BLICKSTEIN GROUP

LEGAL VALUE NETWORK

2nd ANNUAL

LEGAL PRICING & PROJECT MANAGEMENT

Survey Report » In collaboration with intapp™

TIME TO DRIVE CHANGE

Includes parallel data from the 2021 Annual Law Department Operations Survey

intapp™ | VALIDITY | LexFusion

BALANCING CLIENT VALUE DELIVERY AND PROFITABILITY TARGETS THROUGH ENHANCED SERVICE MODELS

Chris Kraft is General Manager, Operations and Finance Solutions at Intapp

In 2021, law firm pricing and project management professionals demonstrated they can improve profitable delivery under unprecedented pressures. In this year's survey results, we see the need for service innovation, process improvement and supportive technology as pressing investments to optimize client value and firm profitability.

This second edition of the Legal Pricing and Project Management Survey polled LPPMs and analyzed responses in context with those captured in the most recent Law Department Operations Survey, which polled client representatives.

The findings reveal two persistent challenges: balancing client value expectations with profitability targets and identifying technologies to support pricing functions and operations.

The pandemic laid bare the vital role technology plays in connecting firms' people, processes and data. Survey findings reveal lawyers are willing to adopt new solutions, enabling accelerated investment in profitability-enhancing technologies.

As firms move through the innovation cycle, profitability expectations command new processes and technologies for budgeting, proposals and fee arrangements. At Intapp, we understand the importance of matter financial management, consistent with survey findings.

Overall, survey results continue to highlight client-driven innovation: Clients want to work with firms that understand their concerns and offer service models that improve value.

ELEVATING THE LPPM FUNCTION

The survey data captures insights into challenges facing the legal pricing and project management functions. Although new tools and technologies remain a priority, they're second to improving client value and maintaining profitability, which dedicated pricing staff cite as their top concerns, both now and for the coming three years.

Legal operations staff responsible for project management are focused on identifying and driving adoption of technology to support efficient delivery. Survey data shows a broadly distributed set of equally weighted challenges on the horizon: documenting ROI, identifying solutions, driving adoption and securing funding.

Survey respondents who manage both pricing and legal project management identify their top concerns for the coming three years as accelerating lawyer adoption of alternative service delivery models and breaking down lawyers' resistance to change, which suggests LPPMs anticipate responsibility for these initiatives.

Overall, the data indicates accelerating change. Legal operations sit at an inflection point; we're witnessing a transformation from tactical to strategic goals.

MEETING CLIENT VALUE EXPECTATIONS

Survey data shows firms know they need to understand clients' financial and operational challenges. With 94% of respondents agreeing that their firms expend significant effort here—a 15-point jump from 79% last year—it's clear that client outreach has become the top priority.

Asked whether clients truly want firms to innovate, 75% of survey respondents say they do—a significant increase from 61% last year. Further bolstering innovation's importance, 91% of respondents say their firms have implemented innovative solutions to better serve clients, a 19-point increase from 72% last year.

Last year's survey results revealed three-quarters of respondents saw change management as their primary job function; in contrast, this year's responses show a 15-point drop to 60%. This shift signals a change in mindset: LPPMs believe that they're progressing from planning to execution.

Although firms apply mindshare to meeting client value expectations, investment in technologies to support these efforts is lagging. Survey results show that well over half of respondents report that they don't have the technologies they need to do their jobs—identical to last year.

Together, the data suggests that firms take client value delivery seriously but find themselves at the beginning of their journey to address it. At Intapp, we know firms need new tools and technologies that help them work smarter, not harder. Although these investments remain important, they're secondary to improving client value and profitability.

INVESTING IN TECHNOLOGIES TO CLOSE SERVICE GAPS

Survey data measured the maturity of various operational functions: pricing, matter budget development and management, processes for outside counsel guideline compliance, reporting and analytics and profitability.

Findings indicate that firms have made progress on pricing, reporting and analytics and profitability, with most respondents reporting their firms more than midway to maturity. However, matter budget development and management still lag, as does agility in adherence to client requirements and OCGs.

Anecdotally, clients are clamoring for matter budget development and management capabilities that directly impact the value they receive from their legal spend. Clients also appreciate full transparency, which speaks to an opportunity for forward-thinking firms to bolster this mission-critical function.

With 90% of respondents reporting their firms have never been terminated for failure to follow OCGs, it's clear many have a blind spot in two areas: soft attrition and realization rates. Although a firm may not be expressly fired, frustrated clients fade out. Further, noncompliant bills get kicked back, extending the payment cycle and increasing the likelihood for write-offs and revenue leakage.

Survey results also show a 13-point drop in the belief that most law firms will be using artificial intelligence for legal work during the coming three years, and a 6-point drop in the belief that firms will be using AI to predict future outcomes and events in the same period. This suggests firms are prioritizing wide-reaching, fast-moving technology initiatives to solve today's challenges and serve clients readily, while pushing AI further down the road as they acknowledge the inherent effort and investment required.

MOVING FORWARD TOGETHER

The combination of heightened client value expectations and mandated profitability targets presents LPPMs a tall order. Clients want their firms to lead the charge, offering innovative ways to increase the utility of their legal spend and providing alternative service models that better protect clients' interests. Firms turn to their operations teams to improve efficiencies and deliver on profit margin.

Empowering firms and LPPM professionals to provide matter financial management is a priority for Intapp as we enable lawyers and LPPMs to gain immediate access to matter data to successfully serve in-house counsel needs—and their own.

To remain competitive, firms must invest in technology to improve client value and profitability. At Intapp, we're proud to partner with firms to develop innovative service models and achieve their goals using the first and only connected firm management solution built specifically for partner-led firms.

ABOUT THE AUTHORS

BRAD BLICKSTEIN

Brad Blickstein is a legal industry futurist. He has been studying, analyzing and reporting on how legal services are purchased and delivered for nearly 30 years. As the creator and publisher of seminal research on trends in law department operations, The Annual Law Department Survey, and as a co-founder of the industry's first independent publication focused exclusively on law departments, Brad is widely regarded as the authority in these areas. He is also the co-head of Baretz+Brunelle's NewLaw practice group, where he educates and positions clients for success by developing novel products, systems and solutions, which make the delivery of legal services more modern and efficient.

DAVID CAMBRIA

David Cambria is the managing director of legal operations, innovation and modern law practice at PricewaterhouseCooper's Legal Business Services. He has spent his career driving innovation for law firms and corporate legal functions to improve strategic decision-making, client engagement, operational efficiency and revenue growth. Often referred to as "the Godfather of Legal Operations" by industry insiders, he has successfully bridged the gap between the law function and business growth and is responsible for the development and design of new operational structures, service lines, processes and programs to accelerate client retention to work in tandem with business goals. David has led transformations for some of the world's largest operations, including Baker McKenzie, Archer Daniels Midland Company, CDW Corporation and Aon PLC.

