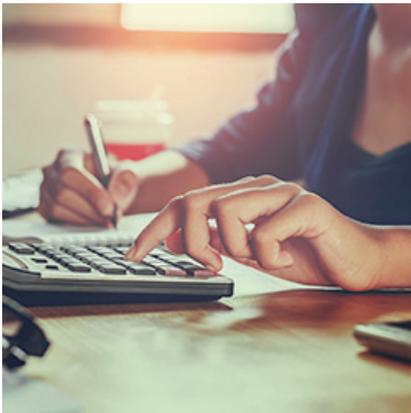




PRICING IN TODAY'S LEGAL MARKET

By Brenda Barnes

Founding Member, B2 Legal Management



It's All About the Numbers.....425,595,335,39.5

According to The 44th Annual Survey of Law Firm Economics...

425 – Average standard billing rate for equity partners

595 - Highest average standard billing rate for equity partners

335 – Lowest average billing rate for equity partners

39.5 – The AM Law 100 profit margin

MORE NUMBERS TO KNOW:

Altman Weil reports that 1/3 of in-house counsel plan to decrease their spending on outside counsel over the next 12 months, while only a 1/5 planned an increase.

The American Lawyer reports that top line growth for The Am Law 200 increased by 24.7% over the past 6 years which is a compounded annual growth rate of 3.75%. Revenue per lawyer grew by 12.7%.

Citibank's survey of its Big Law clients indicate that top-line growth will be around 3.7% with most of the gain explained by billing rate increases of 3.2%.

Associate salaries were raised by about \$20,000 each which will cost the equity partners about \$56,600 each.

Law firms that offer "very diverse teams" of lawyers tend to receive a 25% greater share of legal spending than nondiverse teams. Acritas reports that gender was the diversity attribute cited most often.

In a recent survey from In the House - a new organization of in-house lawyers – it was reported that 29% of those surveyed were "very satisfied" with their outside law firms while 62% reported they were "somewhat satisfied."

WHAT DO ALL OF THESE NUMBERS MEAN?

Over the past decade (or two) the emphasis has been on the law firm and the individual lawyers. Pricing decisions were typically handled annually by the managing partner or executive committee and often amounted

to no more of a conscious decision than to increase all clients by “x” percent. The goals of the law firm were intrinsically driven by personal goals (often compensation based) and emotional attachments to senior clients rather than extrinsic and client driven factors focused on client needs. Furthermore, calculating profit margins within billing rates were unknown in most firms.

If law firm managers, marketing professionals and managing partners are not paying attention to the numbers, they may find themselves out paced by the more aggressive firms who are. Competition for business is fierce. When the Acritas reports show that 45% of in-house counsels have dismissed their firm in the past two years because of unresponsiveness, cost, poor communication, poor work or because the lawyer didn’t take the time to understand their business, there is much work inside our firms still to be done!

THE PRICING FUNCTION

According to Georgetown Law, one of the most potentially significant yet rarely acknowledged changes in the past decade is the shift from the traditional billable hour pricing model in most law firms to firms using alternative fee arrangements and budget based pricing with a profitability focus.

This is not to suggest that law firms have done away with billing based on hours worked as most of the work is still billed on an hourly basis, but that fact alone overlooks an important swing that has occurred in the market. The emphasis has shifted to alternative fee arrangements or AFA pricing strategies based on a fixed-price or cost-plus model that makes no reference to billable hours in the calculation of fees. Since other pricing models characteristically include some reference to billable hours, it has been assumed that only AFAs are genuine non billable hour alternatives and every other approach is simply the same old same old. Furthermore, the extensive requirements by clients on budgets (sometimes with caps) for both transactional and litigation matters have created a whole new level of administrative tasks.

Although AFAs probably account for only 15-20% of all law firm revenues, budget-based pricing is much more predominant. In many firms, these two methods combined may well account for 80-90 percent of all revenues. Most firms have developed internal data to allow them to calculate the actual cost of services provided which means that most large firms now make some calculation of profitability in dealing with pricing and billing issues.

Important note: Lawyers have typically been compensated based on the billable hour – the shift will create a need to realign the firm’s processes and systems.

Most firms need a pricing strategy. A pricing strategy succeeds because of the following factors: firm size, practice areas offered and firm culture. A keen understanding of your firm’s culture will help with earlier success in implementation of pricing.

Some law firms are approaching things from a different perspective. Instead of charging per every quarter or tenth of an hour, they charge per the value of the work provided. It is about the value of the service, not about the time on the clock. These firms work with clients upfront to agree upon the scope of work and what values particular results will provide to the client. Fees and bills are set accordingly. In many cases, a third-party is utilized to perform research and other tasks that do not require the time or effort of a senior trial lawyer, as this frees up that attorney to focus on what really matters.

The bottom line is that it is mostly about the numbers and the pricing function itself is a process. Without buy-in from all levels of management, the pricing strategy cannot succeed. One of the key roles of the pricing

function is to be a conduit within the firm. Many functions within the firm have existed for ages: Information technology, talent management (formerly human resources), marketing, business development, and finance to name a few. The pricing function should build a bridge between these areas to help create value for the firm and a feedback to management.

For more information and further reading on Strategy, visit our [online library](#).



BRENDA BARNES

Founding Member, [B2 Legal Management](#)

Brenda Barnes is a CPA and has her MBA and has managed lawyers for over 35 years. She is the founding member of B2 Legal Management in Austin, Texas. B2 provides outsourced financial and back office management for law firms across the United States.