

BTI State of Alternative Fee Arrangements



2016

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The State of AFAs

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The votes are in. Clients are loving AFAs.

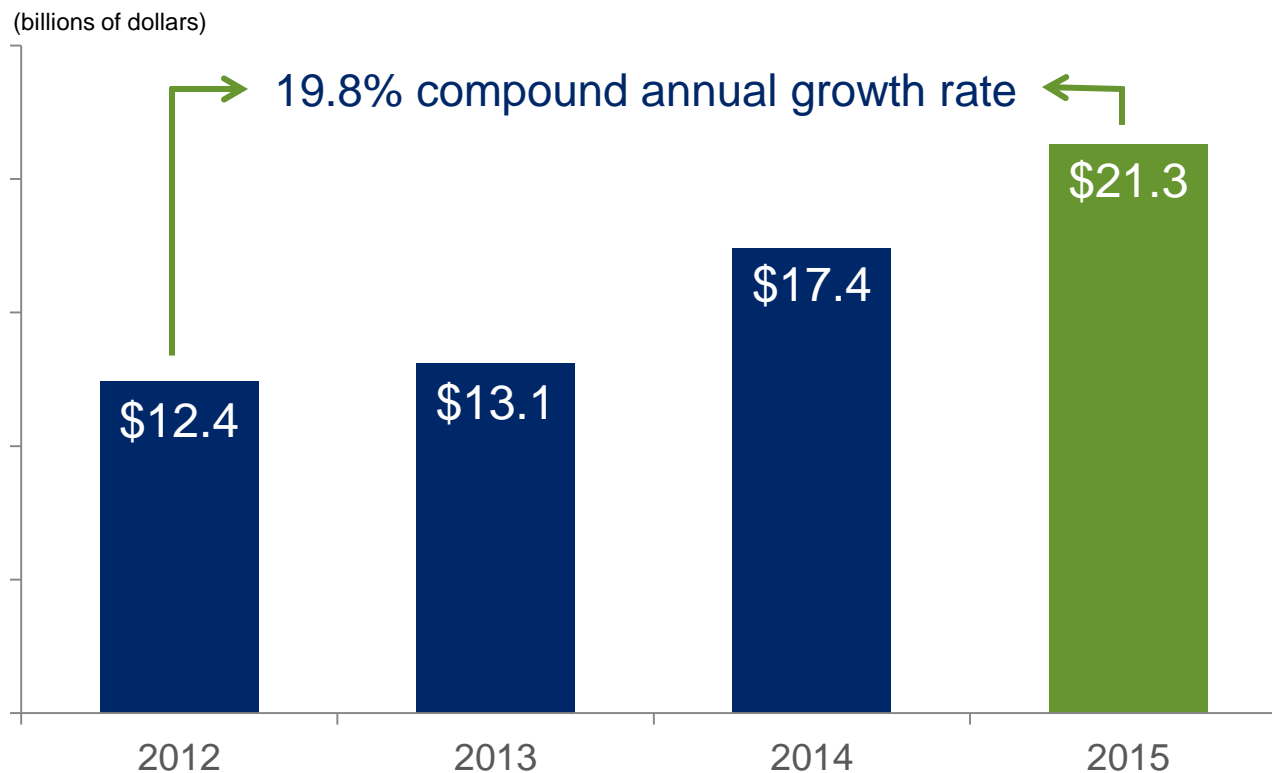
Alternative Fee Arrangements (AFAs) now account for \$21.1 billion of outside counsel spending in 2015, and are the biggest growth market around. The jump in AFAs explains how clients have been able to keep their outside counsel spending flat while they experience growth in new, more complex matters. AFAs have finally become the cost control tool they were intended to be. Highlights from *BTI State of Alternative Fee Arrangements* include:

- Outside counsel spending under AFAs jumped in 2015, with the surge coming primarily from larger spending clients.
- The number of companies using AFAs shrank, as a smaller number of clients spend substantially more on AFAs.
- Top legal decision makers credit their new love of AFAs to improved client focus, predictability in budgets, a more streamlined approach to the work, and the savings—which remain well in the double digits.
- The AFA of choice is overwhelmingly the fixed fee. Fixed fees get to the heart of the matter—a clear goal and an even clearer budget.