CHRISTOPHER ENDE

As chief value officer, Christopher Ende leads Goulston & Storrs' strategic initiatives relating to pricing structures, legal project management, practice innovation and profitability. Chris collaborates across all firm legal practices and professional departments to deliver increased value to clients through innovative fee arrangements, process improvement and data analytics. He works directly with clients to deliver tailored pricing solutions and service delivery models that align incentives and facilitate successful outcomes. Chris draws on his knowledge gained as an in-house legal operations leader to effectively design win-win solutions. Chris is also an officer and board member of Legal Value Network.

KEITH MAZIARAK

Keith Maziarek is the director of pricing and legal project management at Katten Muchin Rosenman LLP, where he is responsible for building the firm's formal pricing and legal project management functions. Prior to Katten, Keith served as senior director of client value for Perkins Coie LLP, working closely with the client legal operations executives to develop collaboration strategies to improve operational efficiencies. Keith's career in strategic pricing began at DLA Piper LLP, where he built the firm's first strategic pricing, profitability and legal project management functions as the firm's first head of strategic pricing. Keith is also an officer and board member of Legal Value Network.

LEGAL PRICING & PROJECT MANAGEMENT SURVEY ADVISORY BOARD

BRAD BLICKSTEIN
Blickstein Group

DAVID CAMBRIA
PricewaterhouseCoopers

CHRISTOPHER ENDE
Goulston & Storrs

KEITH MAZIAREK
Katten Muchin Rosenman LLP

TOBY BROWN
Perkins Coie LLP

STUART DODDS
Positive Pricing

JUSTIN ERGLER
GlaxoSmithKline

KRISTINA LAMBRIGHT
Perkins Coie LLP

PURVI SANGHVI
Paul Hastings

intapp™

Still Using Spreadsheets to Price Matters and Manage Engagements?

Optimize pricing and LPM with the power of Intapp OnePlace:

- Model fee-arrangement profitability and scenarios
- Centralize budget proposals and document changes
- Monitor budgets and improve client value
- Enforce billing compliance throughout the matter lifecycle
- Streamline collaboration across teams and with clients

Power Profitable Delivery with Intapp Pricing
Learn more at **intapp.com/pricing**.

TIME TO DRIVE CHANGE

For the last 14 years, the Blickstein Group has administered an annual survey to collect data about corporate law department operations (LDO), asking how LDO professionals manage internal logistics and navigate external challenges.

We added a new perspective last year with a parallel survey and report capturing the perspective of legal pricing and project management (LPPM) professionals at law firms. These operational professionals, like their counterparts, bring a business mindset to law firms, building programs and adopting technologies to enhance the pricing and delivery of legal services for clients.

Now, the Legal Value Network and the Blickstein Group are pleased to bring you the Second Annual Legal Pricing and Project Management Survey, created in collaboration with Intapp, to again report on the experiences of LPPM professionals and correlate their perspectives with their LDO counterparts.

As we saw last year, these two groups deal with many of the same challenges but from opposite sides of the table. Some of their perspectives are at odds, demonstrating their distinct goals and interests, while others are closely aligned, reflecting the similarity of their work.

But while some aspects of this year's survey echo our previous findings, it seems that the needle has now shifted in one crucial regard. The coronavirus pandemic has inexorably accelerated change over the last two years, and lawyers have been pulled along with the wave. That creates an opening for LPPM professionals to reorient their focus from constantly trying to sell the importance of change to implementing the structures and tools needed to effectuate it.

WHAT ARE LPPMs RESPONSIBLE FOR?

Let's begin with the basics: Where do LPPMs have the authority to drive change?

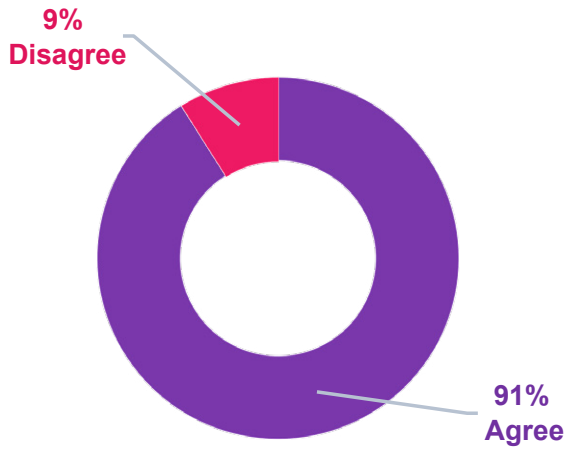
While we consider legal pricing and project management to be inextricably connected functions, not all firms house them under the same roof. Only about half—54%—of our survey respondents stated that they are responsible for both pricing and project management; 38% reported that they are only responsible for pricing, while 9% are exclusively responsible for legal project management. However, two-thirds of respondents—66%—stated that their pricing and legal project management teams are integrated despite the separation of responsibilities.

It appears, then, that law firms are integrating those teams most of the time but still bifurcating the work of pricing and legal project management rather than treating those functions as fundamentally linked.

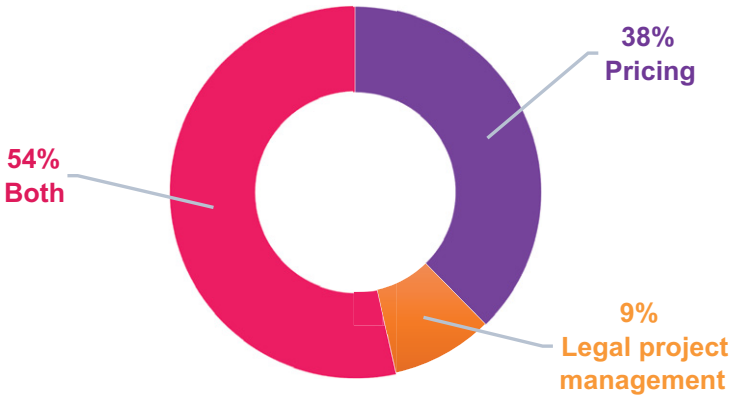
Do LPPMs think that separation is a good idea? Apparently not. When we asked whether "pricing and legal project management teams must be integrated and collaborative for work to be delivered on budget," nearly all respondents—90.8%—agreed.

If, as we expect, integration and collaboration are essential, then firms that successfully weave the pricing and project management functions together should have an easier time establishing pricing models that reflect the services delivered. That alignment is critical to managing resources in times of rapid change—which aren't over yet.

