



Evolution in Pricing, Value & Efficiency

In 2007, the Association of Corporate Counsel (ACC) launched an early version of the ACC Value Challenge. Designed as an initiative to “reconnect the value and the cost of legal services,” early iterations of the Value Challenge offered ideas on how law firms and clients might increase efficiency, provide greater pricing transparency and certainty, and better align the risk sharing and reward relationship between law firms and their clients. The ACC’s Value Challenge ultimately helped kick off the legal industry’s focus on alternative pricing and efficiency improvements, and in the ensuing years, a number of firms, particularly large firms, successfully moved tranches of work to new pricing models that enhanced value and transparency for clients, while preserving profitability and providing a steady flow of matters for select practices. These practices often also piloted approaches to increase efficiency, and based on their success, these models were later rolled out to other parts of the firm. However, other firms saw very limited movement to alternative pricing and more efficient service delivery. The lack of progress often stemmed from limited interest from clients, combined with insufficient investment and a resistance to change among partners in the law firm.

In the current environment, where demand is slowing in some practices and industries, the discussion around efficiency and alternative pricing is attracting renewed attention. Shrinking legal budgets, higher law firm billing rates, and ongoing advances in technology, particularly AI, are driving clients to increasingly re-engage in discussions around value, efficiency, and pricing. Once again, we are observing firms grappling with how best to respond to these client driven pressures – with some firms digging deep to invest and change the way they deliver services, and others falling further behind.

Client Perspectives on Pricing

Over fifteen years after the initial launch of the ACC Value Challenge, in-house counsel continue to express concern about the cost and predictability of outside legal fees and the efficiency of services delivered. In today’s market, we are observing a renewed interest among clients in exploring non-hourly, alternative pricing. However, we also continue to observe a mixed client willingness to commit to non-hourly, alternative pricing. As experienced years ago, many clients readily commit to discounts, volume-based discounts, and/or fee caps, but fewer are willing to commit to more creative fee arrangements which present a true risk-reward sharing relationship between the client and the law firm (particularly outside highly routinized practices which rely heavily on fixed fee approaches, e.g., patent prosecution or immigration).

The variability in client appetite for non-hourly fee arrangements is often tied to the size of the company, nature of the client’s legal needs, and the in-house team’s ability to deconstruct and analyze law firm pricing proposals and fee structures. Larger companies and larger in-house legal teams demonstrate a far greater willingness to engage in and explore creative pricing arrangements, particularly for replicable matters. By contrast, mid-size companies with a small in-house legal department or businesses with more discrete legal needs are often reluctant to go down the path of non-hourly engagements, due to a lack of resources and the ability to fully test the assumptions in the fee model to understand whether or not the pricing is fair.

Thus, the conundrum... how should law firms respond to calls for increased value in the current environment?

Law Firms’ Ongoing Evolution in Increasing Value & Efficiency

The path forward for nearly all law firms, regardless of client appetite for new pricing models, involves continuing progress to improve efficiency and increase the overall value of services delivered based on the recognition that firms with the most advanced investments in value and efficiency will gain market share over time.

The majority of law firms have introduced approaches to improve efficiency over the last decade. While the level of investment has varied by firm, the range of approaches includes hiring pricing and project management resources, working

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according to detailed matter budgets and task-based staffing plans, directing work to the most cost effective resource available for each specific task, proactive and early case assessment, and leveraging technology to reduce 'touch' and more effectively direct the resources required for completion of tasks (e.g. templates, knowledge management, intranets, electronic status updates, etc.).

These, and similar initiatives have delivered significant benefits in terms of differentiation and the opportunity to outperform competitors by better meeting client needs, reducing costs and delivering superior client service. Firms with relatively widespread adoption of the above approaches are now seeking to go further to increase efficiency, enhance client value and increase competitiveness. For many firms, this is being accomplished through alternative staffing models. Alternative staffing models, when properly structured and managed, enable firms to move lower value and routine tasks down to the lowest cost resources – and to ensure that work is staffed at the most appropriate level for the specific task, which in some cases does not require lawyers, or even humans.

The next frontier on enhancing value and increasing efficiency involves leveraging technology more effectively in the delivery of legal services, and to factor technology into the design of leverage models and the mix of talent required. Many firms are in the early stages of identifying the appropriate application of AI to the practice of law – a strategic move which will reshape leverage models, efficiency and the value of services provided.

Will Some Firms Get Left Behind?

Efforts to increase value and efficiency, as well as building the capability to proactively pursue creative pricing, vary across law firms – with some firms much further ahead than others. In many firms, the introduction of approaches to improve efficiency have been piece-meal, often limited to select practices or sub-teams. In these firms, a majority of the practice remains fairly traditional in terms of workflow, staffing, and project management processes. This is particularly true of mid-market regional firms, where individual partners tend to manage relatively small teams, often with limited client visibility into the staffing, workflow or overall efficiency of the services provided. In other firms, initial adoption of basic efficiency approaches was more widespread, but ongoing attention to maintaining those efforts has been limited. While these firms often initially invested in training, technology and process improvements to enhance efficiency, the lack of follow through and accountability resulted in low levels of sustained improvement.

Responding to clients' renewed focus on alternative pricing or intensified pressure on value and efficiency requires law firms to invest, change behavior, and drive consistency in approach over time. In a lightly managed profession, characterized by partners as owners, skeptics and free thinkers, behavioral change and conformity can be difficult to achieve.

To avoid getting left behind, law firm leaders must help their partners recognize the evolution of service delivery and pricing models and better understand the types of pricing, value and efficiency that will be most helpful to their clients' businesses today – and in the future. From there, law firm leaders must seek to persuasively make the case for change, and doggedly pursue implementation in order to achieve consistency in approach over the long term. Firms that choose not to invest, or firms that invest but fail to follow through, risk getting left behind.

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