

Pricing Bootcamp



AGENDA

Pricing Principles

Knowing the Market

Understanding Value

Pricing Process + Technology

Case Study

Pricing Principles

Exchange/Demand

Revenue/Profit Lever

Positioning/Purchasing/Profiting

Knowing the Market

Next-Best Alternative (NBA)

Willingness-To-Pay (WTP)

Buyer Psychology



Priceless: The Myth of Fair Value

Pricing Implications

Good/Better/Best

Client Feedback

Competitive Intelligence

**“What is a cynic but a man who knows
the price of everything and the value of nothing.”**

Oscar Wilde, *Lady Windermere's Fan* (1892)

“Price is what you pay, value is what you get.”

Warren Buffet quoting Benjamin Graham
in the Berkshire Hathaway Annual Report (2008)

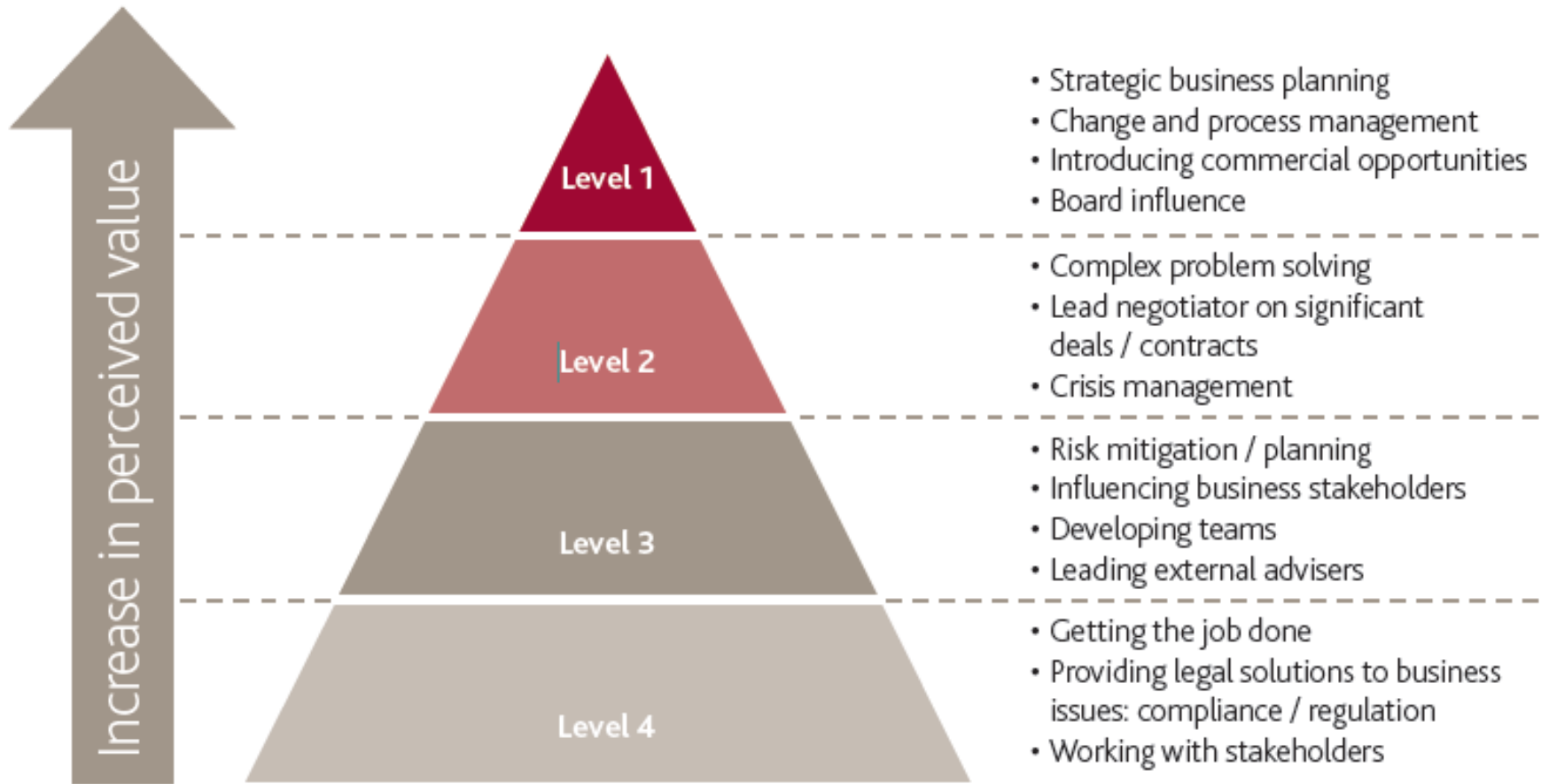
Understanding Value

General Counsel + Law Department

Align Price with Value

What Works Well

GC's Value Pyramid



Source: 'General counsel: vague about value?', pg 2 (Nabarro Report, Summer 2011)

Themes of Legal 'Value Add'

Key themes

- ❑ Commerciality
- ❑ Financial value
- ❑ Risk mitigation
- ❑ Cost effectiveness
- ❑ Comprehensive service delivery
- ❑ Innovation in the legal function
- ❑ Management reporting and measurement

On the 'Value Pyramid' *

Levels 1 - 2

Levels 1 - 2

Levels 1 - 4

Levels 3 - 4

Levels 3 - 4

Levels 1 - 4

Levels 3 - 4

Note: * Suggested range only, based on activities highlighted on previous slide.

