



Pricing in Today's Legal Market

LAW OFFICE MANAGER WEBINAR

FEBRUARY 22, 2017

PRESENTED BY BRENDA A. BARNES, CPA

MANAGING PRINCIPAL OF B2 MANAGEMENT & CONSULTING



B2[®]


FEW THINGS ABOUT ME



B2[®]



B2[®]

- 
- ▶ 56 years old
 - ▶ My eyes are blue
 - ▶ I have a tattoo
 - ▶ I love live music
 - ▶ My favorite band is



B2[®]





B2[®]



B2[®]



B2[®]



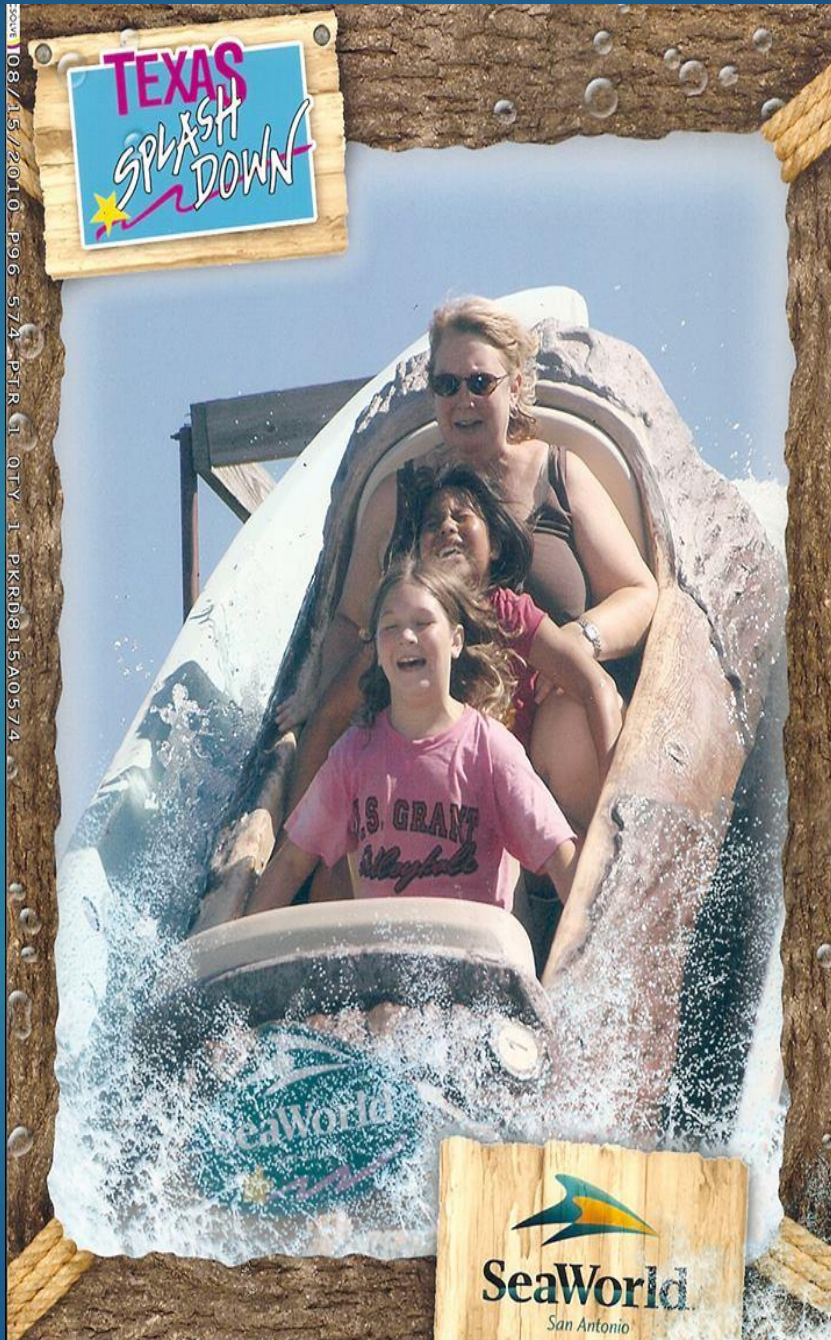
B2



B2[®]



B2[®]



© 2014 B2 Management & Consulting

B2®





B2[®]



It's All About the Numbers



B2[®]

425

B2[®]

595

B2[®]

335

B2[®]

39.5



It's All About the Numbers, Or Is It?



