

# 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*

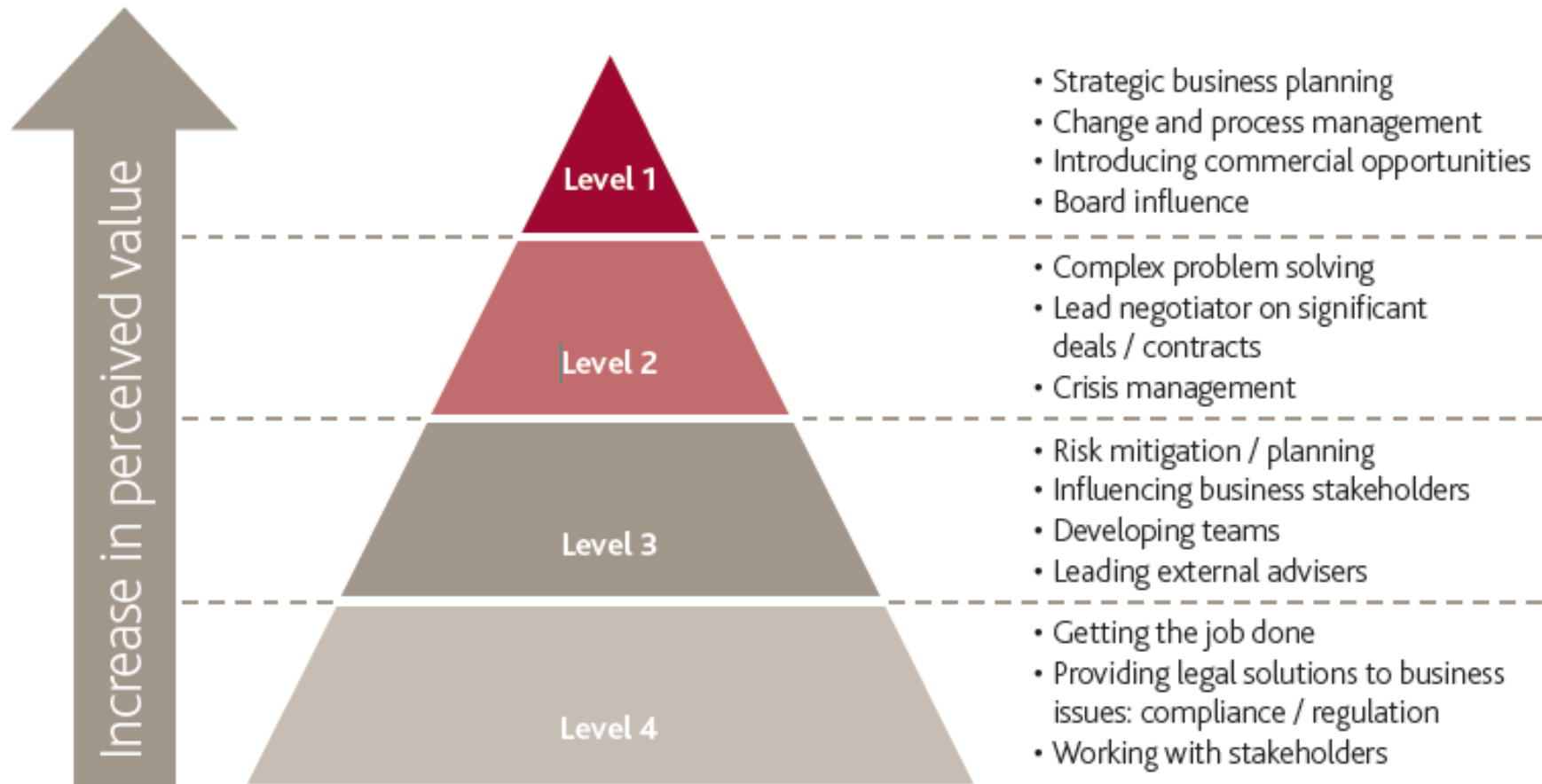
*General Counsel + Law Department*

*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

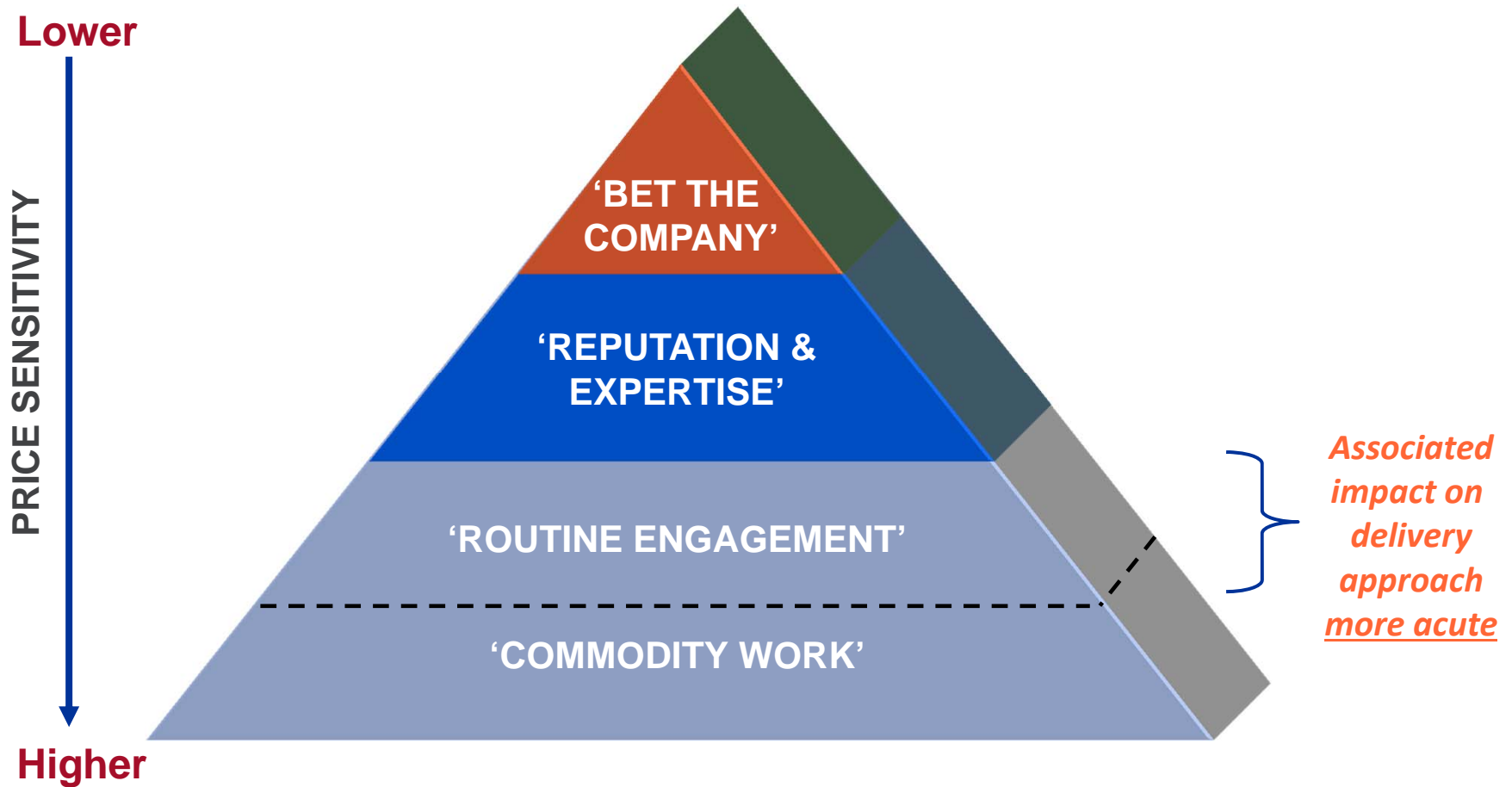