Closer Look at 'Commerciality'

Potential 'GC' Value

Supporting overall commercial objectives of the business by:

- being responsive to Due Diligence for capital or exit opportunities
- supporting debt/ equity financing
- active participation in investment decisions
- review of supplier/ vendor agreements to ensure an appropriate balance of risk vs. revenue
- Brand protection
- Reputation protection
- Rapid integration of target businesses to ensure retention of customers/ key employees
- Address competition and compliance issues to enable deal growth

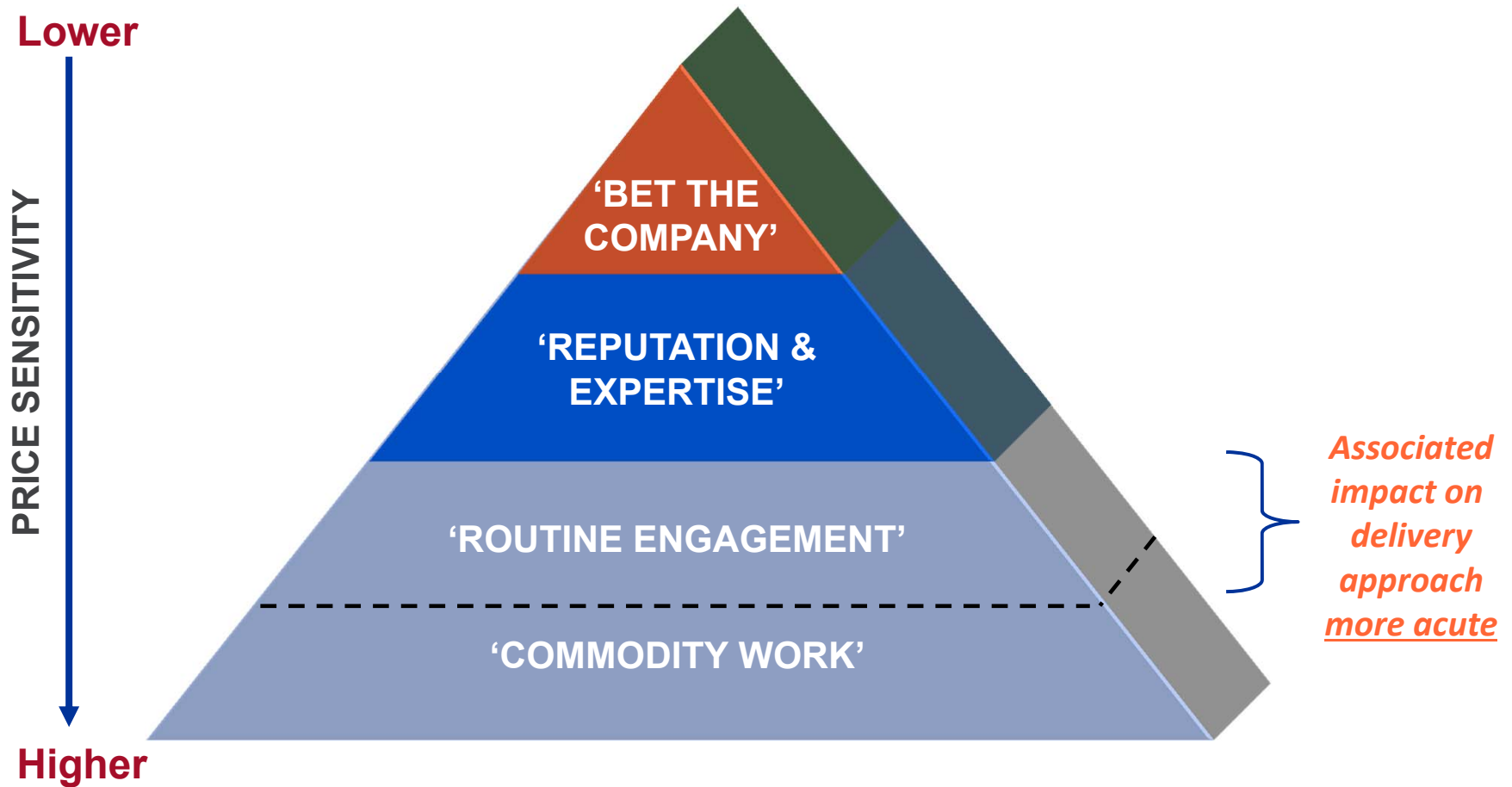
Potential 'OC' Value

- Specialist, experienced resources quickly available to support existing in house team capabilities
- Access to deep industry/ sector knowledge/ precedents to support the most appropriate legal outcomes
- Benchmarking with other clients
- Business transformation-type expertise, e.g.
 - supply chain/ business restructuring;
 - restructuring of pension debt/ pension scheme mergers;
 - employment issues
- Utilize external providers own networks for business gain
- Referrals

