



Profitability and Pricing Models Webinar

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Moderator:

Russ Haskin

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Panelists:

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Agenda

- Presentation
 - Industry Trends
 - Profit 101
 - Gaining buy in
 - Matter Management and Pricing Strategy
- Panel discussion
- Q and A



Objectives

- Looking at Profit – What has changed in recent years?
 - What is the process in improving profitability
 - What are key metrics?
 - Gaining buy - in
- Transitioning lessons learned to matter planning and alternative Fees
 - Setting up a successful approach
 - Using data to model and plan for success
 - Getting the data that hasn't been captured



Client Behavior

What changes are you seeing in client behavior?

| | |
|---|-----|
| More clients are requesting discounts | 81% |
| Clients are requesting deeper discounts | 55% |
| Clients are paying bills later | 43% |
| None of the above | 7% |
| Other | 15% |

Have clients refused to pay for 1st and 2nd year associate work?

| | |
|-----|-----|
| Yes | 54% |
| No | 46% |

Have clients asked about your project management practices?

| | |
|-----|-----|
| Yes | 49% |
| No | 51% |

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Client Behavior

Are more or less clients wanting to discuss changing fee structures?

| | |
|----------------|-----|
| More clients | 63% |
| Fewer clients | - |
| About the same | 36% |
| None | 1% |

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Change is inevitable...but if we ignore it long enough...maybe it will go away

In the last 12 months, how many of your top 20 clients have you met with to discuss their satisfaction with the firm's performance?

| | |
|------------|-----|
| None | 3% |
| 5 or fewer | 42% |
| 6 to 10 | 37% |
| 11 to 15 | 11% |
| 16 to 19 | 3% |
| All 20 | 3% |

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Has your firm developed closer ties to key clients in the last year?

| | |
|-----|-----|
| Yes | 89% |
| No | 11% |

How will the first year associate class of 2012 compare to that of 2011?

| | |
|---------------------|-----|
| It will be larger | 29% |
| It will be the same | 58% |
| It will be smaller | 13% |

Change is inevitable...but if we ignore it long enough...maybe it will go away

What will you do with billing rates in the upcoming year?

| | |
|--------------------------------------|-----|
| Increase them by more than 5 percent | 5% |
| Increase them by 5 percent or less | 93% |
| Hold them flat | 2% |
| Decrease them by 5 percent or less | - |
| Decrease them by more than 5 percent | - |

With respect to profits per partner at your firm, in 2012 you expect?

| | |
|---|-----|
| They will grow by more than 5 percent | 26% |
| They will grow by 5 percent or less | 58% |
| They will be flat | 11% |
| They will decrease by 5 percent or less | 4% |
| They will decrease by more than 5 percent | - |

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Change is inevitable...but if we ignore it long enough...maybe it will go away

Has the firm made an effort to align partner compensation with new initiatives?

| | |
|-----|-----|
| Yes | 49% |
| No | 51% |

In 2011, what percentage of your matters included an alternative fee arrangement?

| | |
|---------|-----|
| Average | 16% |
|---------|-----|

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In Summary:

Clients want:

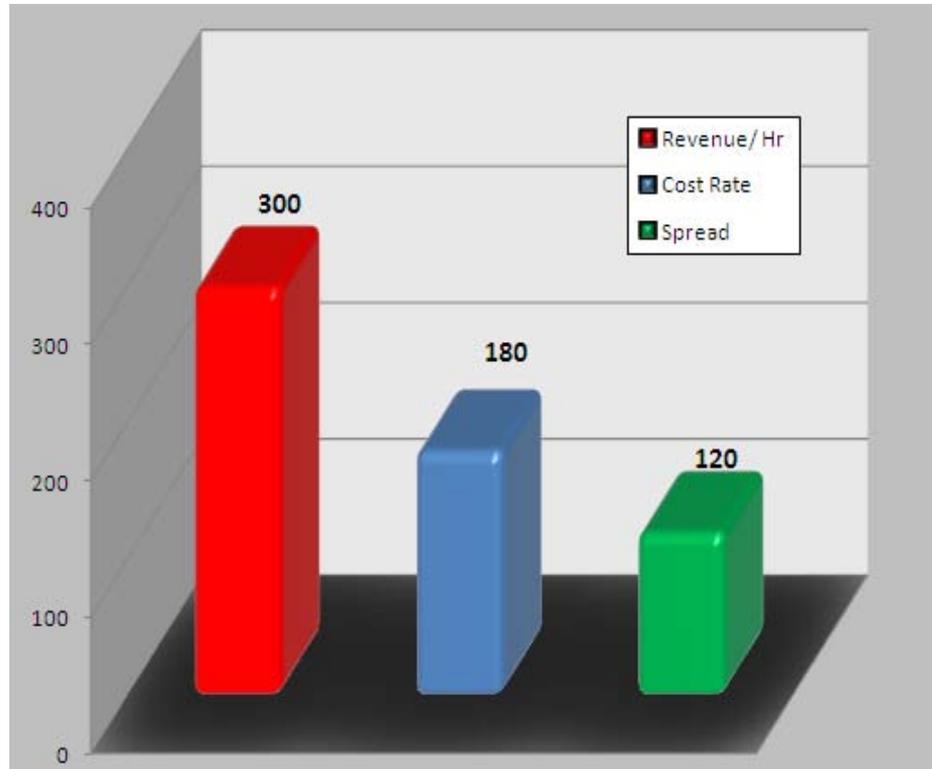
1. To be heard and understood
2. A reduction in legal expenditures
3. Not to pay for 1st and 2nd year associates
4. Are interested in alternative structures and project management

Law Firms are:

1. Not meeting with key clients to discuss overall satisfaction
2. Raising bill rates
3. Hiring more first and second year associates
4. Have not invested in changing fee structures
5. Not aligning partner compensation to meet new initiatives

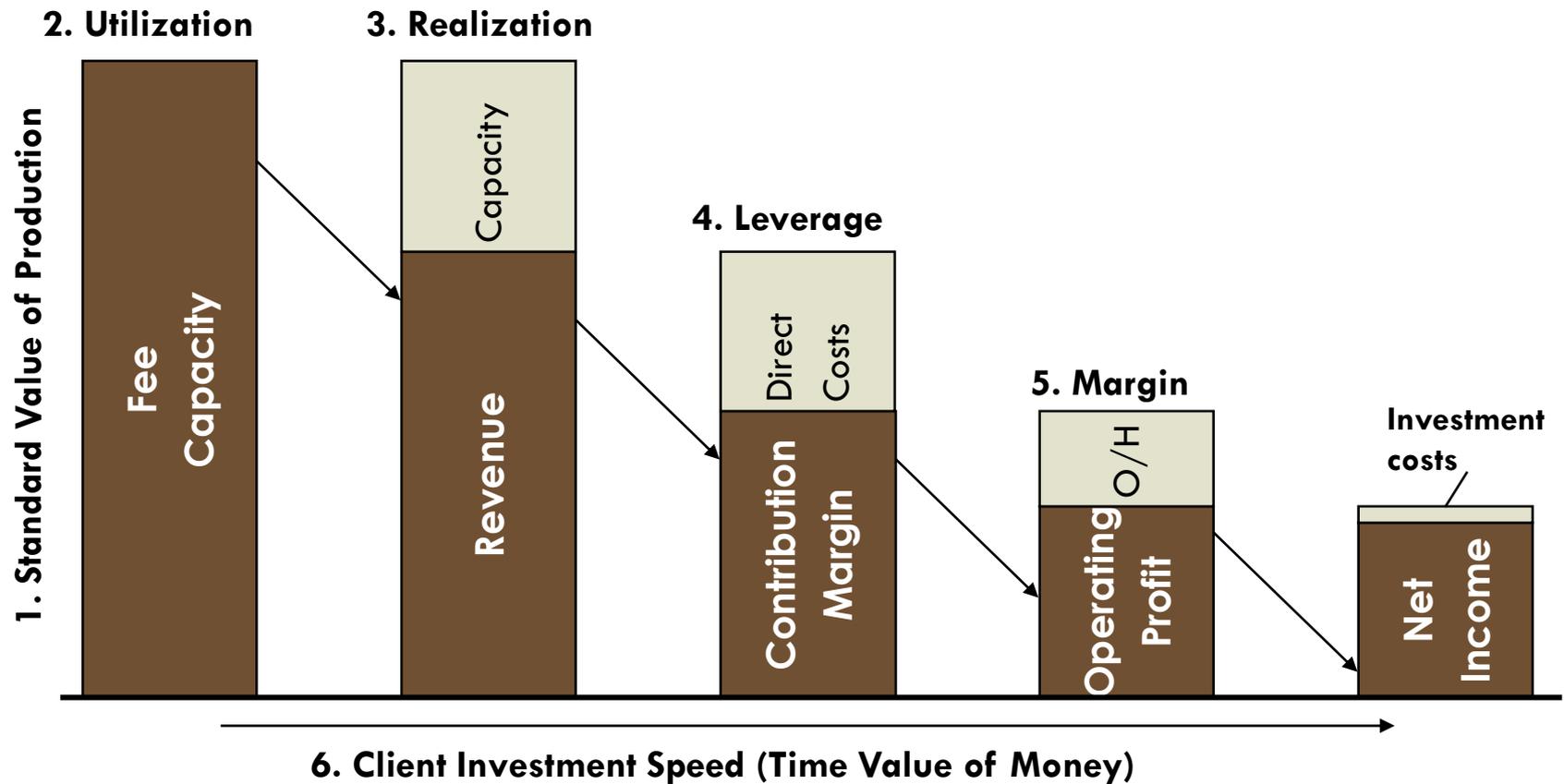
How can firms meet client needs
while maintaining profitability?

