

BUDGETING FOR E-DISCOVERY: UNDERSTANDING PRICING MODELS FOR COST CONTROL AND TRANSPARENCY

By Sophie Ross, Senior Managing Director



© 2011 FTI Consulting, Inc. FTI Technology is a business of FTI Consulting, Inc. All rights reserved.

INTRODUCTION

The manner in which corporations and law firms approach e-discovery budgeting is evolving. Predicting costs is a continuing challenge and an increasing necessity. The traditional and commonly used line-item approach has a number of benefits, yet new budgeting models are emerging that may give corporate clients greater control and transparency. The new models focus on value rather than unit price. The success of either approach may depend on the company's litigation profile and types of matters faced, as well as the number of in-house resources, personnel and technology.

The goal of this paper is to educate corporations on e-discovery costs and budgeting so that they may more effectively decide upon, and budget for, an e-discovery program that best suits their needs. To do this, this paper will:

- Outline the key attributes of two common e-discovery models that are explicitly focused on cost;
- Discuss how these attributes can increase or reduce e-discovery costs;
- Provide a checklist of questions on pricing, process and technology that clients should use to better determine costs for their e-discovery program;
- Include a self-assessment test to help readers rate their current level of e-discovery budgeting transparency.

Given the actionable goal of this paper, readers can expect to learn how to:

- Identify the e-discovery model in use at their company;
- Pinpoint the areas within their program that lack transparency;
- Assess the efficacy of each model for their particular litigation profile and resources;
- Ask the right questions of software vendors and legal service providers when selecting and/or implementing either model.

HOW MUCH DO YOU KNOW ABOUT YOUR E-DISCOVERY COSTS?

A recent Fulbright & Jaworski report found that in 2009, corporations spent an average of \$3 million per legal case on e-discovery – from collection through production.ⁱ Another recent survey of inside counsel at Fortune 1000 companies using common cost-cutting tactics, only 40 percent could measure savings, and many of the calculations were only vague estimates.ⁱⁱ What these surveys and others indicate is that e-discovery is an expensive process and many, if not most, do not have a reasonable amount of transparency into current costs or how to reduce the overall cost.

Two models have emerged that focus heavily on the issue of cost, the line-item model and the total-cost model. Both take very different approaches to e-discovery, especially around pricing, process and technology. The success or failure of these models, as well as the level of budgeting transparency provided by each, depends upon each organization's profile, including litigation portfolio, internal resources and technical environment.

The following sections of the paper will define, compare, and contrast the different models and their approaches to these three areas, as well as discuss key considerations for reducing the overall cost of legal review. As an additional resource, <u>Appendix A</u> provides a self-assessment test to help readers measure their current program and budget transparency.



DEFINITIONS OF LINE-ITEM AND TOTAL-COST MODELS

What are the characteristics of these two models?

LINE-ITEM MODEL

Under this model, each phase of e-discovery is viewed as a different product: a series of commoditized steps that can be strung together on an assembly line. It's a piecemeal approach. The appeal is simple: Break down e-discovery into its parts and seek the lowest price for each, in an effort to drive down the total cost of the process. The rationale is simple: If we pay the least for each step, the entire cost will be the lowest. Each e-discovery step is treated as fully interchangeable between providers. The typical selection process is to compare "apples to apples" by gathering prices for collections, processing, the manual loading of data into a review tool, then the hosting and production charges. Other, less visible charges, like project management, review time, quality assurance, or hand-off costs usually aren't considered. This approach offers a-la-carte flexibility where providers and services can be mixed and matched.

TOTAL-COST MODEL

The total cost model streamlines the e-discovery process with one provider and creates a structural incentive for the service provider to reduce cost and control enough steps in the process to eliminate inefficiencies. The total cost of e-discovery can be expressed through a flat rate per custodian, per document reviewed, or per gigabyte. This integrated approach brings corporations closer to budget certainty at the outset of the case. While predictable, this approach is also more adaptable since the service provider integrates all aspects and has control over the entire process. The centralized control allows the service provider to act more nimbly, scaling to the needs of different types and sizes of matters throughout their lifecycle. In addition, this centralized control provides greater accountability as one service provider is responsible for the complete process.