## Potential 'OC' Value

- 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

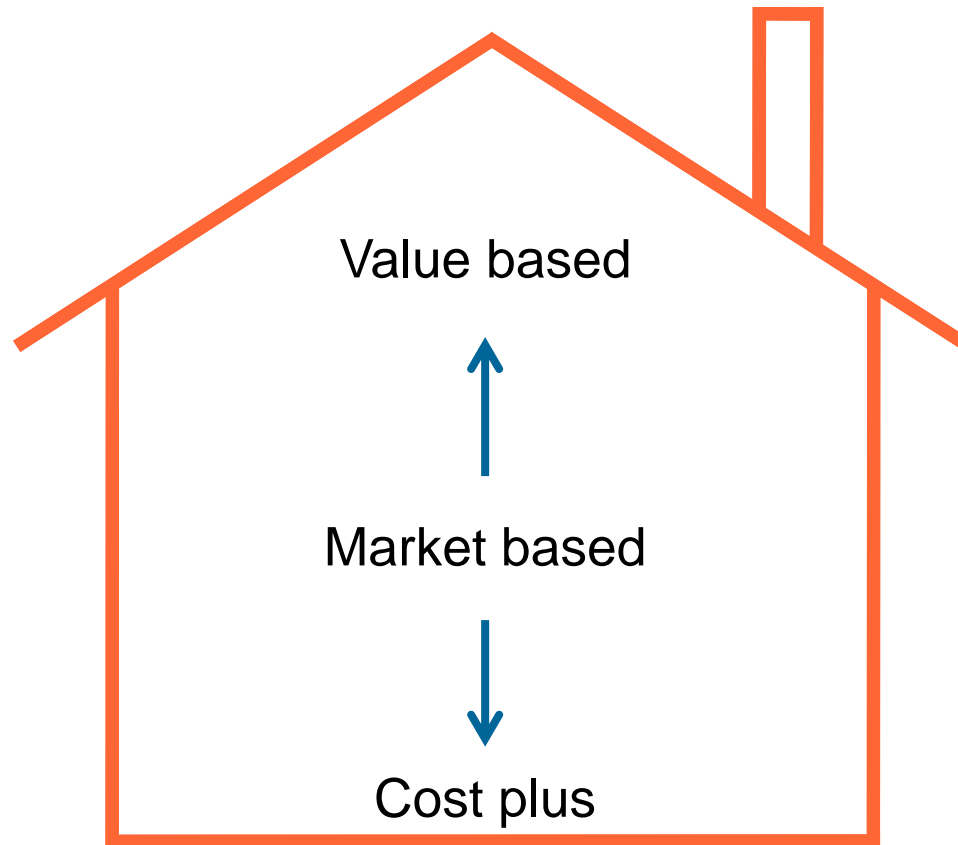
# Aligning Price with Value

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

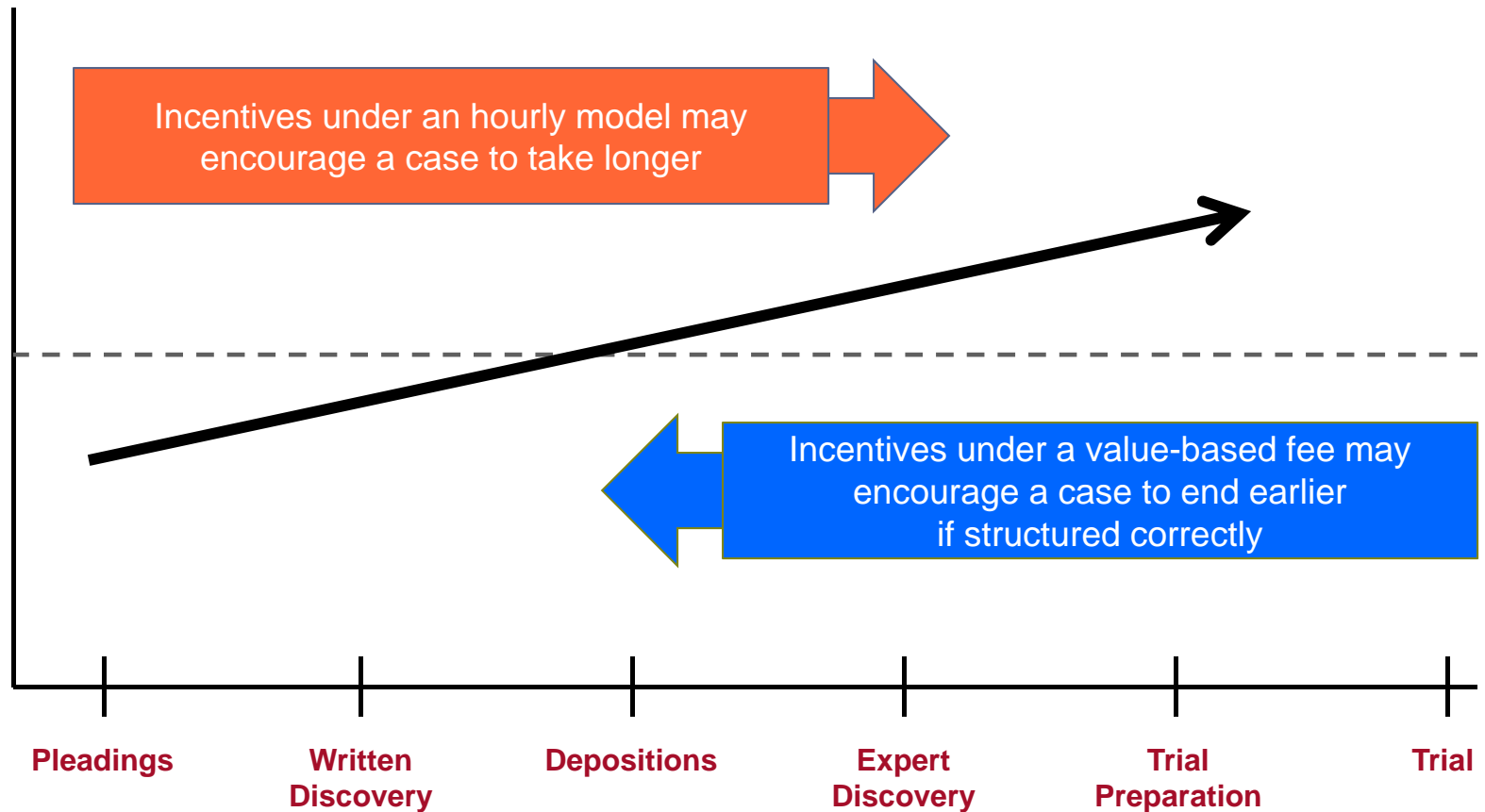