Read on to see just how much corporate counsel are loving the new state of AFAs.

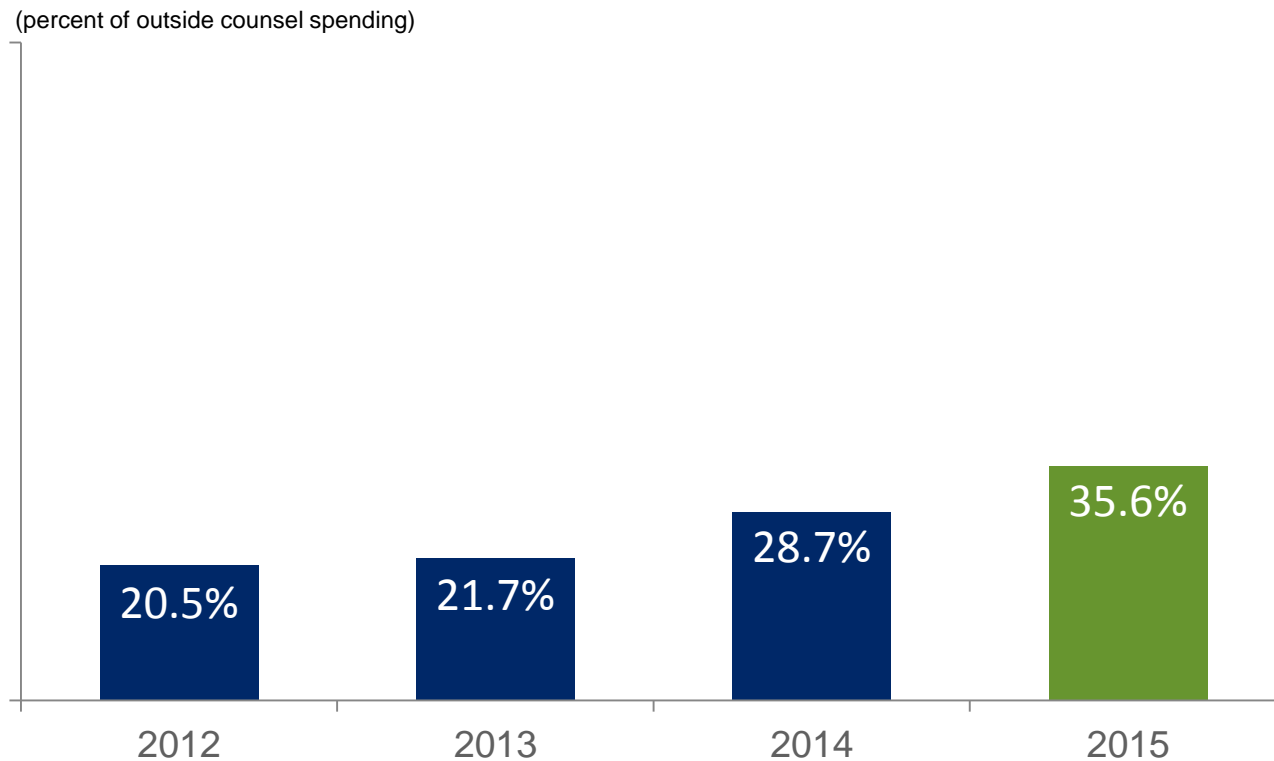
Spending Under AFAs Surges to a Record High

Alternative Fee Arrangements (AFAs) now account for \$21.1 billion of outside counsel spending in 2015, up from \$13.1 billion in 2013. AFAs are the biggest growth market around—registering a 19.8% compound annual growth rate for the last 3 years.