PRICING AND LPM TEAMS MUST BE INTEGRATED AND COLLABORATIVE FOR WORK TO BE DELIVERED ON BUDGET



ARE YOU PRIMARILY RESPONSIBLE FOR PRICING OR LEGAL PROJECT MANAGEMENT?



BRIDGING THE GAP BETWEEN CLIENT AND FIRM FEE GOALS

Joshua Libling is Director of Risk Analytics at Validity Finance

Pricing legal services is hard. Respondents to the second LPPM survey identified peer firm rates as the top factor in setting prices, but also highlighted market pressures, associate salaries and target PPP. These competing inputs can create a tension between the desires of the two key stakeholders: the firm and the firm's clients. Indeed, when asked to identify their top concerns, legal pricing professionals most often answered, "meeting client demands for value while still meeting firm profitability targets."

For firms with sizable litigation practices, it may come down to risk tolerance. Clients want the best litigators but don't want to (or can't) take on the full risk of the cost of those litigators before they know the result of the litigation. Those same litigators have limits on the proportion of their market-supported rates they are willing to risk. Litigation finance is a risk modulation tool that helps clients and lawyers work together when there is a good match but the economics are standing in the way. Here are some of the advantages:

1) BRIDGE THE GAP IN FEE NEGOTIATIONS.
Take a simple scenario where the client wants a full contingency—so no costs until the end of the litigation—but your firm doesn't want to offer that. A litigation funder can pay a portion of your fees—say 50%—allowing you to realize that revenue while not charging your client on an ongoing basis. The same works for other payment structures. If an up-and-coming tech wonder client balks at the cost of a flat fee, litigation finance can cover it. Your firm ends up receiving more than your client is being charged during the litigation, and you've also earned the loyalty of a client.

2) TAKE THE RIGHT AMOUNT OF RISK.
Flat fees, success fees, contingency fees—all of them open up the possibility of larger returns while offering the client lower costs on an ongoing basis. But how much risk is right for your firm? You may have a contingency budget that you want to stretch by financing half of it and doing twice as many cases. Or you may be willing to take risk only at a certain minimum revenue level. Litigation finance helps you hit your targets or make your at-risk dollars stretch further.

3) EXPAND YOUR OFFERINGS.
A great defense-side client may not be willing to pay as much for plaintiff-side work. The same goes for corporate clients and litigation work. A new client may need defense-side help but not have the funds to pay your fees. In these cases, an alternative funding arrangement can save the day. For any type of litigation your firm offers—from patent work to international arbitration, from pre-complaint to appeals and certainly on both sides of the "v"—there is a form of funding available.

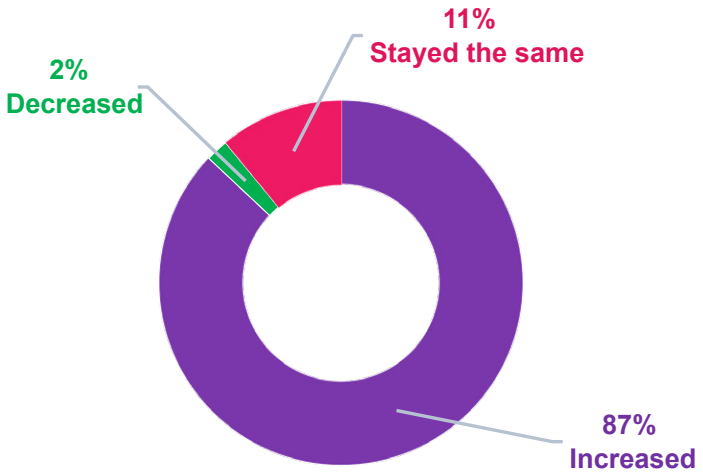
Legal pricing is getting more sophisticated. Of respondents in LVN's survey, 69.2% agreed with the statement, "measuring the value of legal services is more art than science." That's a dip from 2020, when 77.4% felt that way. One of the benefits of that increasingly scientific approach is the opportunity to break down economic barriers to client-lawyer matches. Funding is a key tool in helping great clients match with great counsel.

THE PANDEMIC DISRUPTED MORE THAN SUPPLY CHAINS

The coronavirus pandemic forced tradition-bound lawyers—in both law firms and corporate law departments—to change quickly. It wasn't just that lawyers had to abandon their offices and learn to work from home literally overnight, though of course, they did. Removing the familiar supports of administrative staff, the IT department and colleagues behind every office door forced lawyers to grapple with technology on their own.

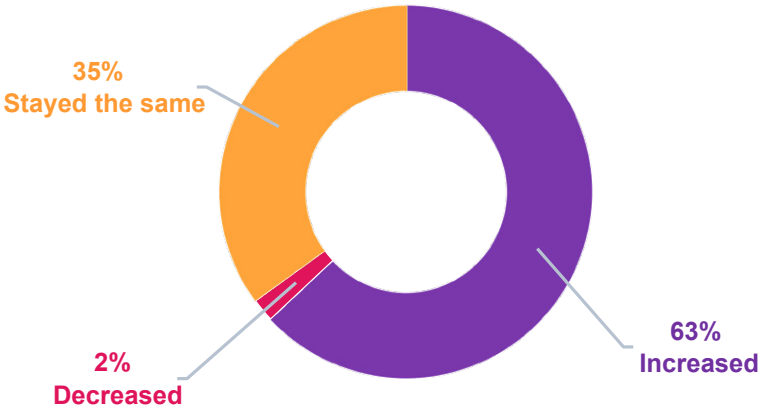
At the same time, demand for many types of legal services skyrocketed. Everyone wanted to know how they should interpret their contracts when the world was temporarily placed on hold. Everyone had questions about human resources when telling employees to report to work might place them in substantial danger. The large majority of LPPMs—87%—reported that their firms' volume of work increased during the pandemic.

