

**Value Practice:*****Value Matrix for Intellectual Property Matters- Alternative Fee Structures Based on Level of Difficulty, Staffing Mix and Billing Guidelines and Informal Training******Monica Winghart- Interviewed while Senior Corporate Counsel  
The Clorox Company*****June 2009****BACKGROUND**

About five years ago, the Patent Services team for The Clorox Company undertook an initiative to evaluate the outside counsel providing patent drafting and prosecution services to the company and to reduce the number of firms to only those who were providing the greatest overall value. Two focus areas of the initiative related to cost savings and driving incremental value with strategic partner firms. The evaluation turned heavily on whether a firm was willing to consider alternative fee structures that went beyond billable hours and traditional discounts and to work closely with Clorox patent attorneys to deliver improved quality and cost.

Through these efforts, the Patent team reduced the number of domestic law firms handling patent prosecution matters from 12-15 to around 3 or 4, and estimates about a 12% cost savings achieved during the first year of implementing this new approach. The team also believes that quality and turn-around times have improved.

Value-based fee structures and billing practices implemented by the company's IP legal team and featured in this ACC Value Practice piece include:

- Aggregate not-to-exceed hourly rates for firms handling patent matters
- Matrix of patent tasks with time ranges and caps based on difficulty
- Working practices – all electronic communications, Clorox maintains file control from filing through prosecution, firm may or may not handle prosecution
- Billing practices - one matter per bill; no monthly bills - bill only upon completion of project; use of billing software
- Training Sessions – complementary, informal education sessions with in-house legal and business team members on new developments, core topics, practice tips

**ALTERNATIVE FEE STRUCTURES- BEYOND DISCOUNTS**

The Patent Services team at Clorox implements alternative fee structures for patent drafting and prosecution services that go beyond simple discounts: negotiated hourly rates with time caps by task set according to degree of difficulty.

Following are some key elements:

- **Aggregate hourly rates-** regardless of the specific service provider within the firm, all work is billed using a single aggregate hourly rate. This provides incentives for firms to staff matters efficiently to deliver results and to keep a rotation of attorneys working on Clorox matters.
- **Task- based Matrix with Difficulty Levels and Value Time Caps-** in addition to setting negotiated hourly rates, the Patent team uses a matrixed approach which pairs the level of difficulty of a task with a time cap for each matter; target expertise level is a fourth or fifth-year associate, and the law department used this skill level in setting time ranges for completing legal services. The outside counsel billing guidelines require the firm to seek confirmation of the difficulty level for the matter from the assigning in-house lawyer prior to beginning work. (More on the matrix below)
- **Annual Master Outside Counsel Agreements-** the Patent team sets the aggregate hourly rate and defines the alternative fee structure matrix, its working and communication principles and billing expectations in its outside counsel guidelines. Aggregate hourly rates are set for a year.
- **Electronic Billing-** law firms are required to use the law department’s electronic billing system. Fee caps and rates can be input into the system; bills can be efficiently processed and rejected, as appropriate, if submitted prior to end of an assignment or if they otherwise don’t conform with the guidelines.

**SCALED BILLINGS FOR DIFFICULTY LEVELS- IN SPECIFIC**

Following is an example of the matrixed approach for certain types of patent services. Level 1 is the lowest difficulty level; Level 3 is the highest. A scaled billing matrix, plus the relevant aggregate hourly fee for the firm is included in the outside counsel guidelines document for each firm.

	Level 1	Level 2	Level 3
<b>Patent Application Preparation</b> (not including filing fees, but including preparation of drawings)	Less than 10 hours	15-25 hours	30 or more hours
<b>Patent Prosecution – Responses</b>	3-5 hours	6-8 hours	8 or more hours
<b>Opinion</b> – review of potential art and drafting opinion	Less than 10 hours	15-25 hours	30 or more hours
<b>Searching</b> – reporting art in chart form	5-10 hrs	11-15 hrs	16+ hrs

**BILLING PRACTICES- IN SPECIFIC**

As noted above, the Patent team’s outside counsel guidelines specify a number of required practices in connection with billing. These practices are designed to enhance consistency and minimize time and work on the part of in-house counsel in reviewing bills (which also frees up their time to provide additional value to the corporate client).

Select billing practices that focus on value are highlighted below:

- **Electronic billing-** law firms must submit bills electronically via the law department's specified e-billing system.
- **One assignment per bill-** if the firm handles multiple matters for Clorox, charges for each assigned matter must be submitted on separate invoices so that the reviewing attorney can easily discern the total charges for each matter and the firm's compliance with billing practices.
- **No monthly bills; bills submitted upon completion of assignment-** subject to very limited and pre-approved exceptions, invoices are submitted only upon completion of the assignment. Thus, firms may not bill a portion of an assignment in one month and the remainder of the assignment in subsequent months. Instead, the cumulative billings for the assignment are billed in the final month at the completion of the assignment. This practice allows the reviewing attorney to easily determine compliance with the matrix and helps with budgeting.
- **Bills must reflect charges within the range of scaled billings for the assignment-** subject to very limited and pre-approved exceptions, invoices should reflect charges within the range of scaled billings identified for the difficulty of the assignment. It is the firm's responsibility to seek confirmation of the difficulty of the assignment from the Clorox attorney before beginning work on the matter.

## TRAINING SESSIONS

Another component of value is feeling like the outside counsel are an extension of the Patent group. Often, firms providing patent services provide in-person or e-learning opportunities for patent professionals and for business team members. These training sessions are complementary to the company and have included updates on changes in relevant laws or regulations, practice tips for drafting and prosecution, and hands-on working sessions with business team members in capturing innovations. The sessions are typically structured in 30-minute to one hour blocks, with a minimum of slide presentation time and the predominance of time reserved for a question and answer period. The Patent group is currently averaging one session per quarter, but is seeking to increase the frequency of the sessions.

## KEYS TO SUCCESS

Changing from traditional billable hour arrangements to alternative fee structures plus using a different approach for billing matters can be challenging for law departments and for firms. Some points to consider:

- **Upside of receiving more work can be a motivator:** the Patent team's initiative was part of a convergence and firm selection process so the upside to firms for embracing change is the potential to become a "go-to" firm for the company with increased workload for the firm.

- ***Need to monitor and stick with it:*** reverting to old ways of doing things is easy and familiar. Implementing alternative fee structures can require internal process changes and sustained discipline in assigning difficulty levels to projects and confirming that services are performed and billed consistent with set time ranges and caps.
- ***Not all work is 'top of range':*** firms should not consistently submit bills for the top of the time range. Not all work requires the maximum number of hours; each assignment is different. Monitoring bills and data can help identify which firms are handling which types of matters most efficiently.
- ***Be willing to walk away:*** if the law department is serious about wishing to affect change and to move towards new or different way of structuring relationships and fee arrangements, a willingness to walk away from firms that don't want to explore new ways of working together is extremely important. It shows commitment to value and rewards those who embrace it.

### Contact Information

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