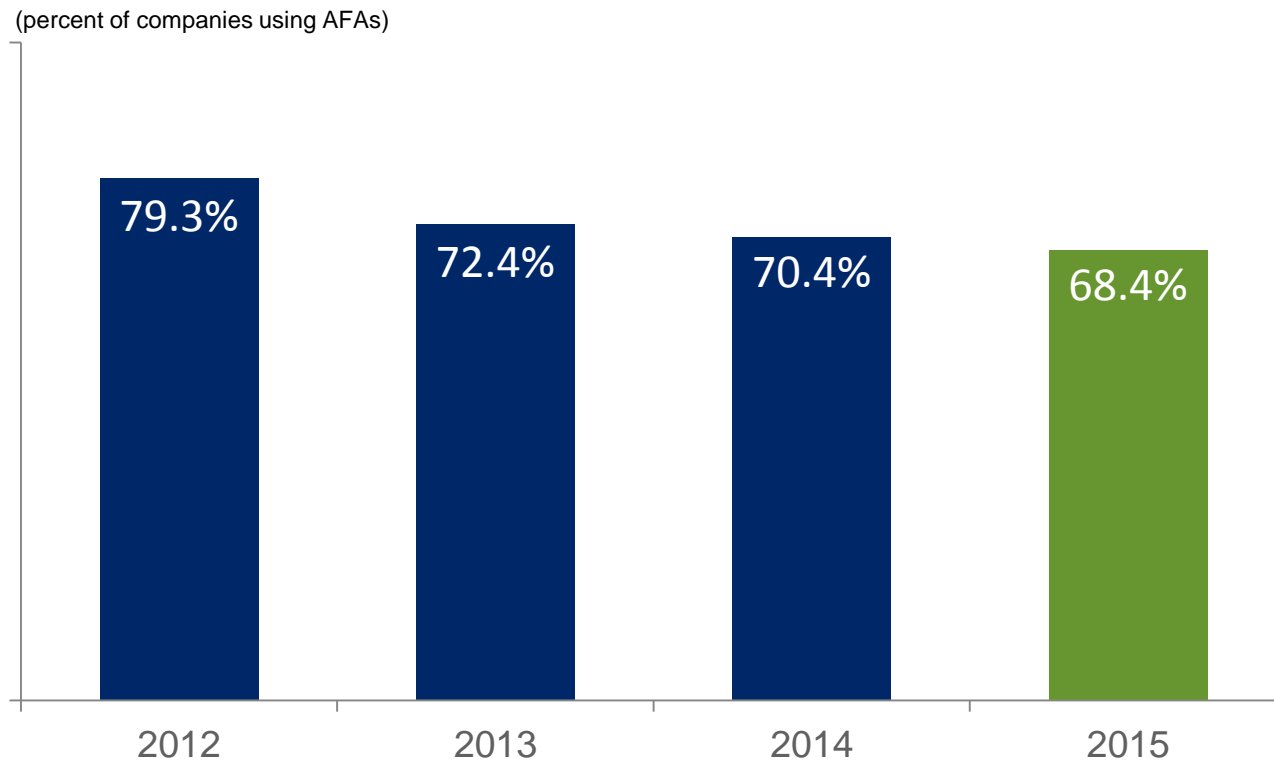
Percentage of Outside Counsel Spending on AFAs

Outside counsel spending under AFAs jumped to 35.6% of total spending in 2015 up from 21.7% in 2013. The surge is coming primarily from larger spending clients.



