

Kowalski & Associates

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Addressing Client Demands for Further Reductions of Legal Fees

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Dear Santa: What I really want for Christmas this year are lower legal bills.

As I visited with the managing partner of a client last week, I noticed the interesting array of letters that he had propped up on his coffee table, which was otherwise festooned with Christmas ornaments. My first passing sideways glance led me to conclude that this was just a typical seasonal display of Christmas cards. After some brief chitchat, this MP invited me to sit with him at the sofa and he said that he wanted me to see the hordes of economically induced greetings he was receiving this year. He also told me that he had intentionally put them on prominent display so that as his partners visited, they would see them and get the message loud and clear.

The tone and tenor of the letters varied, but the messages were all the same. They were all sent by either general counsels, CEO's or CFO's. A typical letter read more or less as follows:

Dear Ed:

My colleagues join me in wishing you, your family and all of your colleagues the very best of season's greetings and good wishes for the coming year.

The last year has been very challenging for all of us. We here at ABC Company appreciate the counsel you have given us in the most recent year as the firm has done in the past in during a very long relationship we have enjoyed with your firm.

Management at ABC see significant challenges still lay ahead in 2011, as I am sure you do as well. Just as you at the law firm have taken steps to reduce costs and overhead to maintain profitability, our management is determined and obligated to do the

same.

Because we value our relationship with your law firm, we would like to meet with you in the coming weeks to hear from you your thoughts and proposals concerning how your firm will work with us in connection with our determination to reduce our expenses for outside counsel by 10% for the coming year.

Again, all of the best.

Cordially,

These letters on the coffee tables were not shockers. Reports of planned reductions of expenses for outside counsel for 2011 were abundant during the last quarter. Dozens of clients of ours have reported receiving identical letters. Fleeting, the thought had actually occurred to me the previous week that there may even be a sufficient demand for these epistles for Hallmark to mass market them festooned with appropriate artwork.

What to do and how to respond? Respond promptly, schedule the meeting and come prepared with some concrete ideas. As [I recently noted](#) and as we all know too well, there is a dwindling demand for legal services and firms must focus on grabbing a larger slice of the shrinking pie. This market requires us to run forward at full speed simply to stay in place.

- Analyze the work you are doing for ABC and contrast it with the workloads currently being handled by your own departments. Where you may have excess capacity and you are but one of several law firms handling such work, [suggest a program of either portfolio pricing or convergence, which I previously described](#). Make your best demonstrable case that the cost saving will be real.
- Don't hesitate poaching on the competition. If there is a substantive area of practice that ABC doles out to a competing law firm and if you have capacity in that area, buy that business by offering to do so at a meaningful discount, while making it clear that this discounted arrangement will last through 2011 and will be revisited at year end by both parties.
- Insource commoditized work within the law firm to lower billing timekeepers. These lower rate timekeepers may be resident in branch offices or assigned to non-partner track associates, who are compensated at lower rates.
- Analyze work that you are doing for the client that is truly commoditized and which yields small or no profit margins for the firm. Bite the bullet and suggest that work of this nature should be referred to smaller firms that can handle the work well at lower rates. Develop a network of such firms and build alliances with them. They will inevitably be asked to handle work for which they lack the horsepower and look forward to their up streaming work to you.

- Recognize the fact that the corporate “legalspend” is now being guided by a non-lawyer procurement executive or consultant. Establish a monthly meeting between the client relations manager responsible for ABC and the procurement adviser, to review bills and budgets. Establish a regular course of conduct in which budgets will be set at the outset of each engagement and reviewed monthly.
- Recognize that ABC’s in house legal department has also had its budget slashed, while its work load has increased. Be prepared to offer some of your associates to be seconded to ABC to meet its internal requirements, while, [perhaps foregoing the retail markup but contributing to a stronger institutional relationship.](#)
- Demonstrate the steps you are taking to improve processing and project management as well as the steps you have taken to take advantage of IT innovations for enhanced and more efficient delivery of legal services.
- Explain that your associates are now rewarded for the efficiency in which they can deliver a quality work product and not for the raw number of hours billed.
- Consider establishing a secure web site, accessible only to clients which will contain a searchable reservoir of research memoranda and FAQ’s to which a client can turn to in the first instance without tripping the meter. These secure web sites naturally function best on industry specific or practice specific areas. The secure searchable web site should also be linked in to the firm’s practice [blogs.](#)
- As we all know now, corporate clients have become increasingly reluctant to litigate matters both because of risks always associated with litigation and because of the dramatically escalating costs of litigation arising from, among other things, the black hole of e-discovery. Since your firm has a well trained risk assessment team in place to assess any matter you are considering undertaking on an Alternative Fee Arrangement, offer ABC assistance of your risk assessment team and process in making “go, no go” litigation decisions.