

Panelists

- General Counsel
 - Tony Bangs, The Neiman Marcus Group, Inc.
 - Bob Robinson, BancTec, Inc.
- Haynes and Boone, LLP
 - Terry Conner, Managing Partner
 - Steve Jenkins, Partner, Chair Client Value Task Force

Overview

- The dynamics of the economy and market are rapidly accelerating a paradigm shift in the pricing and cost management of legal services . . . a transformational change from the traditional billable hour model to client value-based models. The industry discussion is shifting from whether the change will happen to how soon and to what extent the change will occur.
- In this session, we will ***assume that the transformational change to client value-based models will occur*** and discuss how law firms and in-house legal departments can navigate the changing world.

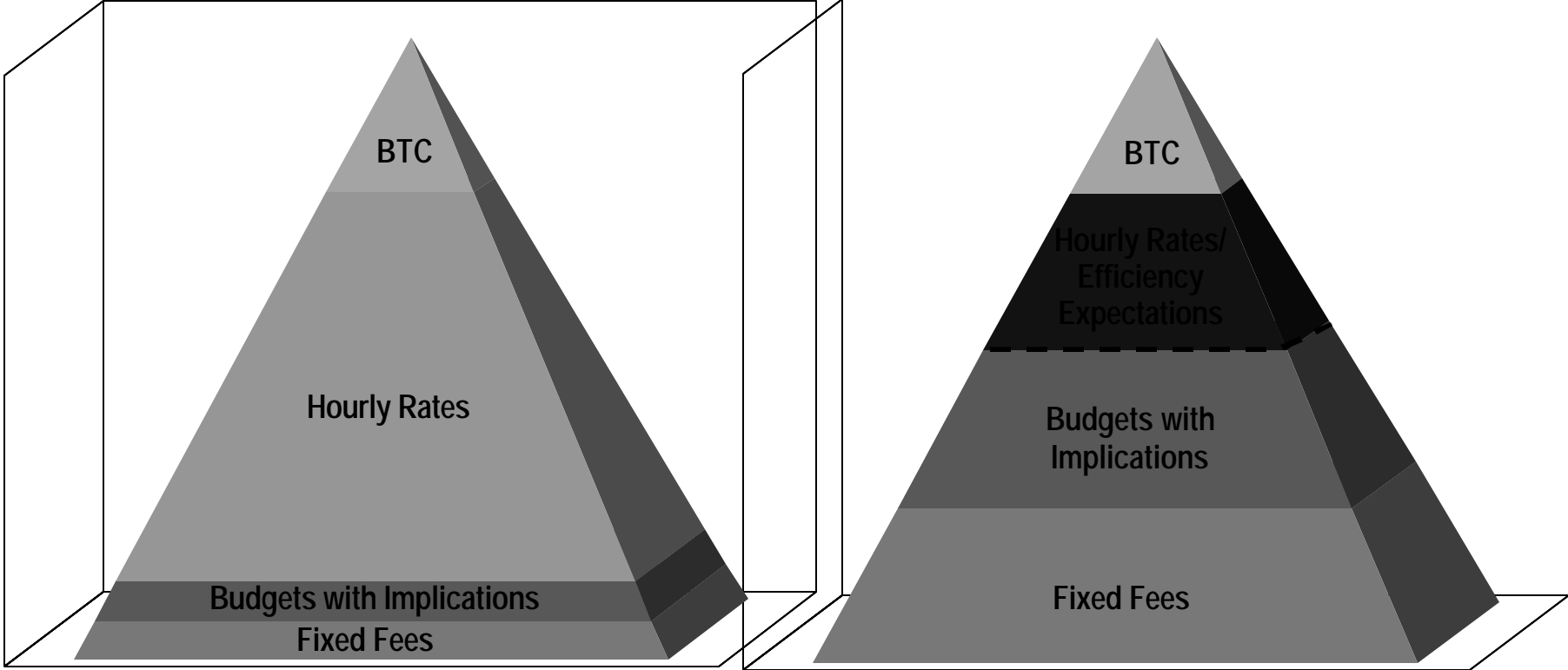
Questions

- What will the future client value-based models of pricing and cost management of legal services look like in three to five years?
- What are the real barriers to transformational change in law firms and how can they be overcome?
- What can in-house legal departments do to facilitate and accelerate transformational change?
- How can in-house legal departments and law firms work together to achieve a “win-win” result?