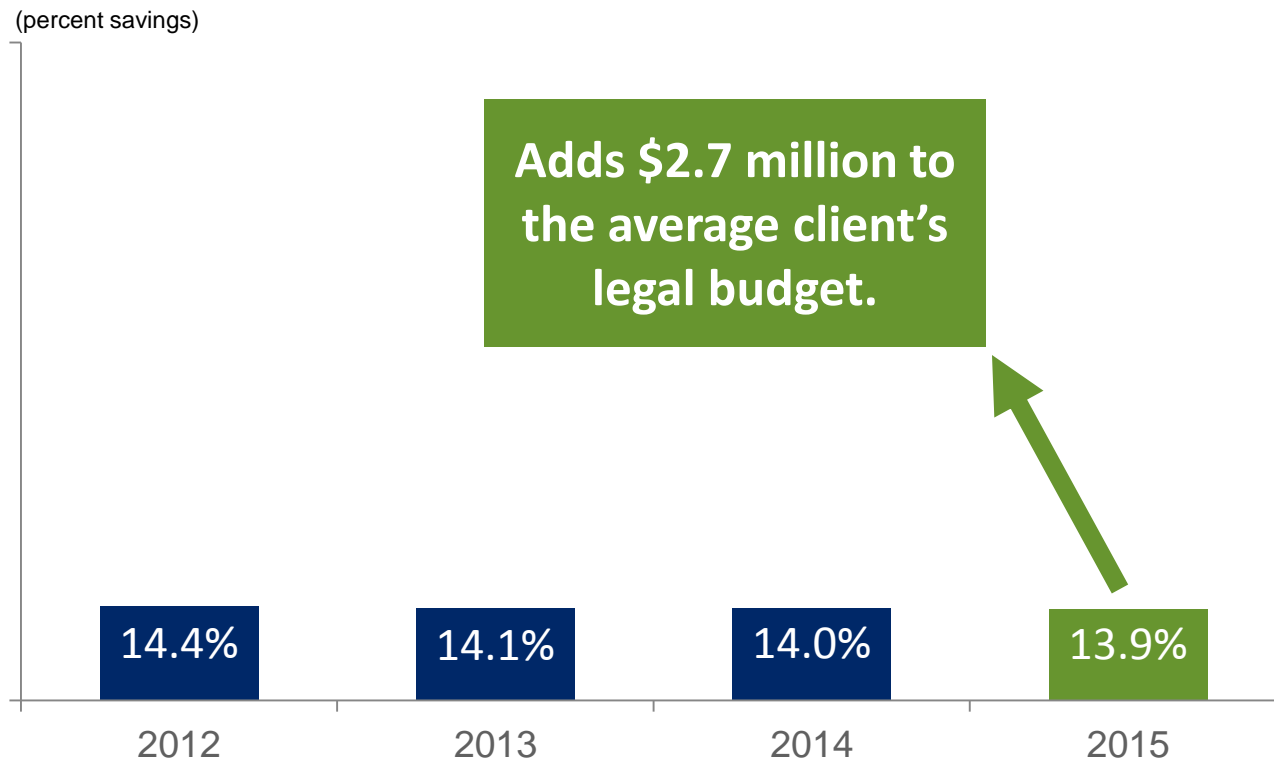
Percentage of Companies Using AFAs Drops While Spending Soars

The number of companies using AFAs shrank to 68.4% from 72.4% in 2013, as a smaller number of clients spend substantially more on AFAs.



