFAs. The implementation of AIMS has led to an impressive, sustained return on investment. In the first year alone, billing guideline enforcement identified over \$3 million in guideline variances, and AOL has realized between \$4 and 5 million each year from AIMS-enabled enforcement of discounts and AFAs.

Many legal departments would be happy with those results, but Novak and his team did not stop there. "Basic reporting is not enough," says Novak, "You really must take a forensic approach to data analysis. Simply looking at hourly unit cost, for instance, is a poor metric unless you can measure the discrete cost of completing discrete tasks and activities." It is this very detailed forensic approach that has allowed AOL to fully leverage the data in AIMS and identify and achieve advanced cost savings opportunities, including the elimination of un-negotiated fee increases and abusive staffing practices that have alone resulted in \$350 to \$600K per year in savings. AOL has also taken advantage of benchmarking opportunities available through DataCert's extensive Fortune 500 customer base. Through peer analysis, completed in conjunction with DataCert, AOL has identified potential changes to their billing guidelines that will yield \$750K to \$1 million in additional annual

Challenge:


The legal department needed to be able to gain visibility and control over legal costs. It also wanted to go beyond cost savings and use forensic data analysis to manage legal operations more proactively and strategically.

Solution:

AOL implemented DataCert's AIMS solution in 2004 to capture invoice data electronically, enable legal spend and sourcing analysis, and automate the enforcement of its outside counsel guidelines and AFAs. The department continuously looks for innovative ways to use the data in AIMS to perform trend analysis and uncover additional savings and efficiencies.

Benefits:

The use of AIMS has resulted in astounding savings for AOL. In the first year alone, the department identified over \$3 million in guideline variances, quickly paying for the system and enabling it to fund additional technology investments. Through its innovative approach to data analysis and use of strategies such as peer benchmarking, the department continues to identify between \$4 and 5 million in savings each year.



savings. To enforce these more sophisticated billing guidelines and realize additional savings, AOL is currently implementing Guide, DataCert's automated audit and compliance engine.

After collecting legal invoice data for several years in AIMS, AOL continues to uncover strategic uses for its data. In addition to enforcing and evaluating AFAs and billing guidelines, the department makes staffing and sourcing decisions based on data analysis. As Novak explains, "Unit costs of outside counsel typically run 300-400% higher than internal resources. The ability to justify existing headcount and use of outside counsel, to spot when the use of outside counsel is masking a headcount problem, and to spot outsourcing opportunities are examples of ways to use data strategically. For example, a forensic approach to data analysis allowed us to identify concentrations of lower-value trademark registration, regulatory compliance, and litigation discovery work that could be done internally at less than 25% of the cost of the outside counsel we'd been employing for those purposes." In addition to a comparison of internal versus external staffing mix, AOL performs aggressive trend analysis to compare its service providers to one another in order to identify the firms that provide the best value. Each of these strategic uses of data is putting AOL at the forefront of corporate legal departments that proactively manage operations and therefore elevate the value of the legal department through an enhanced contribution to the company's overall efficiency.

For more information visit www.datacert.com.

"The project has provided incredible ROI. In the first year alone, we saved \$3 million in guideline variances. By strategically analyzing the data in AIMS, we are able to develop and enforce discounts and alternative fee arrangements that continue to yield between \$4 and 5 million in savings year over year."

*J. L. Novak
Assistant General Counsel*

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