Changing Models

Recent

Future



Transformational Change in Law Firms

- **Non-Transformational**

- Discounts
- Blended Rates
- Freezing Rates
- Budgets w/o Implications

- **Transformational**

- Fixed Fees
- Budgets with Implications
- Risk Sharing
- Efficiency Expectations

Barriers to Transformational Change in Law Firms

- Traditional barriers
 - Difficulty in predicting/forecasting costs and defining scope and variables
 - Every deal/matter is different
 - Complexity
 - Difficulty in controlling the “other side” (and, occasionally, the business side of the client)
 - Risk aversion

Barriers to Transformational Change in Law Firms

- Tougher barriers
 - Law firm structure and compensation systems
 - Cost data to facilitate budgeting (including phases and variables)
 - Cost management tools/systems to monitor and manage costs beyond regular monthly billing cycle
 - Project (cost) management training

Overcoming Barriers in Law Firms

- **Prepare** for transformational change
 - Develop cost management tools/systems to monitor and manage costs in real time
 - Build database of cost information to facilitate budgeting (including phases and variables)
 - Require daily time entry by phases and code variables
 - Develop and implement project (cost) management training
 - Identify and reward successful project cost management

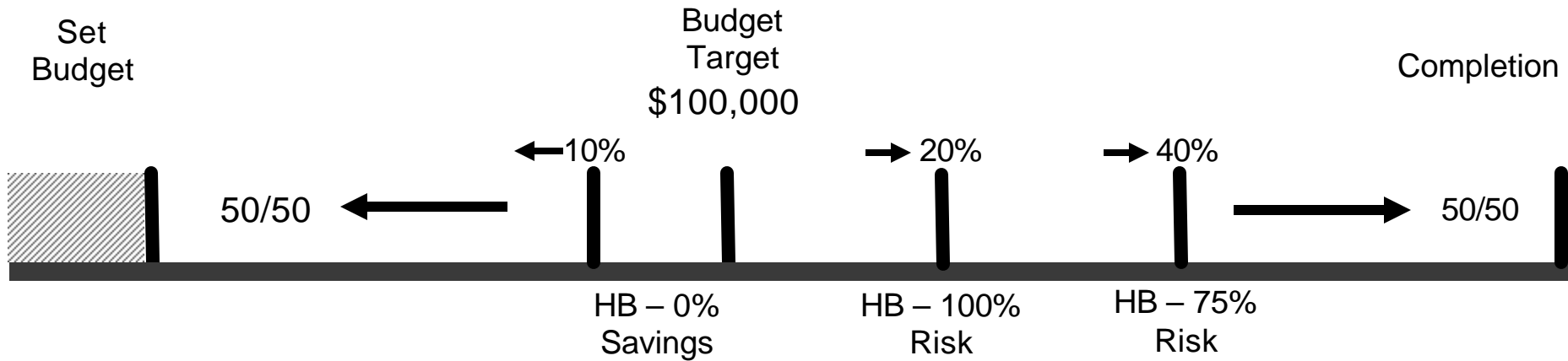
Overcoming Barriers in Law Firms

- **Experiment** now with client value-based alternative fee arrangements to facilitate development of data, tools, systems and processes . . . and to get ahead of the curve
 - Internally: apply budgeting and project cost management techniques to client projects internally even when not required by client
 - Externally: proactively seek opportunities with clients to work where appropriate to client on client value-based alternative fee arrangements to benefit from real-life lessons learned

Client Value-Based Alternative Fee Arrangements

- Fixed fees
- Budgets with implications, including risk-sharing
- Hourly rate with “efficiency expectations”
- Other variations

Client Value-Based Example: Risk Sharing



Change Orders

Yes

- Material Fact Changes

No

- "Other Side"

Efficiency Expectations Example : Hourly Rates with “Efficiency Focus”

- When hourly rate approach is best alternative with “efficiency expectations”
 - Cost range
 - Staffing and handling
 - Improved use of technology
 - Cost transparency thru real time cost updates
 - Surprise avoidance alerts

In-House Legal Departments: Facilitating Transformational Change

- Identify segments of work that are appropriate for client value-based alternative fee arrangements
- Proactively communicate desire to work with law firms on client value-based alternative fee arrangements
- Experiment with client value-based alternative fee arrangements
- Consider developing “efficiency expectations” guidelines
- Encourage two-way sharing of cost information
- Debrief with law firms for lessons learned

Working Together for a “Win-Win” Result

- Clients:
 - Greater predictability
 - Improved efficiency
 - Less cost
- Law Firms:
 - Become more skilled at budgeting and project cost management
 - More work because of greater predictability, improved efficiency, less cost
 - Ahead of curve