Profitability 101 – The Basics



- How Much Can We Charge?
- How Much Does it Cost Us?
- How Can We Maximize the Spread?

Has the model changed?



Revisiting profit metrics

1. Realization versus profit
Why is this still a debate???
2. Billable hours versus efficiency
Alternative fee arrangements and discounting
have changed this scenario
3. Partner to non-partner ratios
What type of work are you doing???
4. Indirect costs
You cannot cut your way into profitability

Why have we seen a lack of partner comp model adjustments?

- You cannot expect partners to simply change gears
- In order to begin a **systematic** process of improving firm profitability a firm first needs:
 1. Visibility into the quantitative metrics
 2. Timely data
 3. An understanding of the data
 4. A strategic and tactical plan to use the data

Visibility into the Data

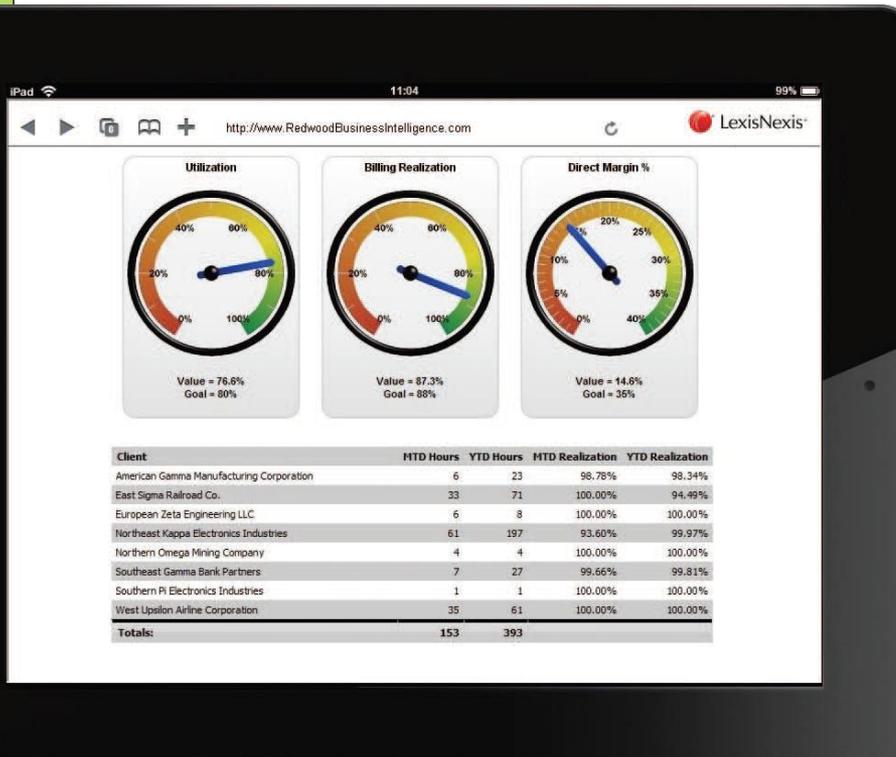


Use role-based views to share data and insight.