Companies using the total-cost approach tend to focus on quality as well as cost, have a larger portfolio of ongoing matters, or fewer internal resources to manage multiple vendors and providers. And, it is important to note that the benefits brought by a total-cost model can, in fact, reduce the overall cost of legal review. For example, the review process often uncovers patterns or themes that should be used to refine document collection, while the nature and quantity of documents found can change the scope of the legal matter itself. When making buying decisions, the important question under the total-cost approach is: What is the bottom line for the entire project at my desired level of quality?

To see how these two models operate in practice, the key components- price, process, and technology-will be examined and contrasted using the two models.



WHAT IS THE TOTAL COST OF E-DISCOVERY?

Knowing the e-discovery costs at the outset of a matter is ideal. Such predictability enables more effective budgeting and opportunities for conducting a cost-benefit analysis before work on the matter begins. It also allows for a comparison across solutions and approaches for different matters. Ideally, if attorney John Smith knows that his matter involves five custodians with 10 GBs of data that need to be produced in 60 days, he should be able to calculate the total cost of e-discovery.

To help its Fortune 1000 clients, industry analyst firm Gartner, Inc. developed an e-discovery budget guideline to shed some light on its true cost. According to Gartner, the review of a single gigabyte of data—assuming 75,000 pages in a gigabyte, four pages per document, a review rate of 50 documents per hour, and an hourly contract reviewer or attorney rate of \$50 – is nearly \$19,000.ⁱⁱⁱ

Here is a closer examination how the two models address the price issue:

LINE-ITEM MODEL

Gartner's model offers a clear baseline to begin considering the other variables that can and do arise in discovery, such as project management and quality control. Also, matters are never that straightforward. There are a number of variables that can raise the price or, in fact, lower the price, including:

- The scope of the matter changes (number of custodians, date ranges, negotiated terms, etc.), requiring fewer or more documents to be reviewed;
- The documents are complex, such as long contracts or spreadsheets with intricate calculations;
- The number of markings that attorneys apply to reviewed documents may vary depending on the complexity of the review;
- The deadline for production materials is short;
- The matter requires additional reviewer training or quality-control measures;
- Hand-offs or overlap between multiple vendors or providers;
- The matter requires foreign language review;
- The technology used provides greater efficiencies, such as the culling or search-based categorization of documents to reduce the dataset, or visual analytics to speed legal review;
- Workflow quality can increase or decrease the efficiency of review;
- Lower hourly rates for contract review attorneys.

So, while the Gartner estimate is useful in orienting lawyers on general costs for legal review, clear cost calculations remain elusive for many using a line-item approach. In addition, most line-item programs utilize different software and service providers throughout the process, causing additional delays and potential cost overruns due to the necessary handoffs of data and work product. And, if anything goes wrong, no single provider or vendor has full accountability for the entire process, often leading to a "blame game" among the different providers.

The reality is that most corporations do not effectively track e-discovery costs or conduct a post-matter assessment when using a line-item approach. This lack of assessment can hurt their ability to measure cost savings from improvements to an e-discovery program, such as advanced technology or improved workflow. In addition, it is unclear without assessment how much risk may have been added to the project through the line-item approach.



TOTAL-COST MODEL

The total-cost model is concerned with the successful outcome of the complete process, so managed e-discovery and review offerings that consolidate all of the discrete steps with one provider and one contract can often provide greater budget predictability at the beginning of the process.

Two main pricing models exist for the total-cost approach. Under either model, the price is based on assumptions about the scope and complexity of the review.

- Through a per-gigabyte model, corporations pay a flat rate determined by the number of gigabytes relevant in a matter for everything from collection or processing through production. The per-gigabyte price is often based on "inbound" data, or the collected volumes. A tension exists here between the client's desire to pre-cull the data at the time of collection (a strategy that saves cost but may entail legal risks of underproduction and spoliation), and the safer approach of culling only after data has been processed in order to preserve all collected documents. To understand and compare per-gigabyte models, the underlying assumptions for survival after processing, de-duplication, and culling should be exposed.
- With a per-document pricing model, clients pay a flat fee for each document reviewed after data is collected and processed. This "outbound" model means that with a previous agreement on processing and culling strategies, the client is not charged for the volume of data processed or hosted. Before the data is collected and processed, however, the number of documents to be reviewed can only be estimated. Per-document prices are predictable based on assumptions with actual costs applied once the document count is known.