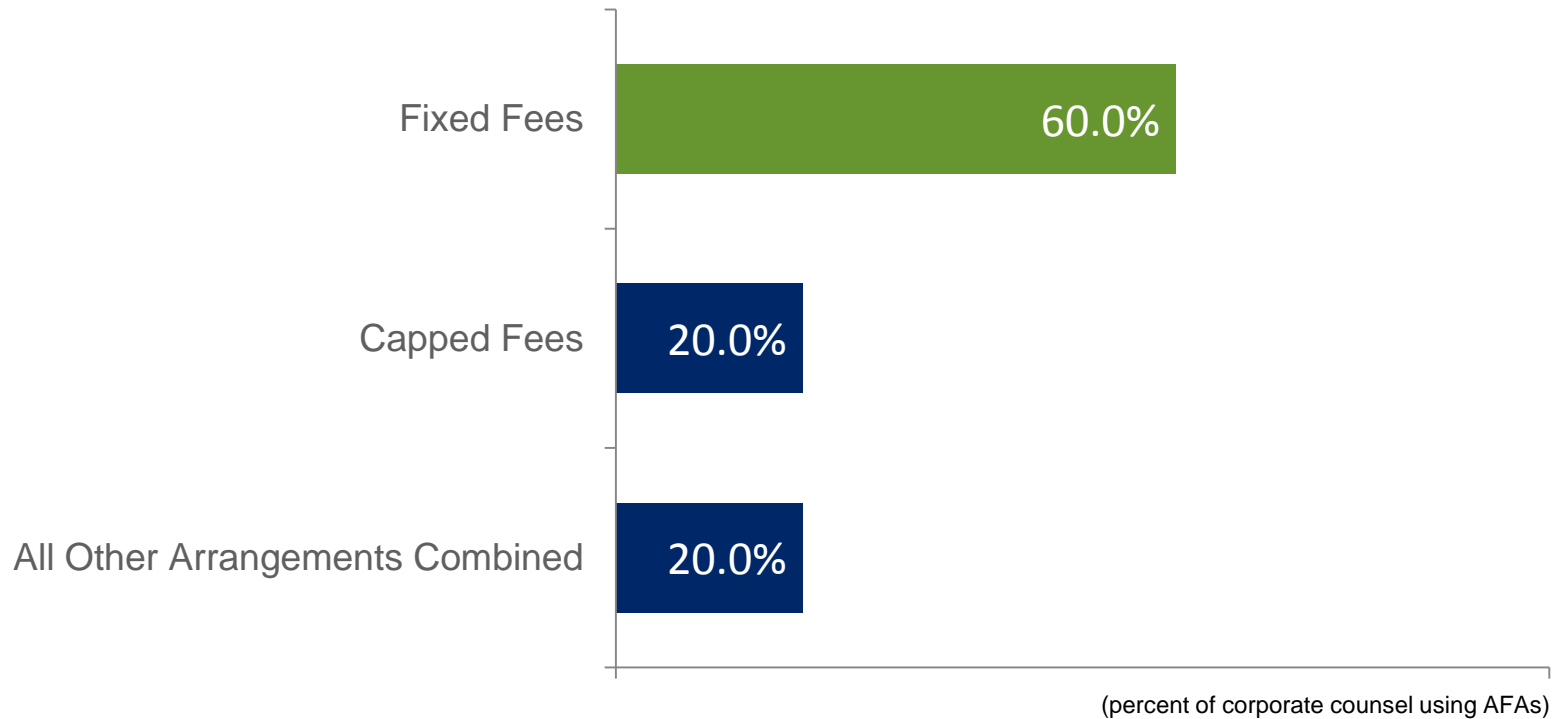
Savings Reported Under AFAs

Top legal decision makers credit their new love of AFAs to improved client focus, predictability in budgets, a more streamlined approach to the work, and the savings—which remain well in the double digits. Clients using AFAs report savings of 13.9% in 2015 compared to 14.4% in 2013. These savings effectively add \$2.7 million to the average client’s legal budget.



Fixed Fees Are Clearly the AFA of Choice

The AFA of choice is overwhelmingly the fixed fee. 60% of clients prefer fixed fees—3 times more than the next runner up—capped fees at 20%. Clients like the relative simplicity of the fixed agreement. Fixed fees get to the heart of the matter—a clear goal and an even clearer budget.



Legal Decision Makers Rank Law Firms: 6 Reasons Law Firms Stand Out

Clients identify 22 of the 650 law firms serving Fortune 1000 and large clients as absolutely best at developing and implementing alternative fee arrangements. Clients share 6 reasons these firms stand out:

1. Partners have authority to enter into an AFA quickly. These partners do not have to wait for committee meetings or partner reviews of agreements. The negotiating partner also knows the parameters the firm will accept and approval is all but assured, and swift.
2. Confidence, comfort, and enthusiasm in pursuit of the AFA. The firm's enthusiasm and commitment to AFAs is contagious.
3. Flexibility. The firms who stand out listen to the objectives and offer to change the approach as the objectives evolve and are agreed upon by all concerned.
4. Willing to take some risk. The outstanding AFA firms have convinced clients they have skin in the game. Clients love the idea of risk sharing they can see and understand.
5. Focused and efficient. The best firms have learned to make a beeline for the client's goal. Much of the strategizing and planning has been done as the fee is negotiated—clients see their law firms operating like an Olympic swimmer—no wasted strokes.
6. Stick to the agreement and never complain. The law firms don't go back and ask for changes and live with whatever outcomes occur. Apparently many law firms ask for changes when things don't go well—the best don't. And the best have tight project controls to ensure they don't need to ask.

Legal Decision Makers Rank Law Firms: Best at Delivering AFAs

LAW FIRMS BEST AT DELIVERING ALTERNATIVE FEE ARRANGEMENTS

ARMSTRONG TEASDALE	LITTLER MENDELSON
BAKER BOTTS	MCGUIREWOODS
BARTLIT BECK HERMAN PALENCHAR & SCOTT	MORGAN LEWIS
BLAKE, CASSELS & GRAYDON	ORRICK, HERRINGTON & SUTCLIFFE
COVINGTON & BURLING	QUARLES & BRADY
FISH & RICHARDSON	SCHWARTZ & BALLEEN
FOLEY & LARDNER	SEYFARTH SHAW
HOMBURGER	SIMMONS & SIMMONS
HUSCH BLACKWELL	THOMPSON HINE
KIRKLAND & ELLIS	VALOREM LAW GROUP
LEE TRAN & LIANG	WILSON SONSINI GOODRICH & ROSATI

We congratulate the 22 law firms named by corporate counsel—in an unprompted manner—as best at developing and delivering AFAs.