# Recognizing the 'Value' of a Matter



# 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

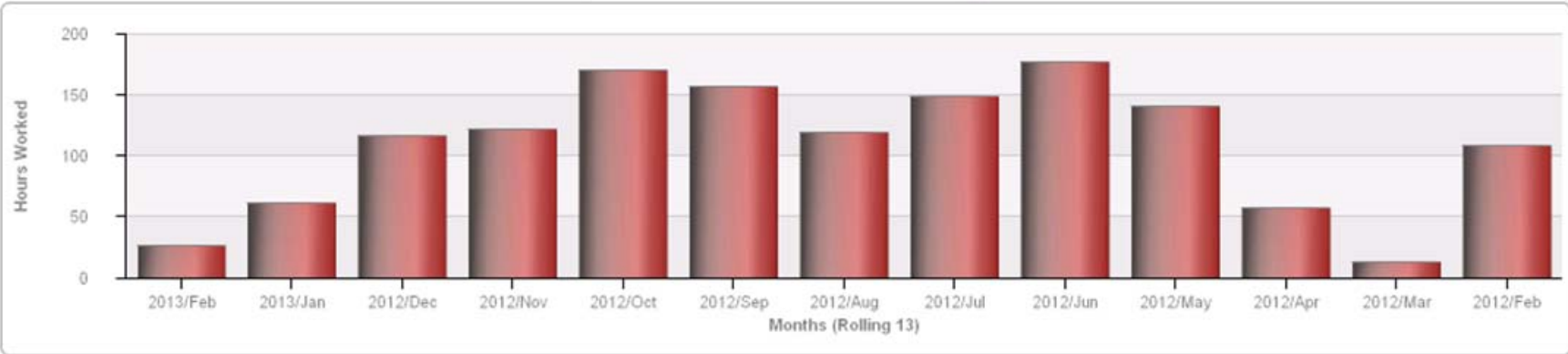
# Visibility into Data

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

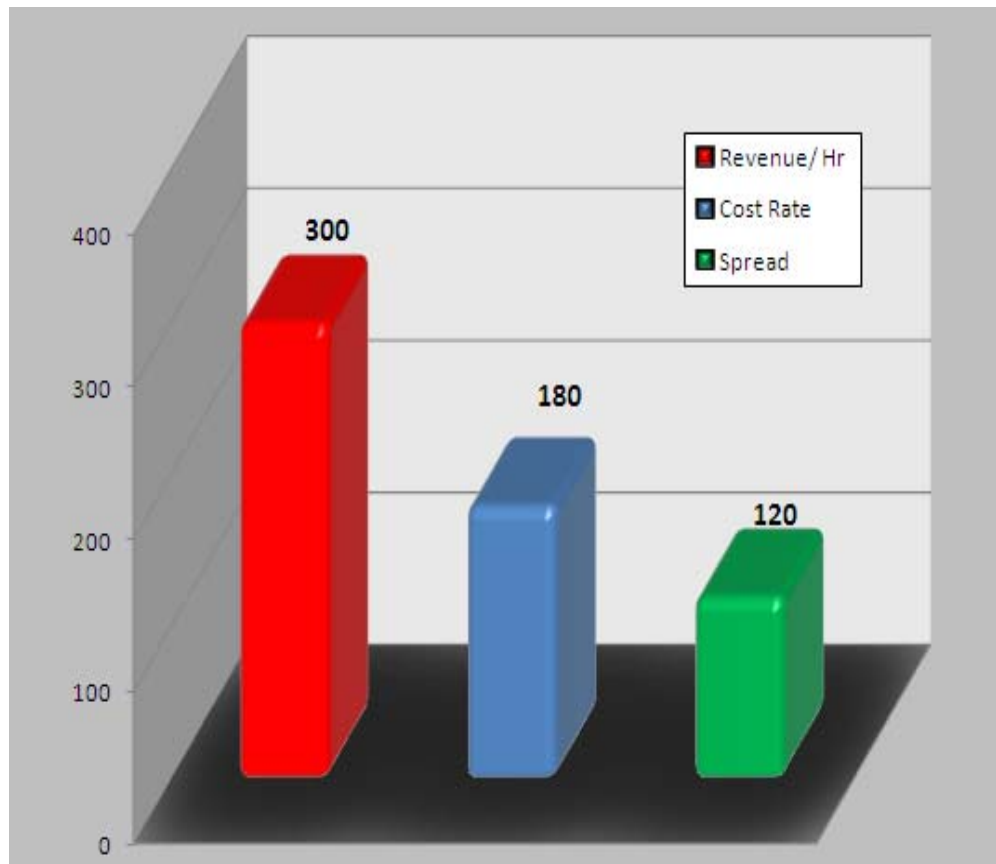
