

## *Value Practice*

### ***Pfizer Inc.'s Legal Alliance Program: Collaboration and Focus on Relationships Produce Better Legal Outcomes and Cost-savings***

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Pfizer's Legal Alliance Program recently celebrated its two-year anniversary, and results are very positive. The vision: "advance the value of legal counseling to benefit all Alliance partners, their clients and the legal profession." Alliance objectives: "foster trust and collaboration, promote proactive solutions-based lawyering and reconfigure the value paradigm."

The program covers around 75% of Pfizer's legal spend, and includes United States and international legal work. The Alliance currently includes 19 firms, located within and outside of the United States, and covers almost all areas of Pfizer's legal work, including litigation, IP, research and development, compliance, tax, business counseling, transactions and more.

All of the alliance firm service relationships are structured on a value basis: an annual fixed fee for each firm is set in advance, and firms receive monthly installment payments. Some key distinguishing factors are listed below:

- Annual fixed fees
- Fees cover all matters within broad buckets of work
- Monthly installment payments- each firm receives 1/12 annual fee each month
- Most expenses are included; some exclusions are defined
- Firms provide secondees to Pfizer
- Pfizer Steering Committee oversees the Alliance
- PLA Roundtable provides joint governance of the Alliance, with European and Asian Roundtables that focus on those areas
- Alliance structure promotes collaboration among firms
- Periodic meetings of all firms in the Alliance plus workshops and firm visits
- Tools and operational elements, including Balanced Score Card

***The challenge:*** how to improve collaboration, receive greater value and reduce costs. ***The solution:*** Pfizer's Legal Alliance program. ***The results:*** enhanced collaboration, stronger relationships with alliance firms, better legal outcomes and significant savings in domestic legal spend.

#### **FUNDAMENTAL PRINCIPLE: GOAL OF LONG-TERM RELATIONSHIP**

Pfizer's leaders share that one of the fundamental principles of the Alliance program is that the department views the relationships as long-term relationships. Absent unusual or extraordinary

circumstances, the law department doesn't plan to change the composition of the slate of alliance firms from year-to-year, and alliance firms will not need to 'pitch' the law department every year.

"The notion of creating a long term relationship goes a long way. We need to have trust in each other because everything doesn't 'match up' if comparing hours to dollars under the old system; there is no true-up. What we do have is a sense that things will be made fair and that we are operating in good faith. We understand that there may be good years and bad years, but the expectation is that overall this will be positive for us and the firms," explains Ellen Rosenthal, Chief Counsel for Pfizer's Legal Alliance program.

### **RELATIONSHIP PARTNERS**

Each firm has one or two designated relationship partners. In addition, within Pfizer, each firm has a *Pfizer Alliance Leader* (PAL) on point for managing the day-to-day relationships with alliance firms. PALs work closely with firm relationship partners to oversee firm portfolios, troubleshoot, solicit feedback and facilitate secondments.

"While fixed fees are easy to administer from an invoice-payment perspective, managing the legal work requires attention. Particularly in situations where there is a fixed fee but dynamic portfolio of work, unanticipated matters can crop up and other matters can drop off. We pay close attention to portfolio management because we want each basic portfolio to stay balanced and fair to the firms and Pfizer," notes Justin McCarthy, Chief Counsel – Research and Development. The law department has developed tracking tools to provide real-time insight into portfolio activities.

### **PFIZER LEGAL ALLIANCE STEERING COMMITTEE**

The steering committee includes Pfizer's General Counsel plus Rosenthal as the Chief Counsel for the Pfizer Legal Alliance Program, as well as the lead Pfizer lawyers for litigation, corporate governance and research and development. The committee sets the long-term strategy for the program, and the annual fees for each of the firms. In addition, there is a Roundtable made up of Pfizer and firm attorneys that drafts and implements the strategic plan and oversees workstreams critical to the success of the Alliance like the development of program metrics/evaluations. Another important role of the Roundtable is to raise problems or difficulties that may be occurring throughout the Alliance and work together to identify solutions that may be necessary.

### **DEFINING THE SCOPE AND FEES**

How did the law department define the scope of services to be covered by each firm's arrangement and the associated fees? The law department considered *historical information* on:

- Use of outside counsel to handle the work
- Historical costs for doing the work

The law department also considered strategic plans for each of the firms in specific practice areas.

Fixed fee arrangements cover all of a firm's work on legal matters during the year, and enable advice and counsel from the firm. In addition, flexibility built into the system allows for bonus potential and the possibility for adjusting the fixed fee in extraordinary circumstances (possible but rare).

Asked whether Pfizer's in-house lawyers review 'shadow bills' to determine whether fee structures were set properly, McCarthy says no. "Some firms create shadow bills, but the Pfizer legal team doesn't look at or want to see shadow bills. Firms do this because this is the world that they live in. One reason we don't want to see these bills is that we believe they are grounded in the old model and do not equate to the real value of the work provided.," says McCarthy.

#### **COLLABORATION**

The Pfizer Legal Alliance is structured so that there are no incentives for firms to be protective or hoard work. Instead, firms have an incentive to reach out to other firms in the alliance and tap other firms' expertise.