THROUGH THE PANDEMIC, MY FIRM'S VOLUME OF WORK HAS:

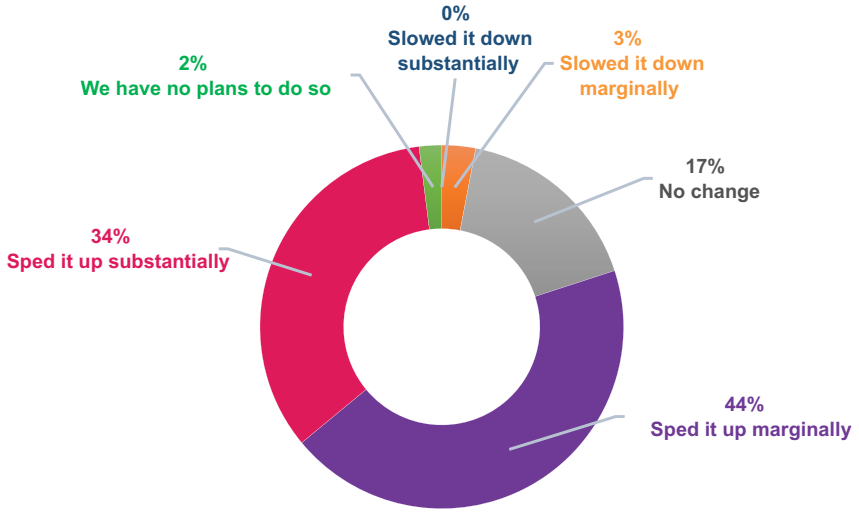


Firms believed that they responded to these increased demands spectacularly, rolling with the punches in a way that few would have predicted. The majority of LPPMs—64%—stated that their ability to serve their clients' needs in a timely and effective manner had increased despite tremendous disruption; another 31% stated that it had remained the same. Firms responded in part by adopting and integrating new technologies, with 78% of LPPMs reporting that the pandemic had sped up their use of technology and 34% stating that it accelerated their use of technology substantially. And 63% stated that client demand for more financial and operational support and collaboration has increased.

THROUGH THE PANDEMIC, CLIENT DEMAND FOR MORE FINANCIAL AND OPERATIONAL SUPPORT AND COLLABORATION BETWEEN BUSINESS ROLES IN THE LEGAL DEPARTMENT AND AT LAW FIRMS HAS:

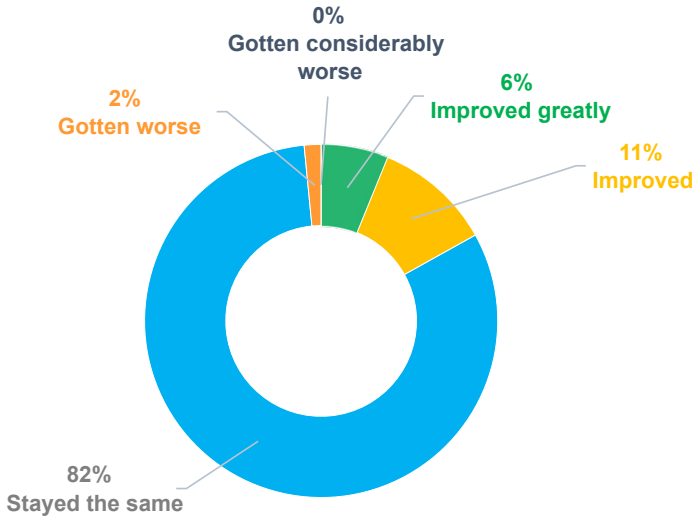


WHAT IMPACT HAS THE PANDEMIC HAD ON THE WILLINGNESS FOR LAW FIRM LAWYERS TO ADOPT AND INTEGRATE NEW PRACTICE TECHNOLOGIES INTO THEIR WORK



Clients largely agreed with law firms' positive assessment of their performance, though they saw a lower rate of improvement. Only 1.5% of LDOs reported that their law firms' responsiveness and timely delivery of work product had suffered during the pandemic; 17% stated that firms had improved or improved greatly.

THROUGH THE COVID-19 PANDEMIC, AS AN LDO I HAVE NOTICED THAT MY LAW FIRMS' RESPONSIVENESS AND TIMELY DELIVERY OF WORK PRODUCT HAS:



In short, the pandemic necessitated a degree of change—but there are still obstacles to overcome.

LexFusion

A collaborative circle of

hand-picked, truly-excellent

legal innovation companies

www.lexfusion.com

BARRIERS TO CHANGE: FIRMS ARE SOLD ON TECHNOLOGY. NOW IT'S TIME TO DRIVE CHANGE.

For years (and years), the refrain about why law firms can't change has centered on the personal traits of lawyers. Lawyers are too risk-averse to embrace change. Lawyers are wedded to their traditional ways of doing things. Lawyers under intense pressure to reach billable hour targets don't have time to learn how to use new tools or technologies, even when those tools would save them time in the long run.

There are more complex reasons underlying this reality. For one, law firms are still hampered by the typical partner hierarchy's flat management structure and lack of centralized authority. Efficiency has also long been disincentivized by the emphasis on billing hours. But, however valid the justifications, the fact has remained that lawyers tend to resist change.

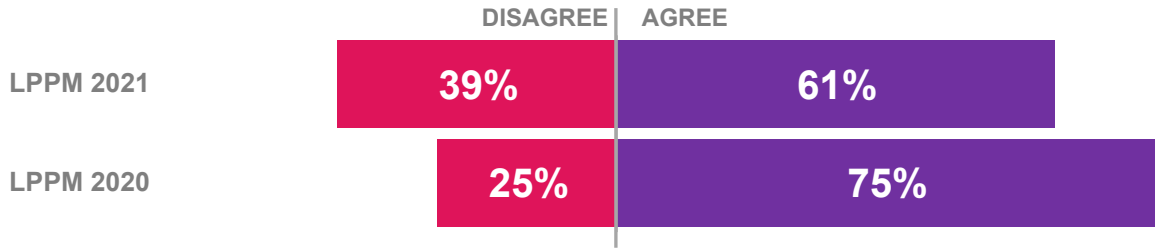
The pandemic served as a catalyst in breaking down that resistance. Over the last 12 to 18 months, lawyers have changed. The constantly shifting restrictions and disruptions of the coronavirus pandemic have forced everyone to adapt.

Despite lawyers' increased open-mindedness and improved adoption of technology during the pandemic, the number of respondents who agreed with the statement "I have access to the right technology to do my job"—59.1%—was essentially unchanged from last year. One possible explanation for this stasis is that the tools LPPMs and attorneys need have changed, such that their increased acceptance of technology has only highlighted the unmet need for more tools and solutions.

In short, LPPMs appear to recognize that they now have greater buy-in—which means it's time to shift focus to implementing or driving change instead of merely trying to sell change. The sharp drop in agreement with the statement "My job is primarily change management," from 74.6% last year to 60.9% this year, reflects this.

This growth doesn't, of course, indicate a wholesale change of heart or a permanent shift. Lawyers are still inherently risk-averse and time-pressured, both of which make change challenging. But the needle is, at last, moving in the right direction.