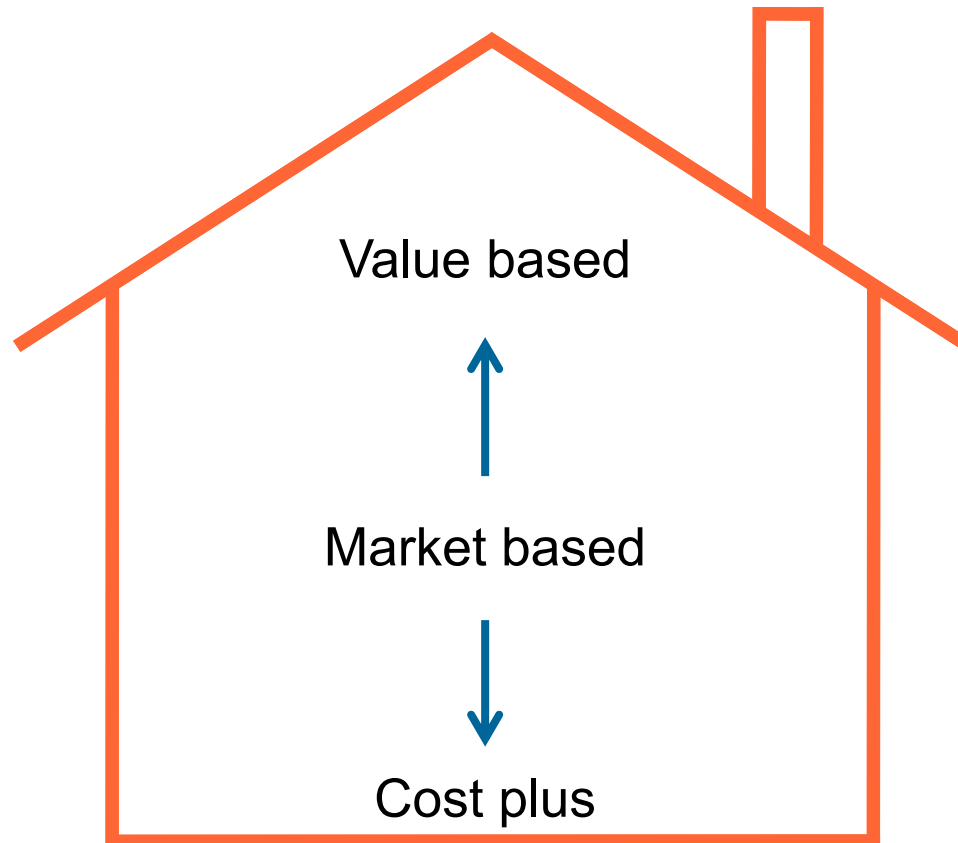
Aligning Price with Value

$$\text{PERCEIVED VALUE} = \frac{\text{PERCEIVED BENEFIT}}{\text{PERCEIVED SACRIFICE}}$$