Both models are necessarily based on assumptions regarding the matter. Assumption accuracy is directly related to a provider's experience. The more experience the provider has in this methodology and the more exposed they are to the client's specific data and type of business/case, the more accurate the assumptions will be. For example, a provider that has worked on multiple Hart-Scott-Rodino (HSR) second requests will have a good handle of the assumptions for this type of e-discovery and review. Experience thus increases predictability under the total-cost model.

When working with e-discovery vendors and legal service providers, clients should ask for the following information to help improve transparency in the budget, in addition to the questions included in the self-assessment test survey (<u>Appendix A</u>):

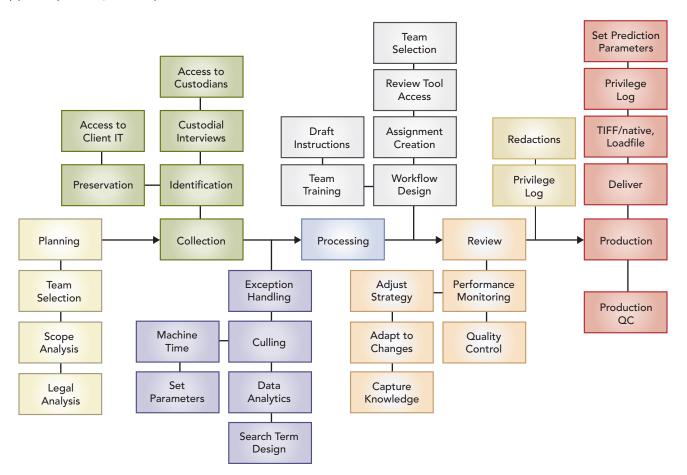
- What is pricing based upon? If per gigabyte, how is pricing modified with processing, de-duplication, and culling?
- Are there additional fees, or contracts renegotiated, if the matter's scope changes? If so, what are they?
- Are there separate fees for technology use? Is it per reviewer, or by volume? Does this include costs associated with hosting the data?
- What if the project settles and review never occurs?



IS MY PROCESS EFFECTIVE AND DEFENSIBLE?

At its core, the most complex component of e-discovery is the workflow. The more sophisticated technology you intend to use, and the more techniques you wish to employ to save review time (such as segregating documents that are most likely responsive or potentially privileged), the more sophisticated workflows you will need to employ.

The workflow chart shown below-by no means a comprehensive list of decisions and steps conducted on an average e-discovery matter-gives a high-level view into the steps and decisions during e-discovery, many of which happen repeatedly and in parallel.



GLOSSARY

Here's a quick overview of some of the questions and process that need to be decided at each of these steps as shown above. Please note this is not meant to be an exhaustive list, but a representative sample of questions asked in each step:

1. PLANNING:

- Legal Analysis: Who, what, when and why? And, how can this help inform the best e-discovery process and workflow?
- **Scope Analysis:** How does the legal analysis set the parameters for legal review, such as the size of the matter or timeline?
- **Team Selection:** Given what is known about the matter, what is the right team to handle the particulars of the case, including in-house resources, law firms, software vendors and legal service providers?

2. COLLECTION:

- Access to Custodians: How custodians interact with the legal and review teams, and when?
- **Custodial Interviews:** What does the custodian know about the types of information and documents that may be responsive?
- Identification: What questions need to be asked of custodians, IT and compliance departments, in order to ensure that all the right data is collected and reviewed, but no more?
- Access to Client IT: Who will conduct the collection and how will data be transferred for processing?
- **Preservation:** How will preservation be conducted with the chain of custody secure? What data must be preserved, but doesn't need to be reviewed at this point?

3. BEFORE PROCESSING:

- Search Term Design: What terms should be used to ensure all relevant data is available for review, but no more?
- Data Analytics: What software tools and techniques should be used on this matter? What does the data look like, and how should this affect review workflows?
- **Set Parameters:** What are the processing parameters? What metadata can be extracted and needs to be extracted? Will these parameters stand up in court?
- Machine Time: Given expected volume, how long will it take for the software to process the data to make it available for review?
- **Culling:** How much data can be removed without review, and will there be quality assurance testing to ensure relevant data wasn't cut?
- **Exception Handling:** How will the team manage data that cannot be processed readily (corrupted files, encrypted data, etc.)?