Timely Distributions to Promote Sound Decisions

Allowing many distribution methods
Including triggers, email, and mobile devices

Understanding Drivers across the Firm



LexisNexis

Profitability Summary

Department: Office:
 Client: Attorney:

| Parent Client | Rank | Hours Worked | Std Amt | Monthly Trending of Std Amt | Periodic Collect Amt | Direct Margin % | Discounting |
|--|------|--------------|--------------|-----------------------------|----------------------|-----------------|-------------|
| Southern Theta Audio Corporation | 1 | 178,640 | \$42,672,946 | | \$24,109,912 | 36.7% | |
| Arizona Tau Exports Corporation | 2 | 62,887 | \$22,717,288 | | \$17,971,561 | 38.4% | |
| Georgia Omega Mining Industries | 3 | 58,093 | \$17,341,577 | | \$16,378,564 | 55.1% | |
| Arizona Alpha Manufacturing LLC | 4 | 33,860 | \$15,545,068 | | \$13,634,959 | 36.8% | |
| Northeast Kappa Electronics Industries | 5 | 39,513 | \$13,506,975 | | \$11,823,770 | 54.4% | |
| Southern Pi Exports Industries | 6 | 27,453 | \$12,576,180 | | \$9,562,925 | 32.1% | |
| Georgia Kappa Audio LLP | 7 | 25,974 | \$11,499,062 | | \$11,246,874 | 41.1% | |
| Northwest Epsilon Exports Ltd. | 8 | 27,093 | \$9,107,305 | | \$5,883,344 | 25.4% | |
| Northwest Upsilon Railroad Corporation | 9 | 25,331 | \$9,088,459 | | \$7,361,511 | 44.7% | |
| Southeast Epsilon Bank Partners | 10 | 22,846 | \$8,737,194 | | \$8,090,295 | 45.8% | |

Redwood Analytics®

Firms need a strategic plan **and** a partner comp model that supports it

- Gives partners visibility to what is happening
- Gives partners a common goal
- Allows action to improve current situation
- Monitors actions against budgeted/expected results
- **Encourages the right behavior!!!!**

What Firms and Companies are Starting to Realize

- It is possible to reduce a company's legal costs (up to 25% or more)
- While increasing quality of the legal product
- Improving communication
- With the firms maintaining and actually enhancing profitability

Successful Approach to Matter Planning

Position 1

Clients have more of a bargaining position and we will respond appropriately to their RFPs with alternative arrangements if they require it

Position 2

These are tough economic conditions. We will proactively approach clients about alternative fee arrangements

Successful Approach to Matter Planning

Not every client will want an alternative
arrangement

Every client will be happy to discuss them

How do you define Alternative Arrangements?

Hourly – Alternative or no?

Hourly-based

- Discounted hourly rates
- Volume discounts
- Blended rates
- Task-based rates
- Retainers

Non Hourly – “True Alternative Arrangements”

Risk-based

- Contingency
- Success incentives (usually coupled with reduced rates)
- Fixed fees
- Capped Fees
- Collared Arrangements
- Hold backs

Value-based

- Stage based
- Hybrid
- Market priced fixed fees
- Bundled pricing
- Pure value based

Risk vs. Value – Debatable and interchangeable
Many other alternatives and more are added daily

Overall Matter Management is:

The process of analyzing, communicating, guiding, delivering, and reviewing an alternative engagement from its creation until its conclusion in an attempt to meet three key deliverables:

Client satisfaction on value

Client satisfaction on quality

Acceptable results and returns to the firm

The process starts at the beginning. Mistakes made in estimation, risk identification, and scoping will be felt throughout the engagement and beyond

Successful Approach to Matter Planning

- Commitment from leadership
 - Must be “in it for the long term”
- Establish basis for moving forward—what will we measure, and how?
- Implement achievable business processes to build information base
 - Start small and higher level
- Track results, and create a feedback loop



Panel Discussion