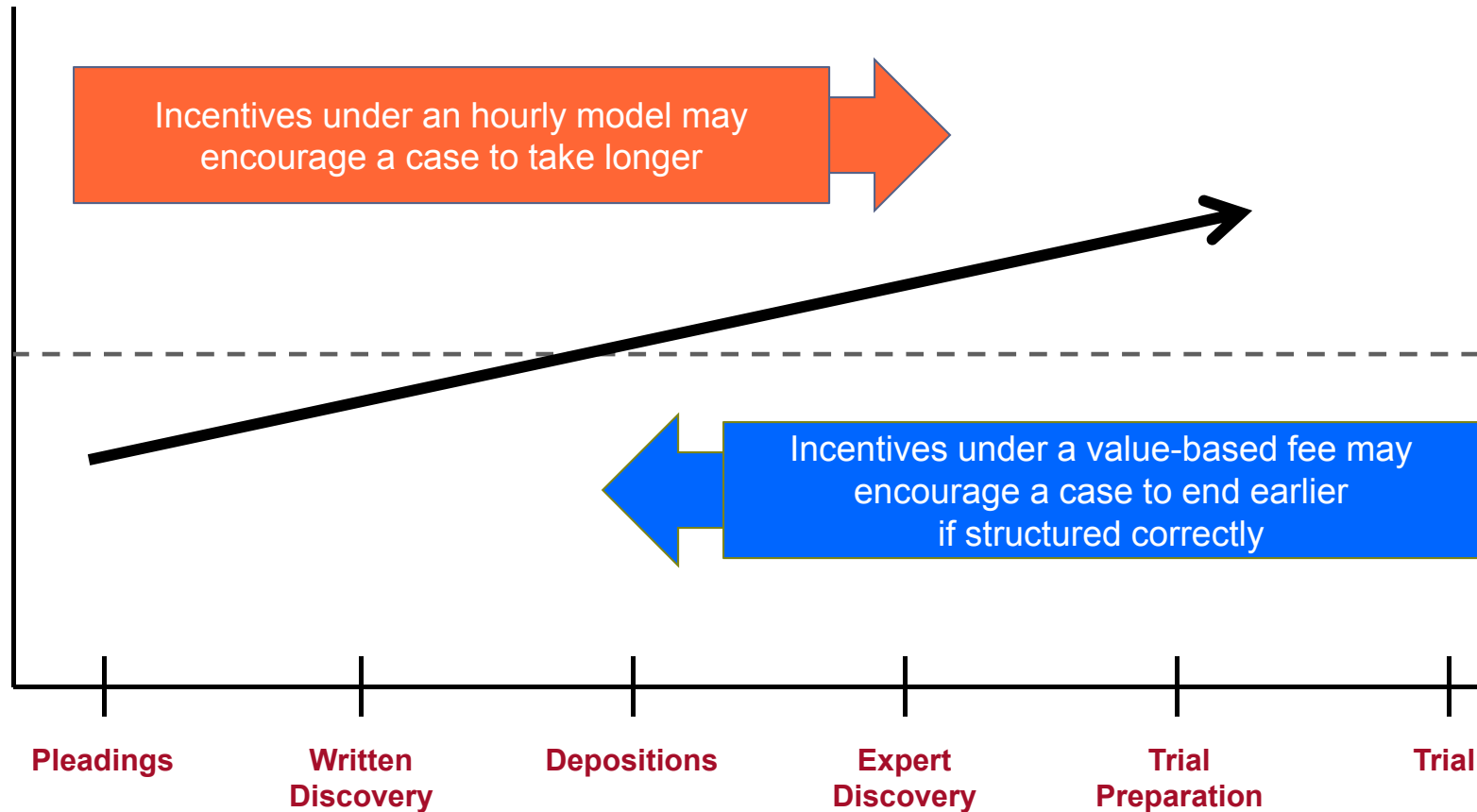
Recognizing the 'Value' of a Matter



The 'House' of Pricing



Aligning Company/Outside Counsel



Pricing Process + Technology

Considerations in Implementation

Profitability 101

Sample RFP

Successful Approaches: Pricing

In order to begin a **systematic** process of improving firm profitability a firm first needs:

- ❑ Visibility into quantitative metrics
- ❑ Timely data
- ❑ An understanding of the data
- ❑ A strategic and tactical plan to use the data
- ❑ Understanding how this affects them

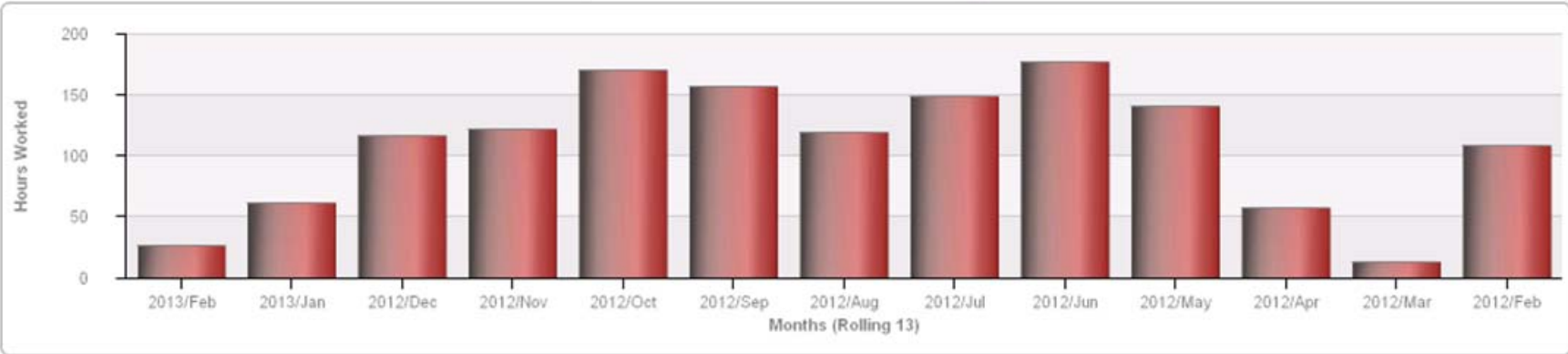
Visibility into Data

Data shown below relates to working lawyer metrics.

[Export to PDF](#) [Export to Excel](#)

| | 2013/Mar | 2013/Feb | 2013/Jan | YTD | Prior YTD | Rolling 12 Months | Prior Rolling 12 Months |
|-------------------------|----------|----------|----------|---------|-----------|-------------------|-------------------------|
| Hours Worked | 24 | 26 | 61 | 86 | 302 | 1,306 | 1,558 |
| Utilization % | 0.0% | 16.2% | 38.3% | 27.3% | 95.2% | 68.7% | 82.0% |
| Value at Preferred Rate | 23,275 | 24,415 | 57,665 | 82,080 | 263,900 | 1,149,055 | 1,269,180 |
| Worked Amount | 22,504 | 23,468 | 55,697 | 79,165 | 247,677 | 1,070,236 | 1,181,914 |
| Fiscal Collections | 19,084 | 174,053 | 83,158 | 257,211 | 158,262 | 1,409,847 | 915,543 |

Hours Worked



TOP 5 CLIENTS (YTD HOURS WORKED)

| | 2013/Feb | 2013/Jan | YTD | Prior YTD |
|--------|----------|----------|-----|-----------|
| 076376 | 10 | 23 | 32 | 0 |
| 063170 | 7 | 21 | 28 | 0 |
| 080888 | 8 | 15 | 23 | 12 |
| 016295 | 0 | 1 | 1 | 40 |
| 064372 | 1 | 0 | 1 | 0 |

Date of Last Entry:
Nov. 29

Average Days to Entry
7

[Click for All Clients](#)

Successful Approaches: Matter

- ❑ Every matter can have a alternative arrangement
- ❑ Every matter should have an alternative arrangement
- ❑ If properly managed those alternative arrangements could be **more** profitable and you have provided the client with predictability and results