4. BEFORE REVIEW:

- **Team Selection:** Who will review the data? Are there any specific requirements (e.g., foreign language, financial skills)?
- **Review Tool Access:** Which review tool will be used and what is required to give the reviewers access (hosted review, on-site review, legal provider's facilities, account creation, etc.)?
- Assignment Creation: Based upon key custodians, timeframes and keywords, how will data be fed to the reviewers to provide the most efficient and contextual review?
- Workflow Design: What will be the process for review given the type of matter and the technology used? Do specific types of documents require specific workflows, for example, scanned paper or spreadsheet files?
- Draft Instructions: How will documents be marked? Is the coding template complex or simple?
- **Team Training:** How can we ensure that the reviewers understand the review instructions and workflows, and are gaining the maximum advantage from the review software?

5. REVIEW:

- Capture Knowledge: How will important data be flagged and shared with the legal team?
- Adapt to Changes: As new information comes to light, do we need to collect more information with new custodians and keywords? Can data be eliminated from review?
- Adjust Strategy: Is there a need to alter the case strategy given new facts? How flexible is the review tool to accomplish this?
- Quality Control: How are we testing the quality of the review, and who will testify in court to the QC methodology used?
- **Performance Monitoring:** How quickly and accurately are reviewers getting through the dataset and how will this meet the production deadline? How much visibility do various team members need into performance?

6. BEFORE PRODUCTION:

- **Redactions:** What will be the process for verifying that protected information is fully and accurately withheld?
- **Privilege Logs:** Who will develop the privilege log in accordance with FRCP 26(b)(5), or other applicable rules?



7. DURING PRODUCTION:

- Set Production Parameters: What needs to be produced, and how?
- Lock-down: What is required for final sign-off from counsel?
- TIFF/Native, Loadfile: What is the required production format?
- Production QC: How will we conduct a final QC test before the data is produced to the opposing side?
- **Deliver:** How will the media or data be delivered?

LINE-ITEM MODEL

A line-item approach can mean that several boxes in the workflow represent a hand-off between providers that may increase cost and even risk. The steps in e-discovery are inter-dependent and the result from one step may define the success of the next step. For example, the more thorough the culling process, the fewer documents one will have to review. Or, the more well-designed the review assignments, the higher review productivity and quality will be as reviewers will receive documents in an organized and logical manner.

If the many tasks are spread over many vendors, as the line-item approach typically suggests, a great deal of internal project management time and resources will be required to manage multiple vendors. For those with large internal teams and strong project management capabilities, greater transparency is possible with a line-item model; however, those companies without large internal teams may run into problems with the line-item model beyond transparency issues. Since no one provider is responsible for the final product in such a piecemeal approach, incentives aren't optimal for ensuring maximum efficiency. Problems that arise will be difficult to pinpoint.

TOTAL-COST MODEL

To overcome the risks and costs of piece-mealing, the total-cost model focuses on organizational integration and alignment of incentives. Clients only manage one contract and one service provider, and the accountability is with one provider rather than many. This eliminates finger-pointing, and less time is spent on contract negotiations and vendor management. The legal team is freed up to focus on their core concerns, like timeliness, quality, and staying within budget.

Project management for e-discovery and document review should be the core competency of the e-discovery and review provider, as should be the ability to fully maximize the benefits of e-discovery software and innovations. The e-discovery and review strategy are put in place holistically so that search term definitions, coding template designs, and initial data analysis all drive to an efficient review with high quality results. This integrated approach also allows legal teams to more quickly identify information that shapes the case and requires production.

Training and workflow are essential, yet often overlooked components of legal review. The more hand-offs between providers and vendors, the greater the costs. In addition to the self-assessment test questions in <u>Appendix A</u>, counsel should consider the following when implementing or improving an e-discovery program:

- How are reviewers trained on the matter?
- Is the training a one-time event or ongoing?
- Are reviewers trained on both the technology and subject matter?
- What is the feedback loop between the review and outside counsel?
- Is the review workflow both effective and efficient, driving consistency and quality?
- What kind of transparency will counsel (both in-house and law firm) have into the review progress?
- What access will counsel have to the reviewed documents?
- Can the provider testify in court on the quality methodology used in the review?



TECHNOLOGY

IS MY TECHNOLOGY PROVIDING GREATER PRODUCTIVITY?