MY JOB IS PRIMARILY CHANGE MANAGEMENT



The maturation of the industry also reinforces the need for law firms to embrace strategic support from those who specialize not in the practice of law but in managing a business. Law firms suffer from a problem that's common enough: The people who are most successful as lawyers are promoted to management, just as the best salespeople are put in charge of managing a sales team or the best teachers are conscripted to serve as principals of their schools. But the last thing a school should do with a great teacher is remove that teacher from the classroom. Likewise, there's little reason for law firms to push their best lawyers away from the practice of law.

That's what dedicated, trained managers—or LPPMs—are for. Thankfully, the very existence of the LPPM role, which has been growing for at least a decade, is evidence of the increasing recognition among law firms that expert business support is necessary for long-term success. As the legal industry becomes more commercially oriented, it's slowly shedding its self-image as a guild of craftsmen exempt from the strictures of business and embracing the reality that profitability, not just revenue or realization, can and should be viewed as a measure of success.

SURVEY METHODOLOGY

The survey results include the responses to an online survey completed by representatives from 69 law firms in the Am Law 200. Each firm was able to submit only a single response, typically collected from the most senior pricing or project management professional within the organization. About a third of respondents had not participated in last year's LPPM survey, indicating that some year-to-year discrepancies could be due to sampling variability rather than true change. Almost all respondents are U.S.-based, and most are members of the Legal Value Network. The survey questionnaire was in the field from October 20 to December 10, 2021.

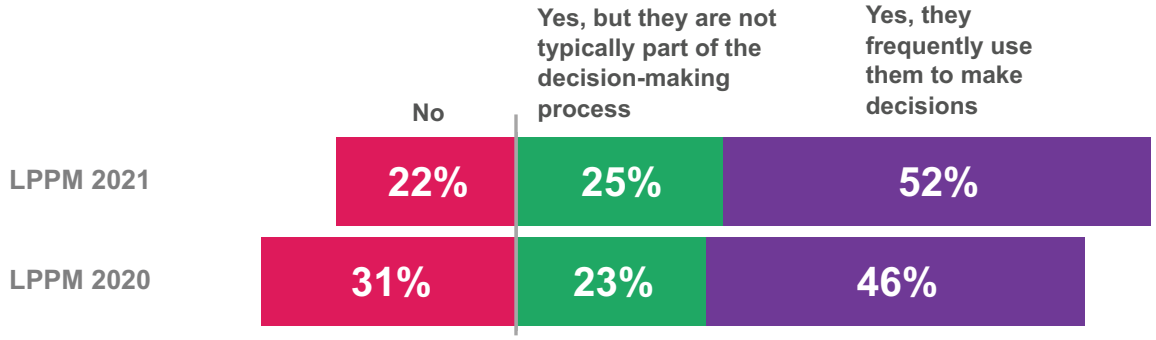
This second annual LPPM Survey Report paints a clearer picture of how the legal pricing and project management functions within law firms are evolving and where LPPMs agree—or disagree—with their LDO counterparts. As always, this report includes our thoughts and insights on where we are as an industry and where we should be going. Data in all graphs may not add up to 100% due to rounding.

MEASURING WHAT MATTERS: METRICS

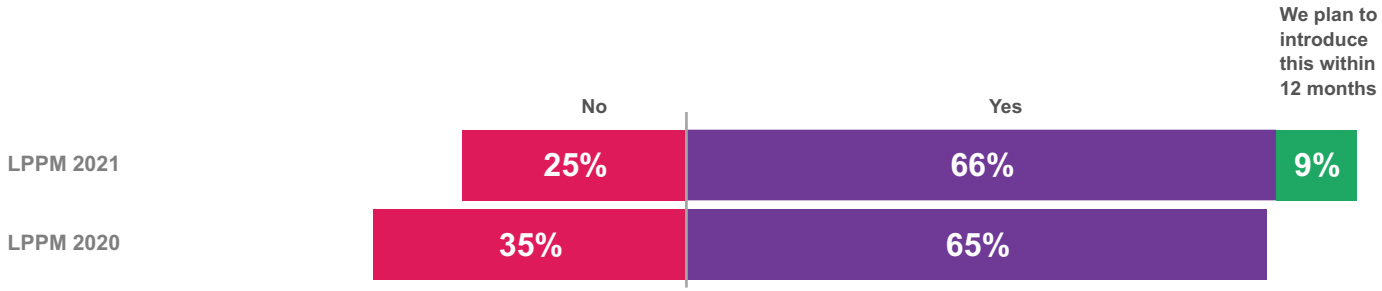
It seems odd to have to point it out, but law firms are businesses. Firms may employ thousands of people who rely on those firms for their livelihood. Yet until quite recently, many firms have not been in the practice of measuring their profits in a sophisticated way or promoting to their partners the usefulness of profits for making business decisions.

That may be slowly changing. This year, we saw a small uptick in the number of respondents (52%) who said their firms' partners have access to profitability metrics and frequently use them to make decisions. Note that this still leaves fully half of law firms where partners do not use profitability metrics to make decisions or don't even have access to those metrics. This often means that partners are overlooking data that affects their own compensation, as 65.7% of LPPMs reported that their firms consider profitability metrics as part of their partner compensation calculations.

DO YOUR PARTNERS HAVE ACCESS TO PROFITABILITY METRICS?



ARE PROFITABILITY METRICS CONSIDERED AS PART OF PARTNER COMPENSATION?



Contrary to standard practice in other industries, 20.9% of LPPMs reported that their firms also do not use profitability metrics to inform their pricing decisions. This would be like a retail store setting prices for its products without considering both the purchase price and the production cost—and therefore the profit margin—of those products.

But it's not just law firms that struggle with defining and using metrics.

MISSED CONNECTION

Joe Borstein, Chief Executive Officer, LexFusion
Paul Stroka, Chief Client Officer, LexFusion
Casey Flaherty, Chief Strategy Officer, LexFusion

Per usual, there appears to be a disconnect. According to this survey, 83.6% of law firms believe they are leveraging technology to deliver legal services more effectively. But, as of last year's Blickstein Group Annual Law Department Operations Survey, only 48.9% of clients agree. While this divergence could easily be chalked up to law firms' self-serving bias and resolved by defaulting to the customer always being right, there is merit in interrogating the misalignment. What we have here is a failure to communicate. The discrepancy highlights a dearth of common reference points, especially the absence of a shared language of value.

"More effective" relative to what?

The law firms responding in the affirmative that they are leveraging technology more effectively to deliver legal services are likely assessing their current state relative to their own prior state—thus, any technology-driven incremental improvement results in an honest, positive answer. Given that law firms are constantly investing in tech infrastructure, it is unsurprising that most have improved to some degree—especially when they self-select the time frame/baseline for comparison.