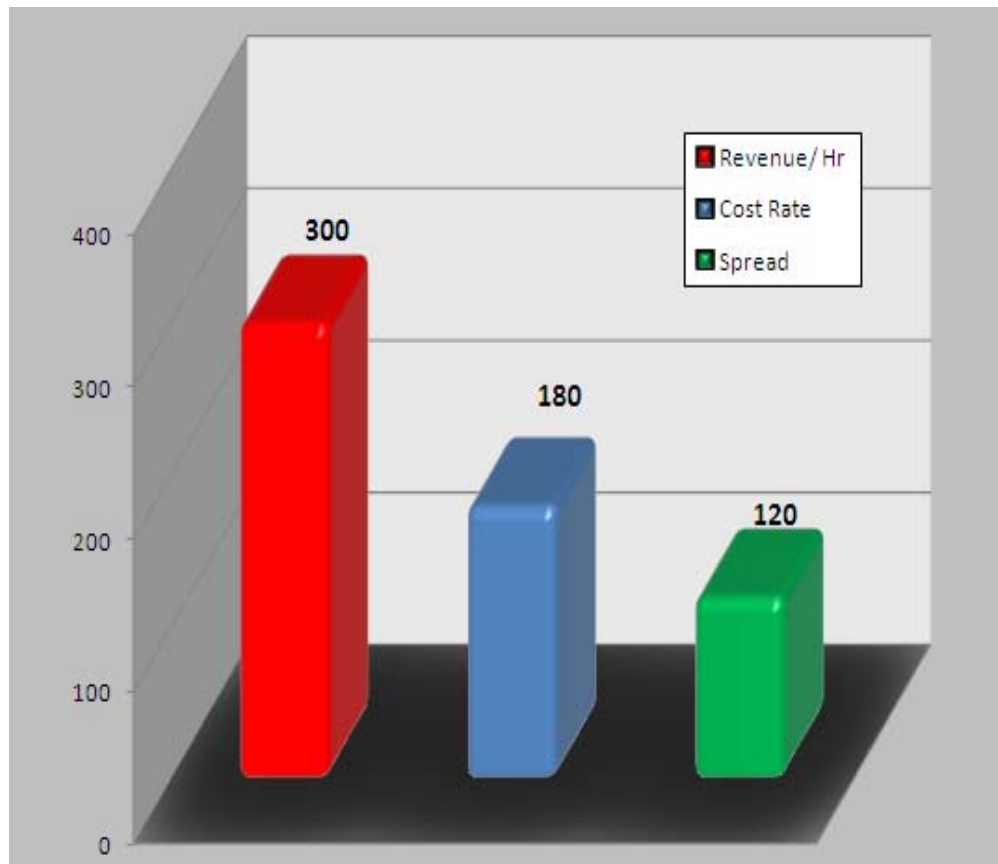
Know Your Goals

- ❑ What is the client looking for? Are their expectations realistic?
- ❑ What is the cost of delivering this service?
- ❑ What are you willing to accept regarding the profitability of this work?
- ❑ Is this core to our business?
- ❑ Learn to say no quickly!

Revisiting Profit Metrics

- ❑ Realization versus profit
- ❑ Maximizing billable hours versus efficiency
- ❑ Mix of timekeepers (leverage)
- ❑ Indirect costs - you cannot cut your way into profitability!

Profitability 101 – The Basics



How much can we charge?

How much does it cost us?

How can we maximize the spread?

Sample RFP Scenario

- ❑ You are Susan Evans – a top partner in the corporate practice group
- ❑ Received an RFP for a matter you are well versed in
- ❑ Client wants your best “creative” pricing
- ❑ Estimation is 100 hours; you’ve been told incumbent firm offers 10% discount
- ❑ **Now what?**

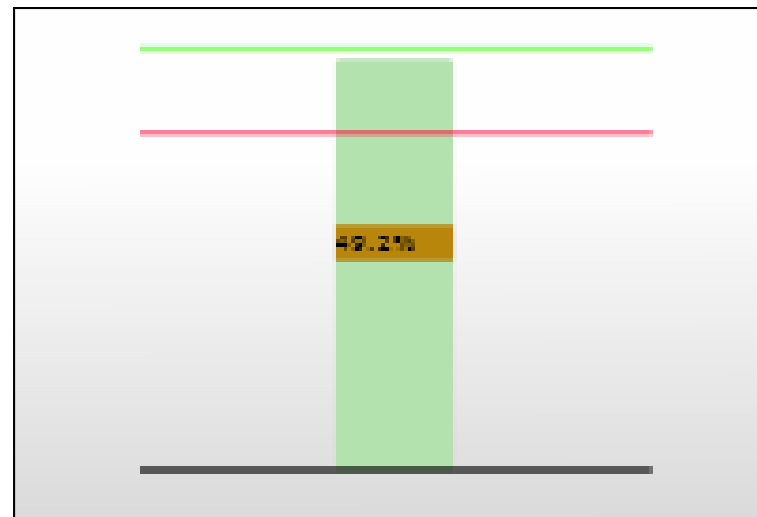


Option 1: Match Discount

You select the folks who have worked with you the longest and disburse the hours evenly

| Timekeeper | Standard Rate | Office |
|----------------------|---------------|---------|
| ▼ Partner | | |
| Abrams, Daniel | \$645 | CHICAGO |
| Generic Partner | \$595 | CHICAGO |
| ▼ Associate | | |
| Cleveland, Lisa | \$335 | CHICAGO |
| Generic Fifth Year A | \$410 | CHICAGO |
| ▼ Of Counsel | | |
| Burke, Pedro | \$555 | CHICAGO |
| Generic Of Counsel | \$503 | CHICAGO |
| ▼ Paralegal | | |
| Rollins, Don | \$225 | CHICAGO |
| Generic Paralegal | \$253 | CHICAGO |