E-discovery technology has advanced to provide counsel with a number of tools to reduce the data set, increase reviewer productivity, and reduce the overall cost of legal discovery. While there are hundreds of different tools available for e-discovery, the recent Gartner Magic Quadrant for E-Discovery Software report narrowed down the market to the top 24 software tools.^{iv}

The two models approach technology in the following way:

LINE-ITEM MODEL

Using the lowest-cost software through each stage of e-discovery can, on paper, appear to meet basic e-discovery needs while reducing the overall cost. Yet a number of factors in a line-item approach can reduce the overall benefits of technological advancements. These include:

- The cheapest software may not include advanced capabilities to lower review costs by increasing reviewer productivity such as visualization or suggested coding.
- The cheapest software in one process may impact the pricing in another step. For example, cheap culling tools may reduce the overall data set, but the data is then exported in a non-standard format that is difficult and requires extra time to upload to the review tool. Cheaper tools may also not extract all metadata reliably.
- If several tools are used throughout the process, complications and added expenses around hand-offs may arise, or headaches if materials need to be re-processed or re-reviewed as scope changes.
- The cheapest software may not be able to scale as the scope of the project evolves, or continues for years. Cases lasting months or years aren't uncommon – and the data will need to be reliably available.

For those companies that are mindful of the above, and have strong internal teams in place for project management, the line-item approach can provide a number of benefits, such as greater flexibility to pick and choose different tools depending on the matter.

TOTAL-COST MODEL

As with a relay race, in which each participant is incentivized to perform their own task well and in a manner that advances the overall group effort, in e-discovery the total-cost model encourages the provider to have the greatest productivity for the corporation and outside counsel without sacrificing quality. To do this, advanced legal review technology is commonly used as part of the offering. Such providers typically master how to maximize the features and capabilities of the technology and have developed proven workflows for the various types of matters. This should include as a baseline an integrated e-discovery platform to manage processing through production, minimizing costly data handoffs between different software applications and service providers. As the sophistication of the review tools used by an integrated e-discovery and review provider increases, the cost benefits and quality advantages of the integrated solution also increase. And when an integrated e-discovery and review provider uses their own legal review technology, some additional, and perhaps less apparent, benefits to corporate clients become available, such as:

- Integrated e-discovery and review providers who invest heavily in research and development for their review software ensure that clients will continue to benefit from innovation and advanced features.
- Integrated e-discovery and review providers specialize in perfecting proven workflows for varying types and sizes of review projects.
- Law firms and corporate clients can access the data from their desks with a secure login. This provides transparency to the process and enables the full legal team to review relevant materials as they are tagged, and without delay.



As data volumes grow, suggested coding—the guided propagation of coding decisions to uncoded documents—is increasingly viewed as a probable and necessary option for cost-effective review of large data sets. The efficiency and defensibility of suggested coding has yet to be proven, however, if applied in a manner that enhances the reviewer's knowledge of the documents but still involves full human review, then one can increase both the productivity and consistency of the review while reducing costs. New software features help bridge a gap between the current human review process and tomorrow's suggested coding. These features preserve human review decisions by guiding decisions through concept-clustering of documents and the integration of reference documents into the review. The reviewer receives additional guidance, examples, and information through such coded reference documents. This guided approach means a shorter ramp-up period and a better understanding of the documents. Review decisions for each document.

Technology can play a big role in reducing e-discovery costs, yet the least expensive software often lacks many of the features that help improve reviewer productivity or minimize project risk. When considering a technology investment, counsel should discuss the following questions with their providers:

- Does the software have a proven record of reducing e-discovery costs?
- Is the company committed to continuing software development and innovation?
- How much of the process does the technology manage?
- Are there additional risks, costs or time delays if the tool cannot handle everything from process to production?
- Does the software and vendor have third-party endorsements or references available?



CONCLUSION

Just as finding the lowest cost provider and technology in each step of the e-discovery process can't ensure cost efficiency or predictability, integration and price predictability are not as simple as bundling services across the Electronic Discovery Reference Model (EDRM).

The ability to predict costs more accurately will be of increasing focus as corporations, law firms and government agencies aim to streamline e-discovery into a standard business process. Whether using the traditional line-item model, or the total cost model, the success of either approach will depend largely upon cost and risk transparency, given a company's litigation profile, types of matters faced, and in-house resources (both people and technology).

For simple and routine e-discovery matters, or for more complex matters that can be effectively managed by your team, a line item approach may provide all of the cost efficiency and transparency needed. Those using this approach need to be mindful of key areas where costs and risk can increase, such as when the scope of a matter changes, or during handoffs from one provider or vendor to another. Having a keen understanding of the pricing, process and technology at work can help line-item practitioners achieve control and transparency in their e-discovery.