B2[®]



Bird's Eye View

B2[®]

Important Statistics

- ▶ Altman Weil reports 1/3 of in-house counsel plan to decrease their spending on outside counsel over the next 12 months, while only a 1/5 planned an increase. The important statistic relies on actual client behavior.
- ▶ The American Lawyer reports that top-line growth for The Am Law 200 increased by 24.7% over the past 6 years which is a compounded annual growth rate of 3.75%. Revenue per Lawyer grew by 12.7%.
- ▶ Citibank's survey of its Big Law clients indicate that top-line growth will be around 3.7%, with most of the gain explained by billing rate increases of 3.2%.

The logo consists of the letters 'B2' in a bold, white, sans-serif font, with a small registered trademark symbol (®) to the upper right of the '2'. The logo is set against a dark blue square background.

Important Statistics

- ▶ With lock-step compensation for partners in the distant past, firms now compensate based on measurable – originations, hours worked, management contribution. ALM reports that the ratio of highest to lowest paid partners is now 12:1.
- ▶ According to the 2016 Am Law 100 and 200 reports, the profit margins for the top was 39.5% and the combined average for the top 200 was 38.8%.
- ▶ Associate salaries were raised by about \$20,000 per – this will cost the equity partners about \$56,600 each.

The logo consists of the letters 'B2' in a bold, white, sans-serif font, positioned on a dark blue square background.

Important Statistics

- ▶ Law firms that offer “very diverse teams” of lawyers tend to receive a 25% greater share of legal spending than nondiverse teams. Acritas reports that gender was the diversity attribute cited most often.
- ▶ In the House, a new organization of in-house lawyers survey reports that 29% of those surveyed were “very satisfied” with their outside law firms while 62% reported they were “somewhat satisfied.”
- ▶ Failure to communicate! Another Acritas survey reports that only 16% of clients have been asked for formal feedback. Risky? Or is it riskier not to ask.

The logo consists of the letters 'B2' in a bold, white, sans-serif font, with a small registered trademark symbol (®) to the upper right of the '2'. The logo is set against a dark blue square background.

Important Statistics

- ▶ Switching to the profession (not the business), The American Lawyer reports that pro bono work may have reached its limits and may even be on the decline. According to the survey, lawyers spent 54.1 hours on pro bono work.