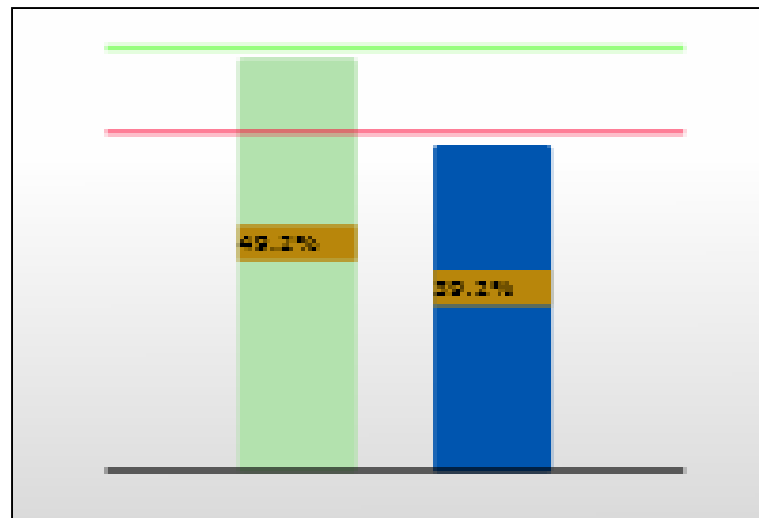
| Timekeeper | Std Rate | Std Rate | Std Rate | x | Realization | Bill Rate | Hours |
|-----------------|----------|----------|----------|--------------------------|-------------|-----------|-------|
| ▼ Partner | \$620 | \$620 | \$0 | <input type="checkbox"/> | 90.0% | \$558 | 25.00 |
| Abrams, Daniel | \$645 | \$645 | \$0 | <input type="checkbox"/> | 90.0% | \$581 | 12.50 |
| Generic Partner | \$595 | \$595 | \$0 | <input type="checkbox"/> | 90.0% | \$536 | 12.50 |
| ▶ Associate | \$373 | \$373 | \$0 | <input type="checkbox"/> | 90.0% | \$335 | 25.00 |
| ▶ Of Counsel | \$529 | \$529 | \$0 | <input type="checkbox"/> | 90.0% | \$476 | 25.00 |
| ▶ Paralegal | \$239 | \$239 | \$0 | <input type="checkbox"/> | 90.0% | \$215 | 25.00 |



Option 2: Bigger Discount

You select the folks who have worked with you the longest and you want to make sure you win the work – so you offer a 20% discount

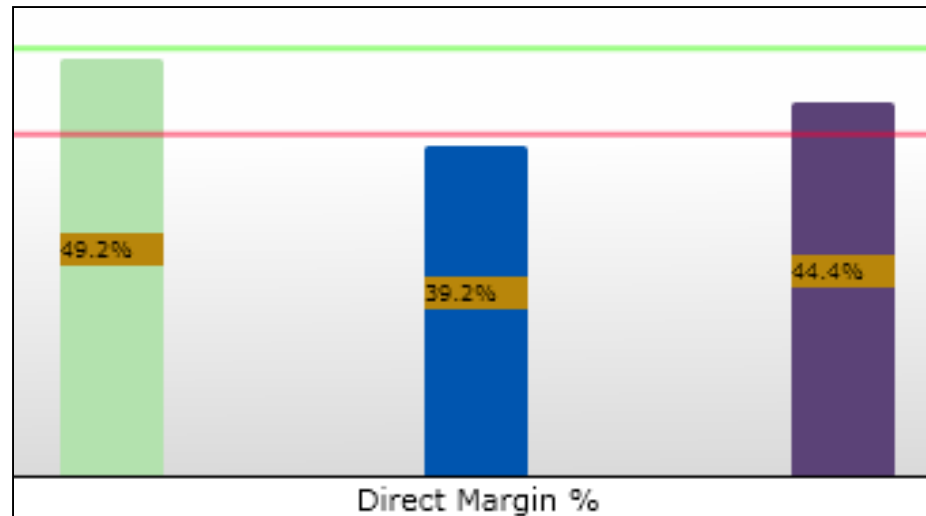
| Timekeeper | Std Rate | Std Rate | Std Rate | x | Realization | Bill Rate | Hours | x | Realization | Bill Rate | Hours |
|--------------|----------|----------|----------|--------------------------|-------------|-----------|-------|--------------------------|-------------|-----------|-------|
| ▶ Partner | \$620 | \$620 | \$620 | <input type="checkbox"/> | 90.0% | \$558 | 25.00 | <input type="checkbox"/> | 80.0% | \$496 | 25.00 |
| ▶ Associate | \$373 | \$373 | \$373 | <input type="checkbox"/> | 90.0% | \$335 | 25.00 | <input type="checkbox"/> | 80.0% | \$298 | 25.00 |
| ▶ Of Counsel | \$529 | \$529 | \$529 | <input type="checkbox"/> | 90.0% | \$476 | 25.00 | <input type="checkbox"/> | 80.0% | \$423 | 25.00 |
| ▶ Paralegal | \$239 | \$239 | \$239 | <input type="checkbox"/> | 90.0% | \$215 | 25.00 | <input type="checkbox"/> | 80.0% | \$191 | 25.00 |



Option 3: Blended Rate

Is there a way to retain that original margin and provide additional value to the client? What about a blended rate of \$375?