Examples:

- ***Litigation Strategy on Product Liability Case Results in Case Withdrawal and Bonus to Firms:*** Three alliance firms collaborated on a product liability case in Massachusetts; the case was budgeted for a 3- week trial. The collaborative approach produced a litigation strategy that resulted in the case being withdrawn in one day—a tremendous victory for the legal team and the company. Under the traditional compensation model, the law firms would have received compensation for the one day of service. Using a value-based fees/results model: the law department awarded a bonus to the firms for the excellent results.
- ***Licensing Agreements Leverage Expertise and Best Practices:*** Transactional and litigation lawyers from across the alliance system collaborated to improve licensing agreements and transactional forms to help improve forms, minimize risks and reduce litigation.
- ***Deposition Boot Camp for Multi-district Litigation:*** The company was facing a court-ordered deadline for producing a large number of case work-ups in a short period of time, including depositions. The law department's approach: use this as an opportunity to train associates at firms, hold a boot camp and collaborate to provide these services. More specifically, over 50 junior associates and rising partners from across the alliance firms participated in a training boot camp program with Pfizer in-house lawyers to train associates on taking depositions; all pulled together to train associates across the system and complete the required tasks per the court-ordered deadline.

#### **COMMUNICATIONS- ALLIANCE WEBSITE**

The law department has a website dedicated to communications and information for the alliance relationships. All firms have access to the website, which includes:

- Firm and lawyer profiles
- Articles of interest
- Resources- emerging area as the legal team refines its knowledge management approach

In addition, representatives of firms and Pfizer meet monthly to discuss strategic direction, operations and other issues.

#### **COLLABORATIVE WORKSHOPS**

The law department and its alliance firms have participated in a number of collaborative workshops—some subject matter specific and some designed to teach each other how to work efficiently and collaboratively. Included among the workshops have been "Smart PLA" sessions,

designed to teach alliance partners how to manage a portfolio on a flat fee basis. These sessions have been structured to open a true dialogue among the firms and the in-house counsel who participated—outside the heat of the specific service relationship and to leverage best practices and ideas more broadly across the alliance system.

#### **MEASURING PERFORMANCE- BALANCED SCORE CARD**

Pfizer closely measures performance: using a [balanced score card approach](#), Pfizer evaluates the firms on their performance and the firms are given the opportunity to evaluate Pfizer and each other on collaborative behavior in addition to substantive expertise. Timing: evaluations are conducted twice per year (mid-year and end-of-year).

What gets measured? Both financial and non-financial elements are measured. Evaluations take into account the financial perspective (questions such as: does the firm use its understanding of the business to help Pfizer attorneys anticipate issues and develop preventive solutions), a business partners' perspective (questions such as: does the firm use effective communications and strategies to help minimize disruption to business partners), a learning and growth perspective (questions such as: whether the firm understands Pfizer's corporate objectives and how a matter fits into the larger business and legal strategy) and a business process perspective (questions such as: does the firm actively seek opportunities for collaboration and enthusiastically recommend other Alliance firms as circumstances warrant).

How does the process work? The evaluation process is automated—evaluators can go online to complete the evaluation forms, which include an opportunity to write in text. In addition, firms can complete a 3-5 page self evaluation form. Pfizer's goal is to get as many in-house counsel as possible to complete the evaluation forms on firms they work with to help enhance the breadth and depth of the information and feedback.

How is the information shared? Pfizer's Alliance Leader and the Steering Committee meet twice per year with each of the alliance firms. Each meeting includes a discussion of the firm's evaluation. In addition, written comments are shared and the firm receives information on how they rank numerically against other firms in the Pfizer Alliance Program.

"During the first few years of the program, we expect that there will be leeway in certain areas since we are dealing with uncharted waters. Some firms may pick things up faster than others. We recognize that we are operating under a new model, but it is important to set the tone and measure performance and progress from the start," explains Justin McCarthy [Senior Vice President, Associate General Counsel.

#### **ENSURING FAIRNESS ACROSS PFIZER LEGAL DIVISION**

Since some percentage of work is handled outside of the PLA program, the law department implements certain measures to help ensure fairness to the Alliance firms, including:

- Use of firms outside of the Alliance must be approved by the steering committee and fees are capped.
- In-house counsel wishing to use non-Alliance firms need to follow an exceptions process, which includes providing additional rationale and receiving approval by the Alliance Steering Committee

**KEYS TO SUCCESS**

On the keys to successfully implementing this type of alliance program, Rosenthal and McCarthy offer the following:

- ***Focus on the relationship***- the relationship is the single, most important factor; moving to this type of program requires trust and commitment. Law departments need to be disciplined and fair with the allocation of work and not to overburden the firms. In addition, the law department needs to trust the firms because the department is committing dollars up front without knowing all of the work and that it will get done with the right results. If the department and firms get the relationship right and build trust, other things will work out.
- ***Don't do too much too soon***- start with a manageable segment of the law department's work and build from there; additional data and tools will flow from the initial scope and the program can grow from there. For Pfizer, the law department started with a good chunk of the work that is based in the United States; as the program matures, the law department is expanding to work in Europe, Canada, and Asia.
- ***Recognize that portfolio of work can be dynamic***- while historical data may be able to help scope the work, the reality is that most portfolios are dynamic. Having relationship leaders on point to manage the portfolio and the relationship and keep lines of communication open is very important.
- ***Open lines of communication***- have the conversations you need to have, get things that need to be addressed out in the open. Implementing new models isn't easy, and open communications and candid exchange are important.
- ***Include firm culture and willingness to take a leap of faith in the firm selection criteria***- in addition to selecting firms based on expertise and ability to deliver legal services, consider the firm's culture and meet with the firm's management committee to discuss the law department's expectations and to help relieve the relationship partners from having to explain and justify their new ways of doing things.

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