The Pricing Function



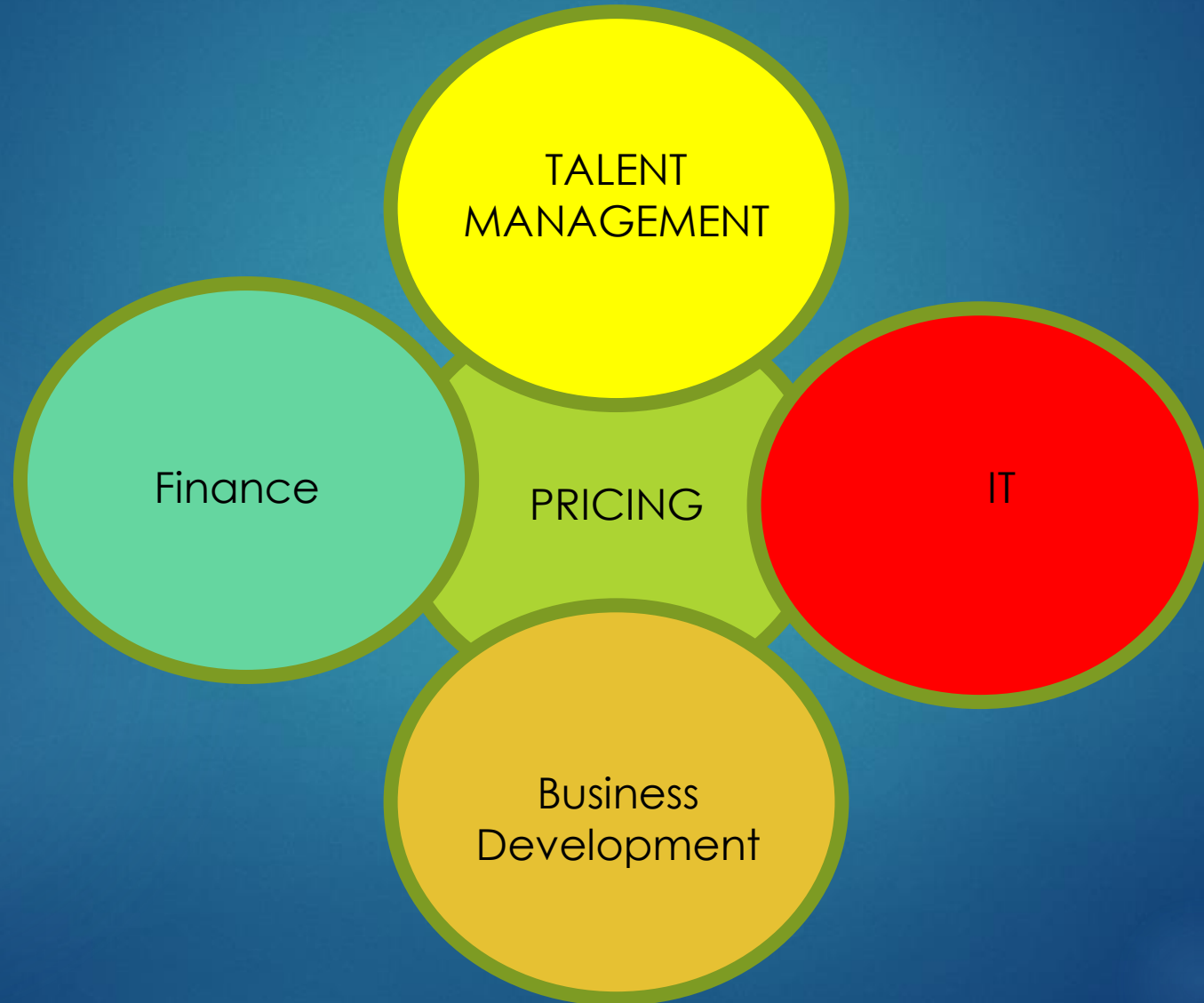
B2[®]

Death of Traditional Billable Hour Pricing

- ▶ According to Georgetown Law, one of the most potentially significant yet rarely acknowledged changes in the past decade is the shift from the traditional billable hour pricing model in most law firms.
- ▶ Alternative Fee Arrangements.
- ▶ Budget Based pricing.
- ▶ Profitability focus.

Important note: Lawyers have typically been compensated based on the billable hour – the shift will create a need to realign the firm's processes and systems.

Firm Culture



B2[®]

Pricing the Hourly Legal Service - Basic

- ▶ The minimum hourly rate at which any lawyer's time can be billed can be determined by using the firm's income and expense budget and management reports.
- ▶ Realization, including A/R write-offs, billing discounts and collections should be recorded.
- ▶ Formula to compute a minimum hourly rate: $B = T / (R - U)$, where
 - B = minimum hourly billing rate
 - T = target revenues for the lawyer
 - R = realization on that lawyer's time
 - U = expected lawyer utilization

The logo consists of the letters 'B2' in a bold, white, sans-serif font, with a small registered trademark symbol (®) to the upper right of the '2'. The logo is set against a dark blue square background.

