



## Flipping the Incentives: Alternative Fee Arrangements (AFA)

### AFA for Law Firms

A law firm client was seeking to deepen its relationship with one of the largest consumer retailers in North America. The retailer was using approximately 25 law firms (including the client) for its day-to-day operational work across 14 substantive work areas. The retailer's GC was interested in consolidating the work with a single law firm, gaining budget predictability and promoting efficiency in the way that legal services were delivered.

Bill N. did an analysis of the work performed across these 14 substantive areas as well as the current staffing and capabilities of the corporate legal team. This analysis determined that year-over-year in the aggregate the value of the legal services required was relatively consistent. We further identified three areas that would benefit from technology investments to streamline the delivery of work product. This investment was justified by the positive return ensured by the guaranteed revenue from the retailer. We then facilitated the scoping discussion between the client and the retailer and drafted the terms of the engagement, which included a risk-corridor to ensure that neither party would overpay in the event that the actual amount of legal services delivered significantly deviated from projections.

After six months of the annual retainer (total annual value approximately \$1MM) the aggregate relationship was tracking within 3% of target. The law firm client had made technology investments that significantly improved its turn-around time for routine matters, further enabling the program to track on budget. On top of the consistent and timely paid revenue stream, profitability for the work performed was maintained or slightly improved without the need to have detailed billing discussions with the retailer. Most significantly, the retailer had granted the law firm an additional three mandates outside the scope of this AFA arrangement with each mandate expected to generate over \$100,000 in legal fees for the law firm.