

58% of corporate counsel say that law firms are too profitable

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More than half of corporate counsel surveyed (58%) say they believe law firms are too profitable, according to the [LexisNexis State of the Legal Industry Survey](#). This means clients feel they were ripped off, or overpaid for what they got from law firms. And clients are sending law firms a message: change or die.

This eye-opening statistic sums up the why there is high tension between law firms and clients, why the [ACC Value Challenge](#) is being pursued, and why corporations want flat fees and an end to the hourly bill. It also means that the way law firms conduct commerce with their clients will change forever, starting right now, and that the change will be permanent.



Pricing is the No. 1 issue facing the legal profession today. Of course law firms respond that they have already cut salaries, laid off staff and lawyers, offered alternative fees, implemented hiring freezes, deferred start dates for new associates and use technology to be more efficient. But it's not good enough.

It's no good when corporate counsel read in the AmLaw 100 that 19 firms had annual profits *per partner* of \$2 million or more, or that [four law firms have lawyers charging \\$1000 per hour or more](#).

RANK BY PPP	FIRM	Rank by # of lawyers	2008 PPP
1	Wachtell 216 lawyers, 81 equity partners	100	\$4,010,000
2	Quinn Emanuel 400 lawyers, 78 equity partners*	92	\$3,335,000
3	Boies, Schiller 250 lawyers, 32 equity partners*	99	\$3,065,000
4	Sullivan & Cromwell 665 lawyers, 170 equity partners	48	\$2,940,000
5	Paul, Weiss 647 lawyers, 114 equity partners	53	\$2,655,000
6	Cravath 440 lawyers, 90 equity partners	86	\$2,520,000
7	Simpson Thacher 801 lawyers, 173 equity partners	39	\$2,475,000
8	Kirkland & Ellis 1333 lawyers, 235 equity partners*	13	\$2,470,000
9	Cleary Gottlieb 993 lawyers, 191 equity partners	21	\$2,400,000
10	Schulte Roth 434 lawyers, 82 equity partners	88	\$2,290,000

The tension between lawyers and clients is so bad that one-fifth (21%) of students say that based on the changing legal marketplace, they regret attending law school, according to the LexisNexis report.

Meanwhile law firms are making the huge mistake of not giving clients a price break when they ask for it. Almost half the in-house counsel polled (46%) say they have requested rate cuts, yet less than one in five (18%) private practice attorneys say their law firms have reduced billing rates. Just know that people always remember those who *didn't help them* when the economy was down. There will be hell to pay for this, because loyalty is a two-way relationship.

Corporations are already punishing law firms. 69% of corporate counsel have shifted work in-house since the start of the economic downturn and 56% have reduced spending on outside counsel. This means there is less legal work for law firms to do. The corporations are trying to starve the law firms out.

Who will win this debacle? That's easy: the customers have all the money, so they win. Remember the maxim, "the customer is always right" ? It's true in retail and it's true in professional services. Whoever has the gold calls the tune.

This means law firms will have to change their business model, starting with dumping the billable hour. Will this change be permanent, or will things go back to the way they were before 2007? Read the following words carefully: the change is permanent. A sea change has taken place between law firms and clients. Every piece of market research I've read in the last six months proves this to be true:

- [In-House Counsel Now Bolder to Reduce Costs and Increase Value](#)
- [2010 will be the year of the flat-fee arrangement](#)
- [You're Crazy to Raise Rates in this Market](#)
- [What Clients Want to Buy in 2010](#)
- [Get on the Winning Side of the Alternative Fee Transition](#)

Law firms must obey the top rule of Marketing 101: Find out what the clients want and sell it to them. In this case the clients have devoted an entire web site to what they want at <http://www.acc.com/valuechallenge/>

The message to law firms is simple: change or die.