Pricing the Hourly Legal Service - Basic

- ▶ Example for calculation of T (Target Revenue):

Partner – Draw = \$300,000 with a 20% benefit load and a \$140,000 overhead allocation T would be \$500,000. ($\$300,000 + \$60,000 + \$140,000$).

Associate – Salary - \$150,000 with same allocations, T would be \$320,000. ($\$150,000 + \$30,000 + 140,000$).

Pricing the Hourly Legal Service - Basic

R (Realization) can be computed historically for each lawyer as gross fee collections (on a working lawyer basis – fee collected for the billable hours recorded by that lawyer) divided by the “standard value” of the lawyer’s time recorded – hours times billing rate.

The difference between these two figures represents either premium on work done by the lawyer or time written off at the time of billing, discounts or fees billed but written off or uncollected.

According to the ALM economic survey, the average billing realization is 86.5%. Variances in realization can make a significant impact to profit.

The logo consists of the letters 'B2' in a bold, white, sans-serif font, with a small registered trademark symbol (®) to the upper right of the '2'. The logo is set against a dark blue square background.

Pricing the Hourly Legal Service – Associate Hourly Rate Computation Example

Assume	Associate A	Associate B	Associate C
Compensation	\$100,000	\$150,000	\$70,000
Per Lawyer overhead	\$140,000	\$140,000	\$140,000
Benefits (20% of comp)	\$20,000	\$30,000	\$14,000
Desired Profit (A+B+Cx25%)	\$65,000	\$80,000	\$56,000
Historical R	90%	90%	90%
Expected U	1,800	1,800	1,800
B (minimum hourly rate)	\$201	\$247	\$173

The logo for B2, featuring the letters 'B2' in a large, white, sans-serif font on a dark blue square background.

Pricing the Hourly Legal Service – Partner Hourly Rate Computation Example

Assume	Partner A	Partner B
Draw/Salary	\$300,000	\$500,000
Per lawyer overhead	\$140,000	\$140,000
Benefits (15%)	\$45,000	\$75,000
Historical R	90%	90%
Expected U	1,700	1,700
B (minimum hourly rate)	\$317	\$467

B2[®]

Pricing the Non Hourly Legal Service

- ▶ Common fees used by the litigation group at Paul Hastings includes the following arrangements:
 - ▶ Performance-based success fee/holdback
 - ▶ Volume-based relationship incentives
 - ▶ Portfolio fixed fee with periodic adjustments
 - ▶ Phased fixed fees with collars
 - ▶ Periodic flat fee
- ▶ The “Value Adjustment Line”
- ▶ Shared Risk Equals Shared Goals
- ▶ Outsourcing

The logo consists of the letters 'B2' in a bold, white, sans-serif font, with a small registered trademark symbol (®) to the upper right of the '2'. The logo is set against a dark blue square background.

B2[®]

What Do Clients Want?

Expertise	Support	Practical Advice	Good relationship	Track Record
Client focus	Trust	Business outcomes	Honesty	Quality brand
Experience	Solutions	Responsive	A good price	Guidance
On-time delivery	Good communication	Easy to work with	Quality	Cost conscious
Personal care	No surprises	Know my business	Innovation	Pragmatic
Reputation	Service	Keep me up-to-date	Fast turnaround	Commerciality

Value Proposition

- ▶ Value will vary from one client to the next.
- ▶ Value varies among different stakeholders within the client.
- ▶ Value varies from one matter to the next.
- ▶ Value may vary during the course of a matter.

Pricing Position in a Law Firm



B2[®]

Establishing the Pricing Function

- ▶ Define program's objectives: is the program focused on key clients or a larger population?
- ▶ How is the program to be balanced between pricing (rates, discounts, AFAs..etc.) and delivery (scoping, budgeting, managing and monitoring of engagements)?
- ▶ With regard to the firm's strategy and culture, will pricing principles and guidelines be applied firm-wide or prioritized for certain practices or clients?
- ▶ How will the pricing function be financed? Will the pricing function be a "one person band" or a team?