For more complex matters, repeat matters or for companies that don't want to invest in a large in-house team, or that are otherwise facing budget pressure, a total-cost approach may provide greater efficiency. All total cost models are not equal, however. Clients considering or currently using this model should use the self-assessment in Appendix A to ensure that they are gaining the appropriate level of cost control and transparency.



ABOUT THE AUTHOR

Sophie Ross is a senior managing director in the FTI Technology practice and is based in San Francisco. Ms. Ross leads the FTI Acuity document review business, overseeing from inception, through the building phase, to the current ongoing management and growth. Ms. Ross is also responsible for the Western Region in the Technology practice. She specializes in helping clients manage their overall e-discovery and review through predictable pricing models and by simplifying the multi-layers of discovery management. Ms. Ross joined FTI through its acquisition of Strategic Discovery, a leader in the litigation discovery industry with innovative, comprehensive approaches to paper and electronic discovery as well as records management, where she served as the Chief Operating Officer. She holds a Bachelor of Science in Industrial Engineering from Tel Aviv University, and an MBA from Harvard Business School.

1	"Surveys: Companies Still Struggle with E-Discovery," by Melissa Klein Aguilar, Compliance Week, October 5, 2010,
	http://www.complianceweek.com/article/6180/surveys-companies-still-struggle-with-e-discovery.



Advice from Counsel: Evolving Strategies for Increasing the Efficiency and Efficacy of E-Discovery Programs, by Ari Kaplan,
Ari Kaplan Advisors, December 2010. Sponsored by FTI and available at http://www.ftitechnology.com/Resource-Center/White-Papers/Advice-From-Counsel-Survey-2010.aspx.

iii Gartner, Inc., 2008: E-Discovery: Project Planning and Budgeting 2008-2011

iv Magic Quadrant for E-Discovery Software, by Debra Logan and John Bace, Gartner, May 13, 2011, available at http://www.ftitechnology.com/Resource-Center/White-Papers/Gartner-MQ--2011.aspx.

FTI[™] TECHNOLOGY

SELF-ASSESSMENT TEST

To begin, consider how your company manages litigation and e-discovery. Answer the below questions with "yes," "no" or "don't know" and then use the rubric to score the results.

No	Don't Know	PRICE
		Do you pay separate prices for legal review technology and review services?
		If a matter changes in scope, do you know in advance how that impacts price?
		Do you compare providers based on line-item prices, like processing, metadata extraction, hosting, TIFFing, or endorsing?
		Do you estimate project management fees along with processing, hosting, or review fees?
		Are you able to meet your budgets and timelines 80-90% of the time?
		Do you know how much you are spending per document on legal review?
		PROCESS
		Does the quality assurance (QA) methodology such as statistical sampling follow industry best practices from groups such as the Sedona Conference?
		Is the information collected by the review team shared with outside counsel in a timely manner in order to shape the case where needed?
		Do you use a two-pass review model? If so, does counsel re-review more than five percent of the documents in a second pass?
		Do your service providers and law firms collaborate effectively?
		Do you know the average amount of time spent by your legal team managing multiple vendors and providers?
		Are you able to share knowledge acquired from one case to the next or maximize re-usability of data where there is opportunity?
		TECHNOLOGY
		Do you know how many software tools are used on your data from processing to production?
		Does your legal review tool include advancements to increase reviewer productivity, such as analytics and suggested coding?
		Does your legal review tool handle foreign language documents?
		Does your technology enable you to measure high- and low-performing reviewers with reporting features?
		Are you able to apply the best workflows for these tools in order to achieve the highest level of quality and productivity for your e-discovery and review?
		Does service provider own its own review tool and invest in continued innovation for greater productivity?

RESULTS & SCORING

To assess the transparency of your program, add up your results. For every "yes" answer, add one point. For every "no" answer, add two points. For every "don't know" answer, add three points.

SCORING

- **18-24 points:** Congratulations! You have strong transparency into e-discovery costs and can budget activities with a high degree of certainty.
- **25-32 points:** You have the ability to improve your budget predictability and transparency.
- **33-54 points:** Depending upon your litigation profile, your low level of budget transparency may be cause for concern. Consider contacting a consultant to assist you in developing a holistic program.