

The Value in Value Billing for Law Firms

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For the upcoming COLPM Futures Conference, I was tasked with defining value in value billing for law firms. This is a great problem to tackle. I think the market has given us a lengthy list of value billing propositions clients want, but absent getting full-rates (which is a myth by the way), not many talk about value in value billing from a law firm's perspective.

I have previously discussed the ongoing shift towards a profit-margin business model for firms. This shift is a key factor in defining billing value for a firm. At its most basic level, what firms need is a reasonable fee for a defined piece of work. (My own opinion is that rates are becoming much less relevant within this context.) The problem is that clients, in addition to wanting lower prices (rates or fees) are asking for pricing without giving much, if any, scope – and are staying very involved in the details and staffing aspects of work.

And now for my Typical Car Analogy: That's like saying you will pay \$30k for a car, then over time, bit-by-bit, your 'feature' requests spec out an S Class Mercedes. If the law firm knew up front, even from a general idea that you wanted a luxury sedan, they could have given a competitive price and known whether or not they could make money on the deal.

I know this sounds simple. And that it isn't. Yet.

Law firms and clients are in the process of learning how to set prices at the fee level and develop some level of scope for each engagement. Part of the goal of the value session at the COLPM conference is to begin developing standard terms of art and other building blocks to facilitate and accelerate this process.

And now for The Value Billing Value Propositions for law firms:

#1 – Relationship Building. Since the legal market is driven by relationship, developing broader and deeper relationships with clients has the highest value. Value billing presents that opportunity.

#2 – Expand the work – as appropriate. Yes – firms would like to grow the business. As opportunities come available, law firms will find value in expanding their presence with clients, leveraging value billing in the process.

#3 – Ability to earn a reasonable margin on the work. Yes – firms want to remain financially healthy. In a profit-margin business model this comes about via reasonable prices on known scopes of work. Value billing presents this opportunity as well.

So the question then becomes: What needs to be in place for these value propositions to materialize? Which leads us to my value billing wish-list for a law firm:

- 1) Client knows what its fee goal is (beyond cost containment)
 - a. e.g. predictability, certainty, risk/reward alignment, ...
- 2) Absent #1, client is willing to sit down with law firm to explore and determine what #1 should be.
 - a. BTW - Vague or broad RFPs run counter to this.
- 3) Client will give at a minimum, some level of scope
 - a. Or even out-of-scope assumptions
- 4) Absent #3, client is willing to sit down with law firm to explore and determine what #3 should be.
- 5) Client understands their outcome goal for a given matter or group of matters
 - a. e.g. What is the risk factor driving a higher or lower fee?
- 6) Absent #5, client is willing to sit down with law firm to explore and determine what #5 is.
- 7) If client has an idea of what they want to spend for a given piece of work, they share it with the firm(s).
 - a. This will open a dialog to the level of effort that may be needed and where that effort should be made.
- 8) Client engages with a firm as a partner, working together to manage costs and insure value
 - a. For instance, consider committing larger volumes of work to a firm. The cash flow and knowledge gained over time by the firm will enable savings for the client and profitability for the firm.
- 9) Once a fee arrangement is in place, client lets the law firm manage the work
 - a. Especially under fixed fees, firms will be motivated to use the right level of expertise for each task (even when it's a first year lawyer).
- 10) Finally, and most importantly, client is willing to engage in a sincere, trusting relationship with the firm. Without trust, none of the above matter.

The theme of trust obviously emerges from the wish-list. And that is the bottom-line. In my humble opinion – value billing works when there is trust. The wish-list provides opportunities and ways to build that trust.

To move in that direction, clients should recognize this need for trust and take an active role in working with firms to drive a new value model: one that achieves your goal of controlling costs while maintaining quality. And one that insures financially healthy partners, committed to your success.

Trust me ... trust is the answer.