# Know Your Goals

- ❑ 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?**

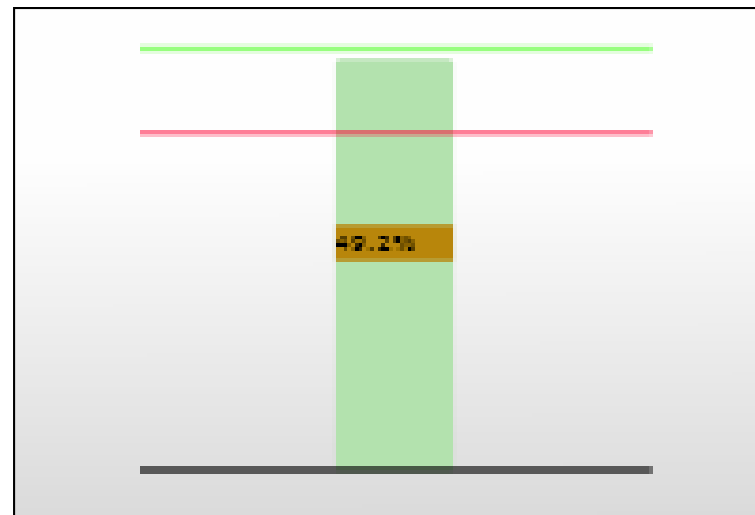


# Option 1: Match Discount

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

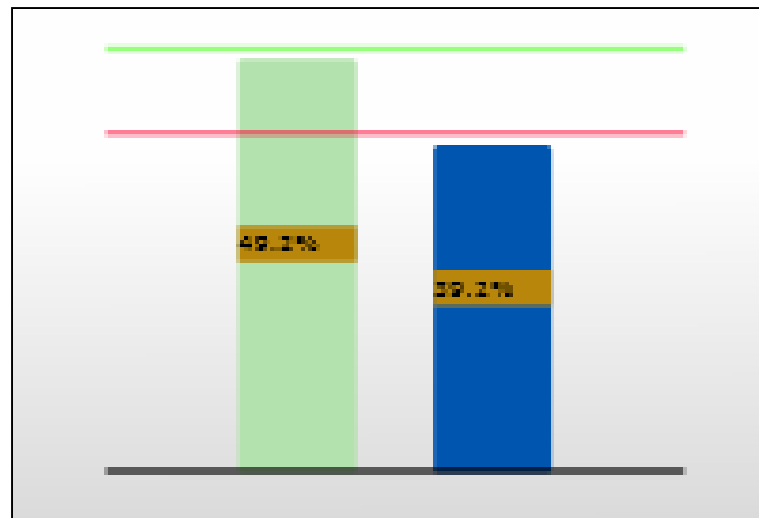