Implementation Principles

- ▶ It is a marathon, not a sprint.
- ▶ It is a multidisciplinary effort.
- ▶ It is a change management effort.

Getting Started

- ▶ Assess the building blocks
- ▶ Seek low-hanging fruit
- ▶ Engage in networking
- ▶ Beware the tyranny of perfection
- ▶ Communicate, communicate, communicate!

The logo consists of the letters 'B2' in a bold, white, sans-serif font, with a small registered trademark symbol (®) to the upper right of the '2'. The logo is set against a dark blue square background.

B2[®]

Building Blocks - Data, Analytics, Tools & Education

- ▶ Data – Are matters tracked by type of work (i.e. area of law), industry, geography? Is it clear and easy to sue? What is the level of expertise in using client-matter profitability as an internal metric? Is there an accepted and understood client-matter profitability methodology?
- ▶ Analytics – Does the firm have a culture of business intelligence versus the traditional “flat” reporting? What reporting tools, resources and capabilities are available? Have benchmarks been established?
- ▶ Tools – Are there tools available to help lawyers build budgets? How is actual activity monitored with respect to an individual matter’s budget?
- ▶ Education – Does the firm have a common and accepted lexicon when speaking about pricing? Do lawyers currently receive any kind of training on pricing or project management?

The logo consists of the letters 'B2' in a bold, white, sans-serif font, with a small registered trademark symbol (®) to the upper right of the '2'. The logo is set against a dark blue square background.

Low-Hanging Fruit

- ▶ Do what is easy and will get a quick win of support.
- ▶ Achieving early wins will gain support for the pricing function and build credibility.
- ▶ Examples – development of a concise training module explaining the basics of legal pricing with clear visual aids to assist lawyers in identifying valid pricing options based on a few simple inputs.

An existing client has specifically highlighted the importance of the use of AFA by requiring a proposal for a new piece of work.



Networking

- ▶ Pricing may vary by firm, but a peer who has an established program can serve as a great advisor!
- ▶ Tap resources like the Legal Marketing Association (LMA) who has also established an annual conference on pricing – LMA P3

The Perfect System

- ▶ You won't get there, there won't be a perfect pricing system.
- ▶ You will need to accept a method and agree that it should work for approximately 80% of your clients.

Communication

- ▶ Communication is the key aspect of any change management!
- ▶ Communication should be appropriate, targeted and informative.
- ▶ Keep the stakeholders informed about the activities and progression is critical.
- ▶ Use a matrix for individual projects.

Matrix for a Sample Project

	Data	Analytics	Tools	Education
Set the Price	Tracking of work by area of law, industry, geography; client/matter profitability methodology	"Slice and dice" relevant data points via a business intelligence solution; benchmarks for client/matter profitability	Budget templates (top down or bottom up)	Appropriate pricing arrangements; understanding profitability
Get the Price			Engagement letter templates	Negotiation skills
Manage the Price	Ability to store matter budgets		Monitor actual results versus the budget; dedicated legal project manager(s)	Project management fundamentals
Review the Price	Task coding via time entry			

Opportunities for Pricing Director to Add Value

- ▶ Alternative fee arrangements
- ▶ Communication
- ▶ Dealing with Uncertainty
- ▶ Contract compliance
- ▶ Efficiency
- ▶ Data-based decisions
- ▶ Justifying prices
- ▶ Client segmentation

The logo for B2, featuring the letters 'B2' in a bold, white, sans-serif font. A small registered trademark symbol (®) is located at the top right of the number '2'. The logo is set against a dark blue square background.