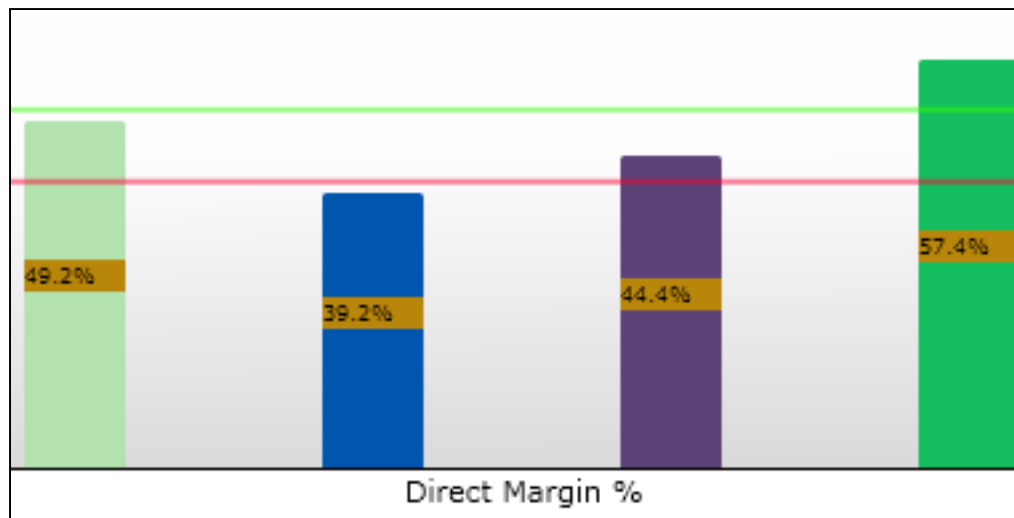
| Timekeeper | Std Rate | Std Rate | Std Rate | x | Realization | Bill Rate | Hours | x | Realization | Bill Rate | Hours |
|--------------|----------|----------|----------|--------------------------|-------------|-----------|-------|--------------------------|-------------|-----------|-------|
| ▶ Partner | \$620 | \$620 | \$620 | <input type="checkbox"/> | 80.0% | \$496 | 25.00 | <input type="checkbox"/> | 60.5% | \$375 | 25.00 |
| ▶ Associate | \$373 | \$373 | \$373 | <input type="checkbox"/> | 80.0% | \$298 | 25.00 | <input type="checkbox"/> | 100.7% | \$375 | 25.00 |
| ▶ Of Counsel | \$529 | \$529 | \$529 | <input type="checkbox"/> | 80.0% | \$423 | 25.00 | <input type="checkbox"/> | 70.9% | \$375 | 25.00 |
| ▶ Paralegal | \$239 | \$239 | \$239 | <input type="checkbox"/> | 80.0% | \$191 | 25.00 | <input type="checkbox"/> | 156.8% | \$375 | 25.00 |



Option 4: Hybrid

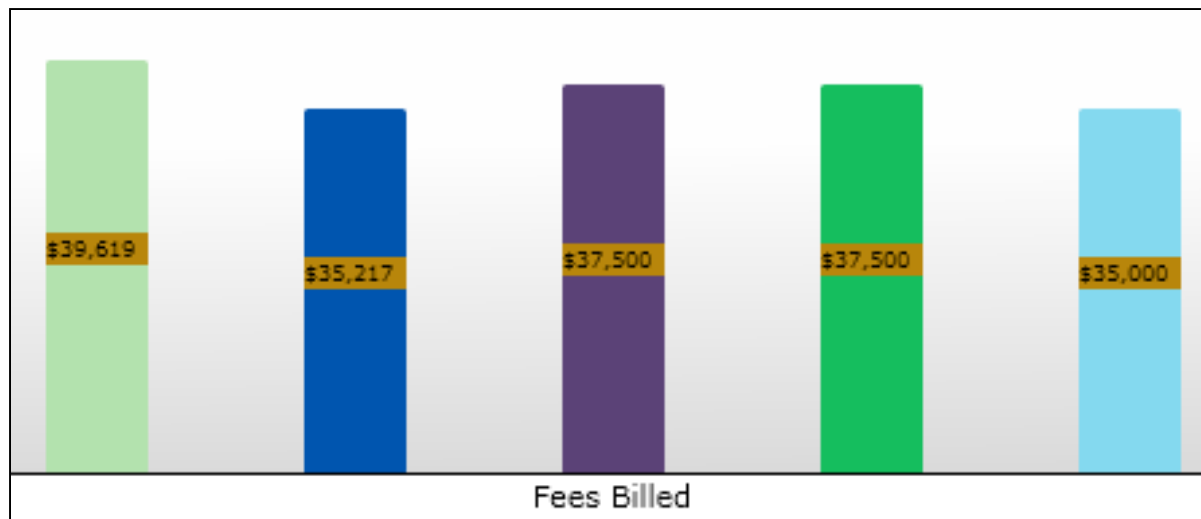
We got closer to that 50% marker, so what if we keep the blended rate of \$375 and leverage a few hours?