The law departments responding in the negative are likely comparing their lived experience relative to their expectations. If intensifying legal complexity caused the median matter to become 15% more laborious while a firm introducing labor-saving technology reduced labor by 10%, the median matter still became more labor-intensive from the client perspective. Pair this with the steady ratcheting up of billable rates, and the client perception of no improvement matches the client's reality of longer cycle times and increasing costs.

What's missing is any form of structured dialogue accounting for increased legal complexity or the increased use of technology to address it. Clients do not know what firms are doing but "feel" it does not meet expectations. Firms, on the other hand, do not know what clients expect and therefore do not "feel" like they are falling short.

This a recipe for discontent and a disconnect that undermines law departments' and law firms' mutual interest in delivering value to the ultimate customer: the business.

Yet efforts to close the gap between client expectations and law firm execution usually fall prey to imprecision. These well-intentioned interactions usually boil down to clients exhorting firms to "do better" and firms responding with "we will do/are doing better" without either side forming, let alone articulating, an actionable view of what "better" actually is. The absence of a vocabulary, frameworks and a programmatic approach to strategic investment leaves every participant in the ecosystem worse off.

And that is the lesson. While the symptoms may be evinced by the vagueness of individual client complaints or insufficiency of individual law firm progress, the underlying causes are systemic. LexFusion was founded to help reduce friction in the ecosystem. While we contributed to many individual successes in 2021, we also concluded that efforts at the ecosystem level are essential to addressing our collective disconnect and unleashing the considerable, but latent, productive potential. Increased emphasis on the ecosystem is our mission for 2022.

HOW DID WE DO TODAY? FEEDBACK FROM CLIENTS TO LAW FIRMS

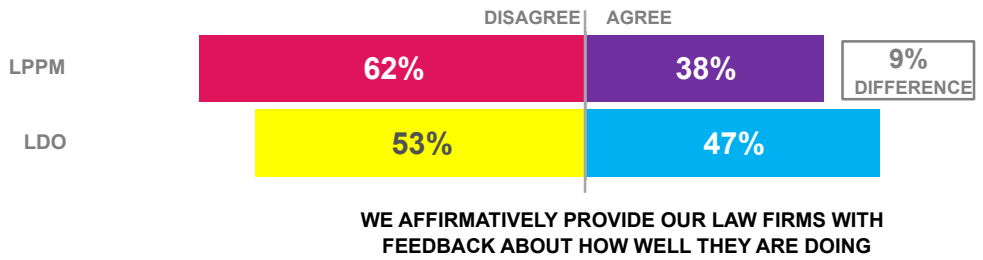
If you're not doing well at something, wouldn't you want to know so you could improve your performance? Businesses from HelloFresh to Bank of America to Target all ask their customers to rate their performance after the customer receives an order or calls with an inquiry. Wouldn't you think legal work is more important and impactful than whether someone's groceries arrived intact?

Yet almost two-thirds of LPPMs—62.1%—reported that their clients do not provide feedback about how well the firm is performing. LDOs believe they're doing a better job, with 46.8% reporting that they affirmatively provide law firms with performance feedback, but even that perception has more than half of clients leaving their law firms in the dark.

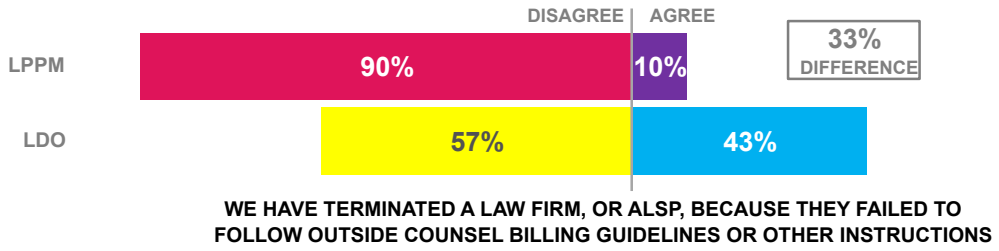
This may be, at least in part, because LDOs don't have enough information about how their firms are doing. Almost three-quarters—71.2%—of LDOs reported that they lack consistent performance metrics for firms. Even more—84.9%—stated that they do not share the metrics they use to evaluate law firms with those firms. Is it any wonder that firms aren't consistently delivering the results that their clients want?

As a result, there's still a considerable gap between LPPMs, 90.2% of whom stated that their firms have not been fired for failing to follow their clients' outside counsel guidelines, and LDOs, 42.6% of whom stated that they have indeed terminated their legal service providers for failing to follow their guidelines.

GENERALLY SPEAKING, CLIENTS PROVIDE ME FEEDBACK ABOUT HOW WELL WE ARE DOING

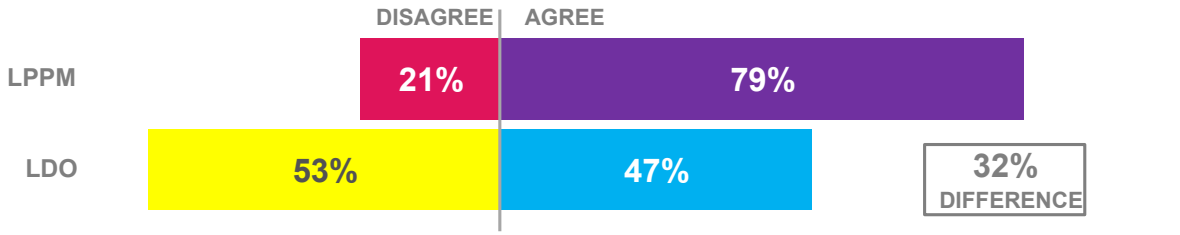


WE HAVE BEEN FIRED OR A CLIENT HAS STOPPED WORKING WITH US BECAUSE WE HAVE FAILED TO FOLLOW OUTSIDE COUNSEL/BILLING GUIDELINES OR OTHER INSTRUCTIONS



There's a similar lack of alignment between how well law firms think they understand their clients' problems and how well clients think their law firms understand them. There was an interesting dip this year in the number of LPPMs who reported that their firms make a strong effort to understand their clients' problems, with only 79.4% answering in the affirmative as opposed to the 93.7% who did so last year.

OUR FIRM MAKES A STRONG EFFORT TO UNDERSTAND THE FINANCIAL AND OPERATIONAL PROBLEMS CLIENTS FACE



OUTSIDE COUNSEL GENERALLY MAKE STRONG EFFORTS TO UNDERSTAND THE FINANCIAL AND OPERATIONAL CHALLENGES FACED AS A LAW DEPARTMENT

Perhaps LPPMs reevaluated their efforts after seeing how their LDO counterparts—only 46.8% of whom believe their firms are making strong efforts—view the same question.