# Option 2: Bigger Discount

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

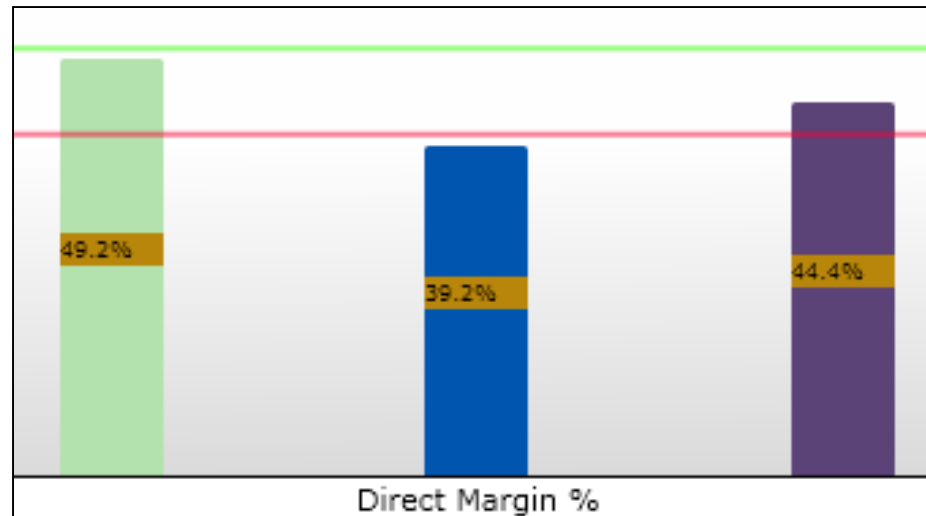
Timekeeper	Std Rate	Std Rate	Std Rate	x	Realization	Bill Rate	Hours	x	Realization	Bill Rate	Hours
▶ Partner	\$620	\$620	\$620	<input type="checkbox"/>	90.0%	\$558	25.00	<input type="checkbox"/>	80.0%	\$496	25.00
▶ Associate	\$373	\$373	\$373	<input type="checkbox"/>	90.0%	\$335	25.00	<input type="checkbox"/>	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?