These are the firms—out of the 650 core law firms serving large and Fortune 1000 clients—corporate counsel find are best at making AFAs the successful cost control tool they were intended to be—bringing improved client focus, predictability in budgets, a more streamlined approach to the work, and double-digit savings.

About The BTI Consulting Group



BTI has helped professional services firms boost client service for over 25 years.

Driving Superior Client Relationships. Fueling Superior Growth and Profits.

BTI conducts more independent research on how clients acquire, manage, and evaluate their professional service providers than virtually anyone.

We benchmark how Fortune 1000 companies buy, how professional services firms sell, and how to manage service provider performance. Through more than 14,000 independent interviews with C-level executives and systematic analysis, BTI has helped professionals boost client service for over 25 years.

We examine the market from the client's perspective. Our proprietary methods include open-ended interviews with high-level executives and decision makers, carried out by highly trained senior interviewers. These are not to be confused with check-off-the-box surveys. Our reports and findings are based on what your clients and users say: we don't put words in their mouths and we don't look to third parties to report what your clients are saying.

BTI is the leading provider of strategic, client-based research to the legal community. BTI has helped more than 200 law firms and professional services firms improve client service through compelling research and advice. We conduct the only continuous benchmarking market study in the legal services industry, now in its 16th year.

Clients use BTI's insightful, custom client feedback surveys to drive change, create urgency, and substantially boost performance.



Pinpoint your strengths—and weaknesses—in the activities proven to drive growth

BTI's 25 years of research pinpoint the 17 activities responsible for driving the absolute best client relationships. In essence, they are how clients define client service excellence and what clients expect out of the firms with whom they have the best relationships. The best-in-class performances in these activities are proven to drive superior financial performance.

There's only 1 way to determine if you are hitting the best-in-class threshold: ask.

Client feedback allows you to unequivocally pinpoint where you are excelling and where you need systematic improvements in your relationships.

The best feedback initiatives not only assess how you and your firm perform, but also look at the performance of the competitors also serving your clients. At the end of the day, what does it matter if a client thinks you are doing great, if a competitor is doing better?

**LEARN MORE ABOUT THE 17 ACTIVITIES AND
BTI'S NEWEST BOOK: *CLIENTELLIGENCE:
HOW SUPERIOR CLIENT RELATIONSHIPS
FUEL GROWTH AND PROFITS*
www.bticonsulting.com/17**

The 17 Activities Driving Growth

Quadrant I: Relationship Bliss

1. Commitment to help
2. Client focus
3. Understanding the client's business
4. Providing value for the dollar

Quadrant II: Price of Admission

5. Legal skills
6. Quality
7. Meeting core scope
8. Keeping clients informed
9. Dealing with unexpected changes
10. Handling problems

Quadrant III: Relationship Builders

11. Breadth of services
12. Helping advise on business issues
13. Regional reputation
14. Unprompted communication
15. Bringing together resources

Quadrant IV: Business Magnets

16. Anticipating the client's needs
17. Innovative approach

BTI PERFORMS A BROAD RANGE OF SERVICES FOR OUR CLIENTS, INCLUDING:

CUSTOM CLIENT FEEDBACK RESEARCH

High-impact client feedback drives SUPERIOR client service. Superior client service drives growth.

- Client Feedback Interviews and Studies
- Client Service Performance Studies
- Client Needs Assessment
- Your Firm's Client Service Score

BUSINESS DEVELOPMENT

BTI looks at PERFORMANCE in new ways—driving adoption of new tactics and better results.

- Strategic Business Planning
- Client-focused Business Practices
- Custom Training

MARKET ASSESSMENT

Establish a DIFFERENTIATED position—with less risk, lower costs, and a greater chance of success.

- Brand Health & Market Awareness Studies
- New Market Entry Assessments

STRATEGIC PLANNING

Assess your options to find the GROWTH best suited to your firm: from least risk to highest return and anything in between.