The take-home message here might be that firms—and clients—need to focus as much on basics as they do on innovation and technology. Firms don't necessarily need to create complex dashboards that show what's happening with every conceivable metric. Sometimes they just need someone to pick up the phone and engage with clients to understand their priorities and share information. Minimally, knowing what their clients do and do not want to hear about in evaluating their satisfaction with a firm's work would provide a basis on which to make great strides here.

While we're on the subject of KPIs, one troubling result from the LDO survey bears repeating here: This year's survey showed a 23% reduction in support for industry standard KPIs. This underscores the commonly held belief that each lawyer, each law firm and each law department is somehow different in an important and measurable way. This presumption of uniqueness is clearly demonstrated within the effort to create Uniform Task-Based Management System (UTBMS) codes, where the push for a uniform system is undermined by requests for custom codes to represent some particular aspect of a client's work.

Not standardizing, however, only makes effecting change more protracted than necessary. There's a reason every grocery store is laid out in essentially the same order, and it's not because store designers aren't creative or inspired. It's because customers like to know where to find things in a store, and standardization helps.

Still, LDOs are focusing more on spend than process. The number one KPI reported by almost half of LDOs (42.6%) was "actual spend vs. law department's total budget." Economics are still the chief metric driving lawyers' self-evaluation, regardless of whether those lawyers work in law firms or in corporate law departments.

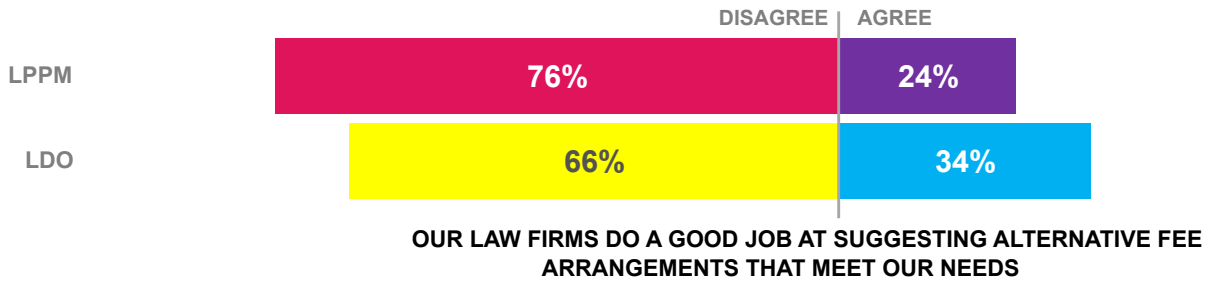
Speaking of spend and budget management, how are alternative fee arrangements (AFAs) working out?

DO WE NEED AN ALTERNATIVE TO AFAs?

When it comes to AFAs, law firms and clients are in agreement: Both think the other side isn't good at suggesting or structuring them. Just over three-quarters of LPPMs—76.1%—reported that their clients don't do a good job suggesting AFAs that meet the clients' needs. Almost as many LDOs—66.0%—reported that their firms don't do a good job suggesting AFAs that meet the clients' needs though that's actually a 20% improvement over last year.

The perceived failures here go deeper than just not suggesting appropriate AFAs. The large majority of LPPMs—88.1%—reported that most clients don't know how to evaluate or structure AFAs. But both sides still have faith in the idea of AFAs; 71.4% of LPPMs agreed that work done under AFAs is more cost-efficient than work billed hourly, and 63.6% of LDOs concurred.

OUR CLIENTS DO A GOOD JOB AT SUGGESTING ALTERNATIVE FEE ARRANGEMENTS THAT MEET THEIR NEEDS



While we wouldn't go so far as to say that AFAs have failed, we're definitely seeing some AFA fatigue—and that may not be a bad thing.

The fundamental problem with our current approach to AFAs is that there's a disconnect between the reason clients ask for them and their true utility. Firms and clients typically think of AFAs as a means to reduce or better predict legal spend, but legal service providers who accurately collect, analyze and report metrics don't need AFAs to set reasonable prices with a high degree of accuracy.

What AFAs are actually solving for is a different problem: that of risk-sharing and cost certainty. As a result, neither side thinks the other is structuring their AFAs appropriately, because they're trying to allay a different concern. After all, shifting the risk from the client to the law firm should drive the price of services up, not down.

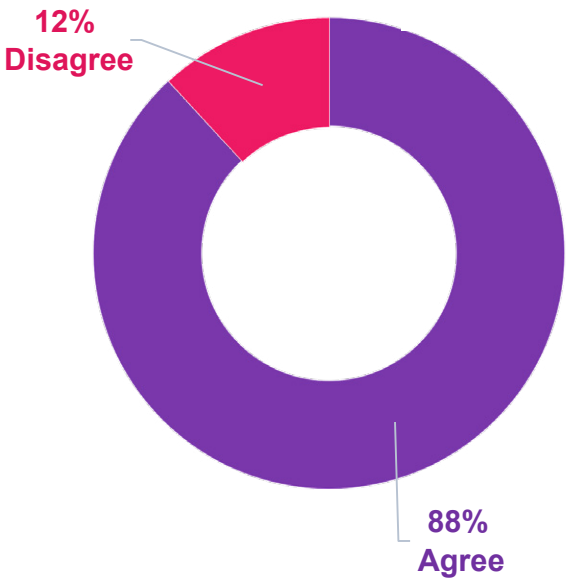
The answer, in part, is that firms and clients should collaborate on determining their objectives—the solution they're trying to achieve—rather than assuming that they should design an AFA—a specific tool—that will work for them. Focusing on solutions rather than tools is a key aspect of creating a commercially viable industry.

However, there's another aspect of AFAs that remains valid: Law firms need a way to offset the gains in efficiency created by the shift toward technology to streamline basic legal work. Both the Great Resignation and lawyer burnout are contributing to a situation where demand for legal talent is high and supply is low, which should further promote firms' growing emphasis on technology. Fee structures should reflect that shift, in that firms that invest in helpful technology shouldn't be paid less for providing the same results.

Nor is that the only wrinkle. Both law firms and corporate law departments depend on subject matter experts, and those experts are made, not born. That means that firms cannot ignore their talent pipeline by fully replacing junior associates with technology. Firms—and eventually the clients who hire law firm attorneys for their in-house teams—need a way to continue to foster the growth and development of talent even as technology erodes the tasks that associates have traditionally performed in the early years of their careers.