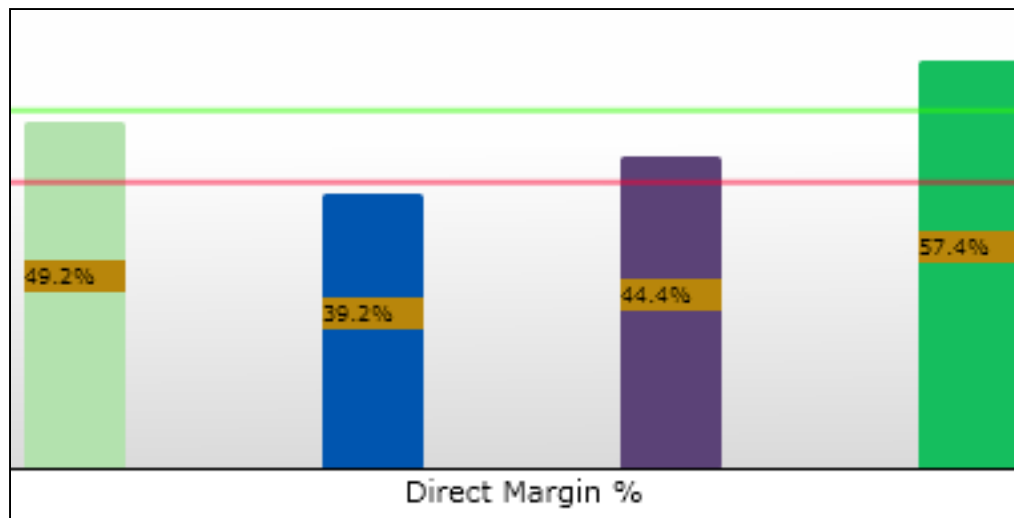
Timekeeper	Std Rate	Std Rate	Std Rate	x	Realization	Bill Rate	Hours	x	Realization	Bill Rate	Hours
▶ Partner	\$620	\$620	\$620	<input type="checkbox"/>	80.0%	\$496	25.00	<input type="checkbox"/>	60.5%	\$375	25.00
▶ Associate	\$373	\$373	\$373	<input type="checkbox"/>	80.0%	\$298	25.00	<input type="checkbox"/>	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

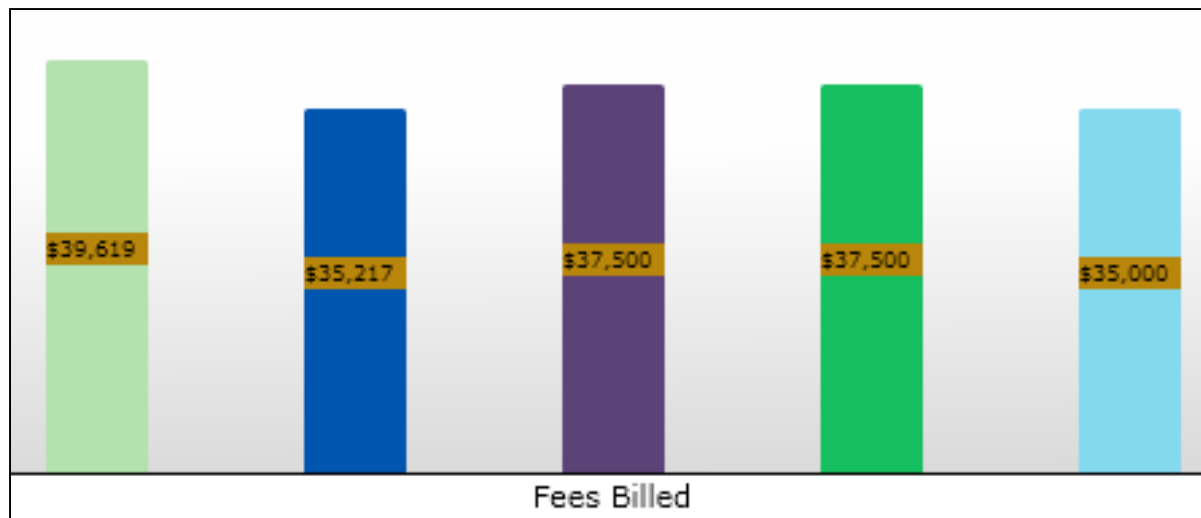
We got closer to that 50% marker, so what if we keep the blended rate of \$375 and leverage a few hours?