B2[®]

Pricing Director Makes a Difference

- ▶ Coaching a partner on how to deal with a client who requires a fixed fee when the scope of the work to be undertaken is not clearly defined. The work is won in a manner that protects the firm from carrying undue risk.
- ▶ Assisting the partner in a fee negotiation and obtaining an agreed-upon outcome on better terms than the partner was suggesting be accepted.
- ▶ Providing guidance to a pitch team on the pricing aspects of a proposal, which the client specifically indicates contributed significantly to the firm being awarded the work.



Pricing Director Makes a Difference

- ▶ Coaching a partner on how to deal with a cost overrun, which results in obtaining a variation that the partner was not intending to discuss with the client.
- ▶ Having discussions with a client on pricing assumptions and preferred fee structures in order to optimize the arrangements for the client. This discussion contributes to the firm being awarded the work.
- ▶ Providing guidance to management on annual rate increases including how to effectively communicate the increases internally and externally.



RFP Pitches Gone Wrong!!

- ▶ “In the middle of the presentation a slide appeared out of nowhere; it took me a minute to get oriented but the slide showed the view of a football field – which they told me is from the firm’s box. They told me at least one playoff game would come with these seats if I hired them.” GC, Large Healthcare System
- ▶ “They (the law firm) showed us another client’s actual work product.” – CLO, Large Financial Services Firm
- ▶ “The naming the judges they play golf with.” GC High Tech Co.
- ▶ “On one of the first few slides they made reference to our company being ‘founded many years ago.’ They couldn’t look this up? Is this the thoroughness I should expect in litigation?” DH, Prof’l Services Firm

The logo consists of the letters 'B2' in a bold, white, sans-serif font, with a small registered trademark symbol (®) to the upper right of the '2'. The logo is set against a dark blue square background.

RFP Pitches Gone Wrong – MORE!

- ▶ “Somebody came in with 12 white men, when most of my people at the time were women and minorities. Obviously they hadn’t done their homework. I asked if we could get a more diverse team. They asked me if I wanted to win or be diverse. I told them: this is something you say to each other after you leave. Not to me.” EVP Manufacturing Co.
- ▶ “As they were presenting, I was following along looking at their proposal; they announced a fee which was substantially higher than the fee in the proposal. I immediately asked why there was a difference, to which they responded, there was not difference. I elected not to pursue the issue.” VP, GC Global Industrial Equip. Co

The logo consists of the letters 'B2' in a bold, white, sans-serif font, with a small registered trademark symbol (®) to the upper right of the '2'. The logo is set against a dark blue square background.

Wrap Up

B2[®]

It's All About the Numbers

OR IS IT?



B2[®]

Useful Resources

- ▶ The Association of Corporate Counsel
www.acc.com/valuechallenge
- ▶ The Buying Legal Counsel
www.buyinglegal.com
- ▶ Legal Pricing Roundtable
www.lawvisiongroup/client-resources
- ▶ The Legal Sales & Services Organization www.legalsales.org
- ▶ The Professional Pricing Society
www.pricingsociety.com
- ▶ The True Value Partnering Institute
www.tvp-institute.com
- ▶ ALM Legal Intelligence
www.almlegalintel.com
- ▶ Bloomberg Law
www.bna.com/bloomberglaw
- ▶ LegalBizDev www.legalbizdev.com
- ▶ Patrick on Pricing
www.patrickonpricing.com
- ▶ Peer Monitor
www.peermonitor.thomsonreuters.com
- ▶ LinkedIn Groups – Alternative Fee Lawyers, Legal Pricing, Pricing and Value Strategies, Profitable Pricing for Lawyers

The logo consists of the letters 'B2' in a bold, white, sans-serif font, with a small registered trademark symbol (®) to the upper right of the '2'. The logo is set against a dark blue square background.


THANK YOU!!!



Management & Consulting



B2®

 PAYROLL
RECRUITING

TIME & BILLING SOFTWARE

Just got easier™
 .com
 2-mgmt.com

B2 Mana

B2 Management & Consulting

Contact Holly Coe at hcoe@b2-mgmt.com