

# LawBiz<sup>®</sup> TIPS

YOUR PRACTICAL GUIDE TO PROFIT<sup>™</sup>



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## Death of the Billable Hour?

A major story in The New York Times got wide attention within the legal community by asserting that, "lawyers are having trouble defending the most basic yardstick of the legal business - the billable hour system," adding many clients believe its use does nothing but "prolong a client's problem rather than solve it." At least some clients, by anecdotal evidence, are striking back by demanding that firms make across-the-board cuts of 10% or more in their hourly rates. And of course, the Association of Corporate Counsel's evolving Value Index presents a direct threat to the billable hour by developing metrics that in-house counsel can use to evaluate law firm billings against clients' value criteria.

Certainly, the billable hour has plenty of negatives for lawyers as well as clients. Lawyers who bill by the hour are in no different a position from other hourly laborers. Businesses that do not bill on the basis of time can earn more for their service or product when they become more efficient. The more efficient lawyers become, in our current business model, the harder one has to work to earn the same money as before.

Is the billable hour the trap? Or is the desire for economic rewards in a society whose cost

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- Have no other agenda than your success

Clients include attorneys, managing partners, executive directors and financial directors at small, mid-size, and large law firms. We have seen many of our

of living continues to increase the real trap? Lawyers, like any other participants in the economy, want to earn a "reasonable" living. A lawyer's fee, whether expressed in billable hours or some other measure, must be reasonable for the value provided, and that is a matter of agreement between lawyer and client. But, although value is ultimately determined by the client, it's the attorney who must educate the client about "value." Most clients recognize the importance of and are willing to pay a fair fee for value. What they do not want is to pay too much - to pay for inefficiencies, duplications, or unnecessary services.

Budgeting each engagement is a good way to arrive at a mutual agreement of value. Too many lawyers still resist budgets as the client's Trojan Horse to secure a fee reduction. However, a general counsel told me some time ago that the mere fact of budgeting caused everyone to focus on the goal line and how to get there most efficiently. In one specific instance, budgeting saved over \$500,000 for this client, all without reducing the hourly rates. Of course, that reduction also meant that the law firm revenue was impacted, but rates were not, and the client got the desired result at a lower cost. And happy clients tend to bring the firm more work, which results in higher revenues without cutting rates. It's hard to see how anyone loses in that proposition.

clients increase their revenue by five or six figures that's \$50,000 to \$400,000 based on reports thus far.

Many of my clients have experienced:

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## Personal Commentary

On Thursday, May 14, 2009, I'll be speaking at the American Bar Association's LPM/YLD Joint Spring Conference in New Orleans, Louisiana from 9 a.m. to 10 a.m. ET. I'll be giving a talk entitled "Mind Your Own Business! Tips for Understanding What Your Law Firm Needs." Stop by and see me!

Best wishes,

Ed Poll

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## What Readers Are Saying...

"I look at Ed as my business partner now—my once-a-week essential business meeting to take the pulse of my practice. During our one-hour phone conversations, we hash out the larger and smaller business challenges of my law firm. I always come away from those conversations enlarged, challenged, and sometimes even quite shaken, but with the tools necessary to move forward down the path he and I are constantly redefining for me and my firm."

-AL, Northern California

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