

## "Lack of Billing Alternatives- Reason #2 Why the Traditional Law Firm Business Model is Broken"

Many traditional law firms are bound by operating business models which consist of high overhead, measured profits per equity partner, and minimum billable hours; and not by providing the best possible legal solution alternatives available to clients. Many of these firms also have an "eat what you can kill" mentality that rewards each lawyer for achieving or surpassing internally mandated billable hour targets as a measure of success. While assigning the best and most cost effective lawyer available is in the client's best interest, economic realities of a lawyer's minimum billable hour requirement often cause traditional law firm lawyers to do otherwise. Because of this broken business model and ingrained mindset, many of these firms are struggling and unable to adjust to the current economic crisis.

### The Hourly Rate Model

The legal industry, similar to the financial consulting industry, has been built upon an hourly rate pricing model. In industries that value expertise based upon one's personal education and experience and where the work product is not necessarily tangible, the cost of the work product has been based upon the hourly billing rate multiplied by the number of hours invested. While there were many reasons why this model developed and this is still the preferred method of most lawyers and many clients, there are new alternatives you should consider.

### Why is the Hourly Rate Model criticized?

The legal profession at one time was considered an honorable profession and lawyers were automatically valued as trusted advisors that would protect a client's interest above all else. While lawyers do take an oath to this effect, the economic incentives driven by mandated minimum hourly billing requirements of traditional law firms has eroded trust in the legal profession. Unfortunately, there are lawyers that abuse this trust and "pad" their billable hours because of the billable hour pressures they perceive and the economic benefit they receive.

### What are alternatives to the Hourly Rate Model?

While the hourly rate model still works for many lawyer-client relationships, many lawyers and clients are exploring alternative pricing models, such as monthly retainers, fixed fees, blended fees, and hourly fees based upon certain milestones or benchmarks. These types of arrangements may make sense when there is repeat type legal work, fairly predictable time investments, and defined legal projects.

### What can you do if you believe the Hourly Rate Model is not the model for your legal concerns?

Here are a few of my suggestions:

1. Ask your lawyer to explain billing alternatives- While the hourly rate model is the easiest and may be the best for your particular legal issue, there are times when a monthly retainer or fixed fee arrangements are possible. If your lawyer does not offer you alternatives or cannot explain why an alternative is not proper, then you need to check with other lawyers to see if they can offer you a billing method alternative.
2. Understand that Risk and Reward must be shared -Both you and your lawyer must believe that the economic arrangement is fair. Business relationships must provide the client with value added services and an opportunity for the lawyer to make a reasonable profit.
3. Take the time to explain the legal concern and the results you desire – Lawyers are hesitant to deviate from the hourly billing rate model because the complete facts and complications of a legal issue are often unknown. Create a trusting engagement relationship that will allow for changes in the compensation arrangement as the facts and circumstances dictate.