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



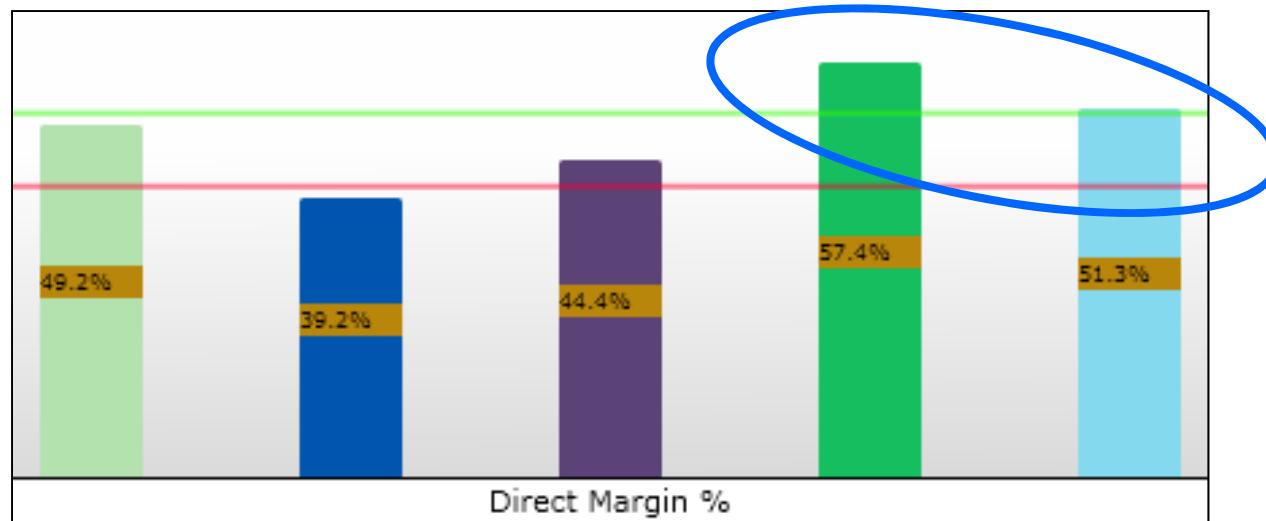
# Option 5: Fixed Fee

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
<a href="#">ENF-FAC01 General Factual Development</a>	7	12	6
<a href="#">ENF-FAC02 Investigative Interviews</a>	1	1	0
<a href="#">ENF-FAC04 Strategic Planning, Counseling, and Advice</a>	2	2	0
<a href="#">ENF-FAC05 Communications with / Issues Regarding Other Counsel and Related Preparation</a>	1	0	-1
<b>Overall</b>	<b>11</b>	<b>16</b>	<b>5</b>

# 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*

---

### **Stuart Dodds, CPP**

Baker & McKenzie Global Services  
stuart.dodds@bakermckenzie.com  
stuart@smarterpricing.org

### **Patrick Johansen, CLM, CPP**

Brinks Gilson & Lione  
pjohansen@brinksgilson.com  
patrick@patrickonpricing.com

### **Daniel Ronesi**

Redwood Analytics - Aderant  
daniel.ronesi@aderant.com