

Study Finds Weak Client Demand for Alternative Fees

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Currently, nearly 88% of law firms have made some form of alternative billing arrangement available to clients, **although not all clients are interested in them**, according to new research by the [Center for Competitive Management](#) (C4CM).

The arrangements, known variously as "AFAs" (alternative fee arrangements) or "value billing," were created in response to increasing client demands for lower fees, and by law firms as perceived opportunities to create a competitive advantage. However, the driving force is the recession, according to the [2010 Alternative Billing Benchmarking Study](#) by [Vicki-Lynn Brunskill](#).

"...**External demand for alternative billing appears to be peaking selectively**," the research found. "Respondents reported overwhelmingly that the current economic climate was making them more likely to implement alternatives to the billable hour." I infer from this that once the economy is back on track, fee arrangements will go back to "normal" with hourly billing.

Readers of the LawMarketing Portal can purchase the [2010 Alternative Billing Benchmarking Study](#) at a discount by visiting <http://bit.ly/cSe53M> This 102-page study ordinarily sells for \$499 but is available to our readers for \$379. To get the discount, use Discount Code: LMP120

There are so many obstacles to using alternative billing that most clients say that billing by the hour is the most satisfactory arrangement. "Alternative billing is not always well understood or well accepted by practitioners and clients," the report said.

Obstacles to AFAs from the law firm perspective

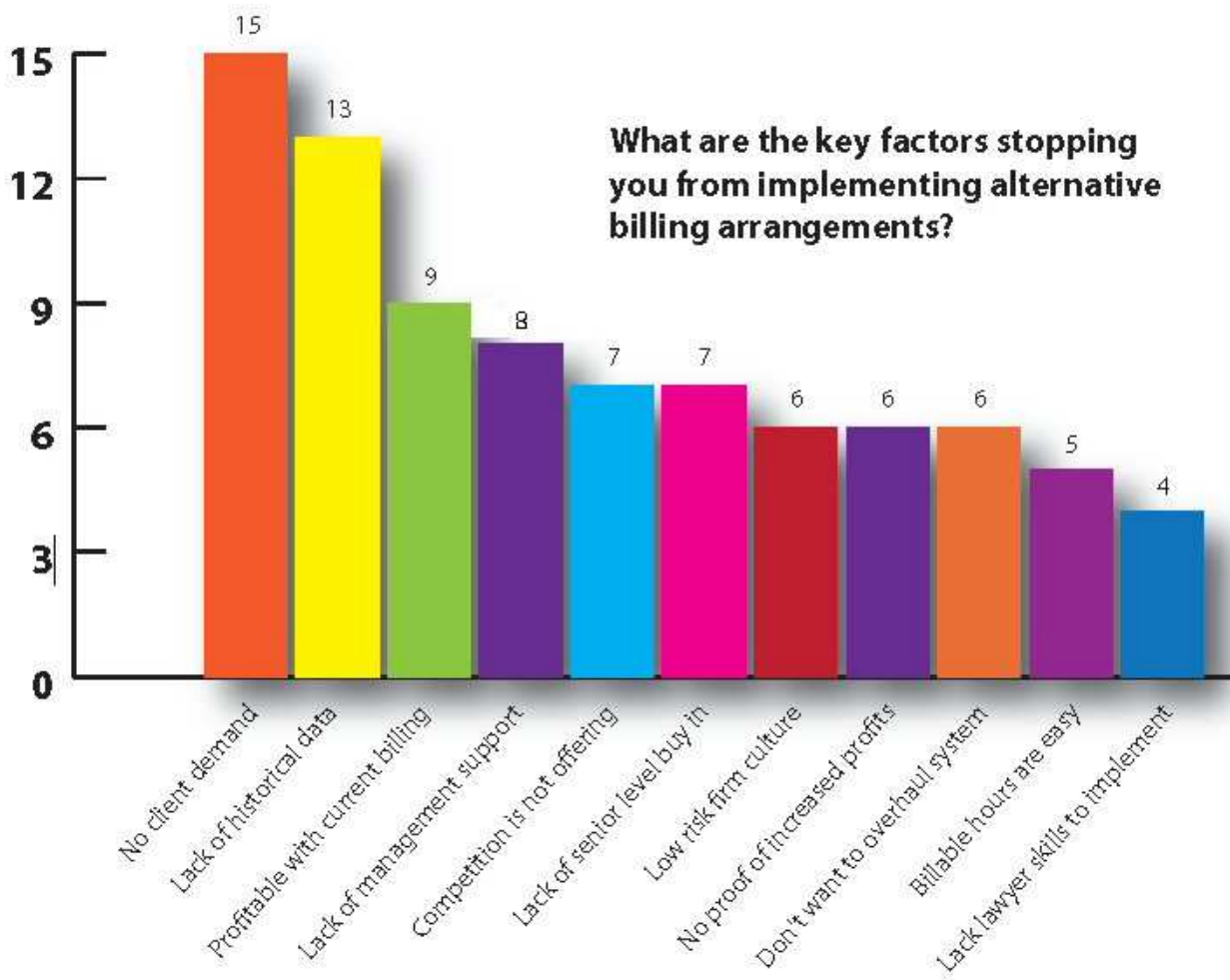
- Billing policies and procedures, time and billing systems are configured for hourly billing
- Currently available data and analytics do not allow for sufficient insight for strategic pricing
- Compensation and other incentives are mainly based on hourly productivity and billable hours
- Billable hours are familiar
- Deep desire to avoid risk

Obstacles to AFAs from the law department perspective

- Billing protocols, matter management, E-billing and other systems configured for hourly billing

- Lack of sufficient data or time/resources/personnel to analyze data and engage in sophisticated pricing negotiations
- Lack of individual or group financial incentives for in-house personnel to use alternative systems
- Unsure if investment and risk will result in sufficient rewards
- Still rely on hourly rates as a means of comparing firm-to-firm costs
- Concern as to whether alternative fee arrangements decrease law firm accountability

"Traditional mindsets are firmly anchored around the billable hour," the study concluded. Alternative billing arrangements are not a passing trend, but they will not be the majority approach to how law firms charge clients. "The top reason given by firms who do not offer alternative billing is lack of client demand."



The most common forms of alternative billing include:

- Fixed or flat fees
- Discounted hourly fees
- Contingency (partial or full) fees
- Retainers

- Blended hourly fees
- Capped Fees
- Percentage discounts
- combination flat fee and contingency
- Task based fees
- Success fees (bonus/incentive/cost plus fees)
- "Value Billing"
- Retrospective fee based on value

Of the responses, there were five types of clients/work areas that were cited as particularly suitable. They were:

- High Volume Clients (i.e., large corporate clients)
- Insurance
- Estate Planning
- Real Estate
- Financial Institutions

Other areas cited as having potential included intellectual property projects, collections, personal injury claims, and health care.

"Survey respondents repeatedly cited client centric reasons for the implementation of alternative billing practices. Straight client demand and the perception of improved client relationships were core motivators for the development of alternative billing practices. However, concerns about budgets and economic forces were not far behind in driving alternative solutions," the report stated.

For more on this topic, call:

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