| Timekeeper | Std Rate | Std Rate | Std Rate | x | Realization | Bill Rate | Hours | x | Realization | Bill Rate | Hours |
|--------------|----------|----------|----------|--------------------------|-------------|-----------|-------|--------------------------|-------------|-----------|-------|
| ▶ Partner | \$620 | \$620 | \$620 | <input type="checkbox"/> | 60.5% | \$375 | 25.00 | <input type="checkbox"/> | 60.5% | \$375 | 10.00 |
| ▶ Associate | \$373 | \$373 | \$373 | <input type="checkbox"/> | 100.7% | \$375 | 25.00 | <input type="checkbox"/> | 100.7% | \$375 | 35.00 |
| ▶ Of Counsel | \$529 | \$529 | \$529 | <input type="checkbox"/> | 70.9% | \$375 | 25.00 | <input type="checkbox"/> | 70.9% | \$375 | 30.00 |
| ▶ Paralegal | \$239 | \$239 | \$239 | <input type="checkbox"/> | 156.8% | \$375 | 25.00 | <input type="checkbox"/> | 156.8% | \$375 | 25.00 |



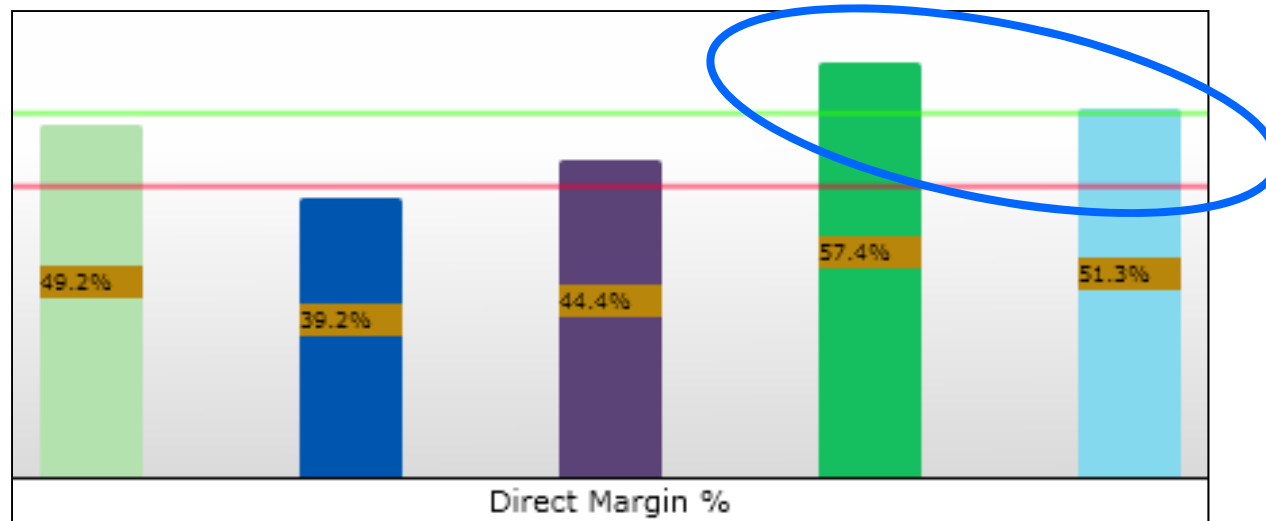
Option 5: Fixed Fee

If we are confident in our estimation can we give the ultimate predictability to the client? What about a fixed fee of \$35,000 and apply leverage?



Option Review

Looking at all scenarios, although the fixed fee will result in lower billings, the margins on the matter exceeds the original scenario with the 10% discount



Deliver + Track

- ❑ Until you analyze hard facts everything is anecdotal
- ❑ Track, Track, Track
 - ❑ You must track data effectively, especially as you dive into the world of alternative arrangements
 - ❑ This requires periodic review of variance of actual performance against the intended delivered plan
 - ❑ If possible use arrangement codes in your billing systems to help distinguish AFAs for future analysis
 - ❑ **Time recording must be enforced or variance analyses will become meaningless**
- ❑ Use information to improve future planning and to ensure proper project management of current engagement

Deliver + Track

Task Summary by Phase for [REDACTED] Standard Rates

Client: [REDACTED]

Data as of: June 25, 2013

Matter: [REDACTED]

Matter Open Date: June 14, 2012

Select a Phase:

[Click here for Phase details](#)

Select a Measure:

| Task Code Description | Planned | Actual | Variance |
|--|-----------|-----------|----------|
| ENF-FAC01 General Factual Development | 7 | 12 | 6 |
| ENF-FAC02 Investigative Interviews | 1 | 1 | 0 |
| ENF-FAC04 Strategic Planning, Counseling, and Advice | 2 | 2 | 0 |
| ENF-FAC05 Communications with / Issues Regarding Other Counsel and Related Preparation | 1 | 0 | -1 |
| Overall | 11 | 16 | 5 |

Review

- ❑ Post-Mortems - Review of all engagements is necessary
- ❑ Use information to improve future planning and to ensure lessons have been learned
- ❑ Work with the entire engagement group to determine inefficiencies and where you excelled
 - ❑ Track these items
 - ❑ Let others know about the experience
- ❑ Adjust for the next engagement

Summary

- ❑ Trust is key — demand for legal services will increase
- ❑ Client motivation — cost certainty or price? These are not the same thing
- ❑ Sometimes, the billable hour **is the best arrangement**
- ❑ With proper understanding of margins and reasonable assurance of scope, you are indifferent to the pricing arrangement
- ❑ Start somewhere. Only experience will increase a firm's competence

LSSO's 2014 RainDance Conference

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