- Financial and Market Performance
- Competitive Analysis

CLIENT INSIGHT BRIEFINGS

Tailored to your firm and chock full of CLIENT-BASED insights, BTI briefings draw from our research and experience to help you boost client satisfaction, increase client retention, and improve your performance.

USE BTI'S SERVICES AND RESEARCH TO:

Drive new business immediately

Keep competitors out of your client base

Find your strengths... and weaknesses

Learn what clients really want from you

Please contact Michael B. Rynowecer at +1 617 439 0333 or mrynowecer@bticonsulting.com to learn more about BTI's custom research & services.



The data and insight found in BTI's reports are used to train attorneys, guide business development, inform strategy, and calibrate market trends against firm tactics.

In short, you get many of the benefits of a custom study commissioned for your firm, at a fraction of the cost. These insights are proven to drive growth and client retention and protect fees.

All of our reports come with a 100% satisfaction guarantee and complete telephone support to help you maximize the value from our publications.

You can order these and other compelling BTI research or publications at www.bticonsulting.com

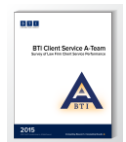
BTI LITIGATION OUTLOOK 2016



Your guide to understanding how clients' expectations are changing to help you grow and capture new market opportunities, take smart risks, and spur innovation. *BTI Litigation Outlook 2016* helps you create and provide solutions before clients realize they need them.

BTI CLIENT SERVICE A-TEAM 2016

17 activities drive superior client relationships. 4 matter most. Discover how clients rate more than 300 law firms—by name—in these key activities, including Client Focus, Commitment to Help, Legal Skills, and Provides Value for the Dollar.



BTI BRAND ELITE 2016



Based on why clients hire and recommend law firms—not the services, size, or location of a law firm—BTI's research reveals how law firms of any size reap substantial new business by improving brand perceptions in the market.

BTI CLIENT SERVICE ALL-STARS 2016

Over 300 attorneys step up to meet—and exceed—clients' expectations and earn recognition, by name, from corporate counsel for delivering the absolute best client service.



BTI State of Alternative Fee Arrangements 2016 is based solely on in-depth telephone interviews with leading legal decision makers.

This comprehensive analysis trends data from more than 4,500 corporate counsel client interviews conducted over the span of 16 years.

This research is independent and unbiased—no law firm or organization other than BTI sponsors this study.

Each year, BTI reaches out to a sample of legal decision makers at large organizations with \$1 billion or more in revenue.

Participants are granted confidentiality at the individual and organizational level.

2016 SURVEY PARTICIPANT DEMOGRAPHICS

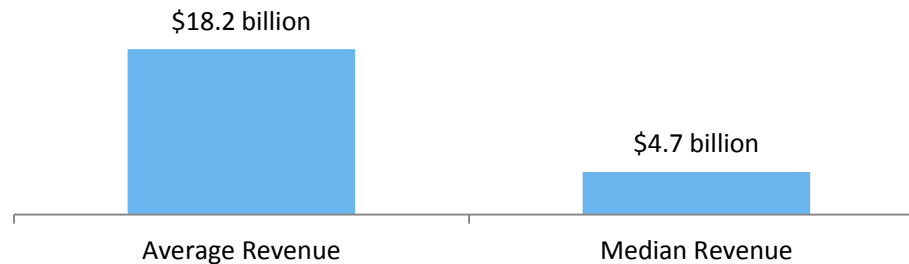
OVERVIEW

Interviews	322 in-depth telephone interviews
Time Frame	Conducted between March 9 and September 10, 2015
Incentives	Respondents receive a complimentary report of legal benchmarks and metrics

HIGHEST-RANKING LEGAL DECISION MAKERS

- General Counsel/Chief Legal Officer
- Direct Report to General Counsel
- Other Legal Decision Maker

ORGANIZATIONS WITH HIGHEST LEVELS OF LEGAL SPENDING



REPRESENTATIVE OF MORE THAN 15 INDUSTRY SEGMENTS

- Banking
- Chemicals
- Consumer Goods
- Energy
- Financial Services
- Health Care
- High Tech
- Insurance
- Investment Banks
- Manufacturing
- Pharmaceuticals
- Professional Services
- Retail Trade
- Telecomm
- Transportation
- Wholesale Trade



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Read The Mad Clientist—BTI's blog at:

www.bticonsulting.com/themadclientist





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