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Pricing Multi-Year Portfolios of Complex and Regular Work

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Catalyst Consulting

The firm consults across North America, Australia, Europe and the Middle East on management issues of interest to Chief Legal Officers.

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Richard Stock

- ▲ 35 years in legal services mgmt. and consulting
- ▲ 85 RSPs and ISPs for more than 100 companies since 1996
- ▲ Negotiated agreements with more than 350 law firms in 125 countries
- ▲ Member of Buying Legal Counsel for 5 years and presenter in NYC, Chicago, London and Sydney
- ▲ A good cook but never a chef

Introduction

- ▲ 85 % hourly
- ▲ Dismal scoping
- ▲ Wholesale *versus* Retail pricing
- ▲ ISPs *versus* RFPs
- ▲ Predictable pricing
- ▲ Saving 24 %

Why 85 % Hourly

- ▲ Poor understanding of RULES for law firms
- ▲ Hiring the lawyer, not the firm
- ▲ Discounted individual rates
- ▲ Fear of too many eggs in one basket
- ▲ Law department knows Rate and Utilization (Hours)

Why 85 % Hourly

▲ Getting off the clock needs

- ❖ Improved leverage / delegation by firm
- ❖ Better scoping
- ❖ Multi-year commitments
- ❖ Convergence in number of firms

▲ Pre-requisite for Alternative Fee Arrangements (AFAs)

Dismal Scoping

- ▲ Firms need predictable but not guaranteed volumes to consider AFAs
- ▲ Too few companies have reliable data (see *Thomson-Reuters Legal Tracker and others*) about
 - ❖ The type and complexity of legal work
 - ❖ The distribution of hours by experience level and category and firm
 - ❖ Average rates paid by category and by firm

Dismal Scoping

▲ Scope should cover

- ❖ Hours
- ❖ Category of law
- ❖ Complexity mix and preferred staffing distributions
- ❖ Distributed by jurisdiction / region / country / continent

Wholesale vs. Retail Pricing

- ▲ Resolve to stop buying hourly
- ▲ Consider portfolios of legal work
- ▲ Critical mass of hours over time
 - ❖ e.g. 20 000 hours per year
- ▲ Mitigate effects of annual increases
 - ❖ 4 % to 7 % in rack rates
- ▲ Include all office-related disbursements in price

Wholesale vs. Retail Pricing

- ▲ Consider legal supply chain management with general contractor / hub law firms rather than relationship-based legal services
- ▲ Professional firms can prepare administrative and management reports, rather than Legal Operations
- ▲ Ensure preferred firms have portals, record of instruction capabilities, LPM and budgeting, oversight and payment of firms in the legal supply chain

ISPs vs. RFPs

- ▲ Most law departments dislike RFPs; law firms dislike them even more
- ▲ Competition for work through RFPs will not lower prices by more than 5 % beyond the usual 15 %
- ▲ RFPs are labour-intensive; complex legal work is expertise and relationship sensitive, not price-sensitive

ISPs vs. RFPs

- ▲ After a review of historical staffing and pricing patterns by law firms (consider and Request for Information (RFI)), then reduce the number of firms to a preferred list
- ▲ Invitation for Strategic Partnering (vs. the RFP) repositions the relationship and balances qualitative and financial elements with external counsel
- ▲ Allows a company and selected firm(s) to focus on innovation

Predictable Pricing

- ▲ Planned volumes over 3 to 5 years for fewer firms for a hybrid fee consisting of
 - ❖ A fixed base, and
 - ❖ a variable fee of 15% to 20% recognizing results and innovation
- ▲ Review and adjustment mechanism

Saving 24 %

- ▲ Additional savings of 5 % (maximum) for better volume discounts
- ▲ Improved delegation – 10 %
- ▲ Multi-year mitigation of annual increases ± 8 % over 3 years
- ▲ Elimination of office disbursements, reduced billing volumes by legal supply chain – 1 % to 3 % per year

Saving 24 %

- ▲ Very little savings can be achieved on projected legal spend by continuing to pay hourly in the future

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