The short answer is that law firms are going to need to get better at building service delivery models that leverage both technology and talent resources appropriately. That's going to take not just an overhaul of lawyers' mindsets but also a substantial capital investment—both of which firms have typically been reluctant to embrace as long as they can continue to drive revenues with their existing resources.

MOST CLIENTS DON'T KNOW HOW TO EVALUATE OR STRUCTURE AFAs



intapp™

Take the Lead in Today's Client and Data-Driven Era

Accelerate and Scale Your LPPM Function

Intapp helps Fredrikson & Byron harness data to improve estimates, manage budgets, and deliver better client value.

"Lawyers can quickly pull data together. When they're talking with clients, they need insights at the ready to deliver on client experience and value."

STEVE CHAMBERS, PRICING MANAGER

"We can quote with confidence both quickly and accurately. We're able to maintain a consistent communications cadence, which makes clients happy and lawyers' lives easier."

CHRISTINA BRUSVEN, LAWYER AND SHAREHOLDER

Discover how Intapp can help at **intapp.com/pricing**.

INNOVATION: FACT OR FICTION?

Innovation is another perennial hot topic where law firms and clients don't always see eye to eye. Even though clients talk the talk about innovation, LPPMs don't necessarily think that they walk the walk. There was a meaningful drop in the number of LPPMs—61.2% this year, down from 75.4% last year—who reported that their clients really want them to be innovative as opposed to just stating that they do. To say that the other way around, about 40% of LPPMs don't believe that their clients want them to innovate.

But regardless of whether clients sincerely want innovation, firms think they're delivering. Nearly all LPPMs—91.0%—said that their firms have implemented innovative solutions to better serve their clients.

Clients, predictably enough, are less likely to recognize or appreciate that innovation. Only 41.3% of LDOs reported that their law firms are innovative. As an aside, in what might be good news for law firms, alternative legal service providers (ALSPs) don't fare much better, with just 56.1% of LDOs reporting that they're innovative.

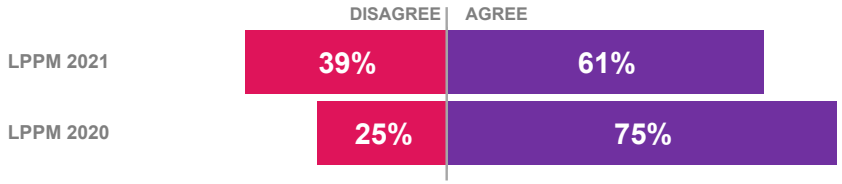
Where's the disconnect happening? First, this goes back to feedback. If clients think their law firms are underperforming at innovation but they never share that information, it's no surprise that firms don't know what clients want.

This gap may also reflect the fact that law firms are building solutions for individual clients but not scaling or generalizing those solutions to solve other clients' challenges. This situation would certainly explain the common feeling among innovation teams that they're not gaining any traction; each project is an end unto itself, so teams never build momentum.

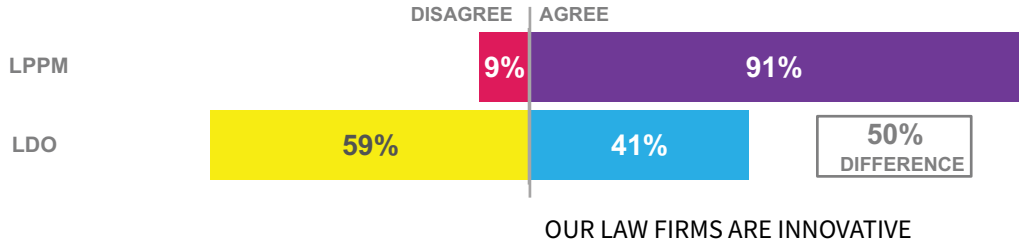
This is another area where firms can benefit from looking for broad solutions rather than specific tools with a limited utility. When each innovative tool is narrowly designed to meet one client's unique need, the overall stable of single-purpose tools is fragmented and cluttered. If the innovation team instead looked for common problems that their clients experience and designed solutions that could address the shared elements—while still, of course, allowing customization for each client—they could scale their innovations.

Again, law firms will have to design pricing models that compensate them for scaled solutions. As long as firms and clients remain locked in a billable hour perspective, firms will have less incentive to innovate, no matter what clients want.

OUR CLIENTS REALLY WANT US TO BE INNOVATIVE
(AS OPPOSED TO JUST SAYING THEY DO)



OUR FIRM HAS IMPLEMENTED INNOVATIVE SOLUTIONS TO BETTER SERVE OUR CLIENTS



LAWYERS STEPPED UP THEIR GAME DURING THE PANDEMIC. IT'S TIME FOR OPERATIONS TO TAKE ADVANTAGE.

Despite the tremendous challenges of the coronavirus pandemic, lawyers have responded with unprecedented flexibility, remarkable grace and an overwhelmingly diligent work ethic. Clients agree that law firms are delivering legal service to a high degree even as the world has intermittently shut down around them, reopening only in fits and starts.

That adaptation—and the mindset shift that accompanies it—has created an unprecedented opportunity for legal pricing and project management professionals to drive meaningful, lasting change. With lawyers who are now more receptive than ever to adopting new ways of working, LPPMs have a window in which to introduce or redouble their efforts. Now is the time to create and implement basic metrics, to foster better two-way communication with clients about expectations and performance and to reevaluate pricing and service delivery models. Professionals on both sides of the table should embrace this opportunity to gain new insight—and develop new respect—for one another's views on fee structures, goals and the role of innovation.

This year represents a crucial moment in which we can leverage pandemic-induced changes into a solid foundation underlying an essential, growing industry. It's an opportunity that may not last long. Will you seize it?

THE SURVEY OF LEGAL PRICING & PROJECT MANAGEMENT TEAM

BRAD BLICKSTEIN
Author

DAVID CAMBRIA
Author

CHRISTOPHER ENDE
Author

KEITH MAZIAREK
Author

SANDY HAUSRATH
Editorial Contributor

KRISTIN WALINSKI
Editorial Contributor

SAMUEL S. MOON
Project Management

BRIAN VAN DORN
Survey Management & Analysis

ASHLEY BENNING
Copy Editor

NIKI FORNER
Creative Director

THANK YOU TO THE SPONSORS OF THE 2ND ANNUAL SURVEY OF LEGAL PRICING & PROJECT MANAGEMENT

BLICKSTEIN GROUP

LEGAL VALUE NETWORK

intapp™

VALIDITY

LexFusion

WANT MORE INFORMATION?

For more information about the survey or to purchase the full survey results package, please contact **Samuel Moon** at **sam@blicksteingroup.com** or call **773.470.8381**.

For more information about the Legal Value Network, please visit www.LegalValueNetwork.com