



## Economic Realities Create New Opportunities

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The economic realities facing the legal profession today are not for the faint of heart. It is a world of uncertainty, unproven business models and a horizon littered with more questions than answers.

The cause behind this murky future has been the recession, which has shined the light on every expense a company absorbs. As a result, the corporate legal department – and its non-revenue-generating, big-budget, vendor-oriented environment, chock-full of “expenses” – has become a large target for recession-conscious companies seeking to trim budgets in these lean economic times. Because of all this, corporate counsel have been forced to endure budget reductions and cutbacks, which has painfully revolutionized the way they do business. Ultimately, however, these reforms have (or will) generate very positive results. Not only are in-house managers making good legal decisions, but they are also displaying an even more impressive business acumen.

The recession actually presents a wealth of opportunities to legal service providers. Because in-house departments have been forced to dramatically reduce outside counsel expenditures – and often their jobs are on the line based on the amount of savings they realize – the trickle-down effect on law firms has been more like a white-water rampage. Difficult business decisions must be made. Firms that were not already offering discounted, flat or alternative fee arrangements have quickly rolled out these offerings or are now ready to consider them. The message to law firms has been loud and persistent: they must change their business model to meet these new client demands.

One of the early effects of the mounting economic pressures on law firms has been the collapse of the leverage model. Directly preceding the economic downturn, the unbridled escalation of associate salaries

was the lead story in the profession: first-year associates were making upward of \$145,000 in Atlanta. Ironically, the recession alone did not necessarily slow the hiring of new associates; instead it was invoice-driven pressure from clients that did so. Accordingly, associate salaries have now dropped (albeit slightly), there have been hundreds of layoffs, and law firms are in a quandary about how to keep lower-level associates busy and profitable without infuriating clients.

### A Focus On Value

It is anticipated that one of the lasting effects of the recession will be a renewed focus on practice management and relationships as law firms and legal departments strive to show “value” as defined by budget-conscious clients. Cost is clearly not the only factor driving change in the legal profession. Quality is just as important today as it was two years ago; clients will pay for expertise, specialized counsel and for services that

meet a specific need. But corporate counsel are being asked to do much more with much less, and they have to make every dollar count. They seek value.

Some law firms have capitalized on this value mission. Smaller firms with lower billing rates are very well-positioned in this market; many of these firms utilize contract attorneys to ramp up and scale back based on client demand. These firms are not married to a pool of associates, and their flexibility, low cost and quality work offer real value. These factors also enable these smaller firms to compete on large projects.

We should also expect the use of alternative fee arrangements to continue to rise. By definition, these arrangements assign a value to the legal work being done. For law firms, this means they must truly understand

their business to be able to offer a plan that not only makes sense for the client, but for the firm as well. As Barry Willms, senior attorney and discovery process architect for the E-Discovery Division of Counsel On Call, recently observed, “The bottom line [for legal service providers] is to define the goals [they] are trying to achieve. Is it predictability? Cost savings? Particular expertise? Time reduction? Maximum manpower? All of the above?”

The reality is that this seismic shift in the legal services business model provides an opportunity for law firms to be proactive, set the scales back in order, become more flexible, and concentrate on offering value instead of steadily increasing expenses. After all, the primary consideration for most clients today is cost for services received. As part of this new concentration on bottom line costs, corporate counsel are looking for ways to reduce the number of legal service providers they work with, especially in litigation but generally across all areas. They want relationships that offer value, and they want them long-term.

In this new era of cost-cutting and budget scrutiny, firms that believe they will weather this storm and then return to charging astronomical billing rates are in for a wake-up call. Every manager of legal services must ask the question: Does it make sense to charge \$300 (or \$500 or \$800) per hour for this work? What is our value proposition?

If you are not asking those questions, your clients undoubtedly will. ■

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