

WEBINAR HIGHLIGHTS AND RECAP

Pricing Strategies to Improve Your Firm's Profitability in 2024

November 21, 2023

By [9Sail](#)

In November, The MPF Webinar Series – “**The Law Firm of The Future**” – focused on how law firms can improve their profitability moving forward into 2024. **One hundred five (105) managing partners and law firm leaders** participated in the live webinar held on **November 21, 2023**. Live polling results are attached. Read on to learn some insights from our guest speaker and moderators.

Guest Speaker

[Bo Yancey](#): Business Coach and Principal Consultant at B-Y Global, Inc.

Moderators

[John Remsen, Jr.](#): President of TheRemsenGroup, and President & CEO of Managing Partner Forum

[Uri Gutfreund](#): Senior Vice President and Managing Principal at Ames & Gough

Key Takeaways

- It's vital to do small, incremental increases to your fees every year, rather than trying to do a huge increase at once.
- You can gauge what types of increases you should make by observing what's happening around you in the industry.
- Law firms should consider factoring AI advancements into their rate considerations.

Pricing Increases at Law Firms

Historical billable hour expectations for law firm partners have hovered around 2100 hours for some time, as noted by John Remsen, Jr., with Uri Gutfreund suggesting these figures might be more aspirational than actual. A survey of webinar attendees showed the majority of firms report current expectations under 1700 hours, underscoring a growing emphasis on work-life balance within the legal sector.

Survey data for associate attorneys indicated a bell curve distribution in billable hours: approximately 33% of associates bill less than 1700 hours, 21% report 1700-1799 bracket, and 32% between 1800-1899 hours.

Be Aggressive - Now Is the Time

The moderators noted a trend of significant rate hikes in 2023, with many firms setting ambitious targets for 2024. The prevailing goal among these firms is to achieve rate increases in the 4-5% range.

Uri highlighted a common obstacle to raising prices: convincing partners to embrace higher rates. Bo Yancey suggested that while data is a persuasive tool in this endeavor, understanding the firm's process for setting rates is a critical first step.

Do it Every Year

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Bo advocated for small, annual increases, likening the process to compound interest. If a firm skips a year or two without implementing these modest increases, catching up becomes a near-impossible task. A sudden 20% hike in rates, for example, is not only impractical but also likely to be met with significant pushback from clients.

Who Sets Rates?

Bo believes that rate setting should be a collaborative effort involving practice groups and office members. A committee, typically comprising partners and finance or pricing experts, is best suited for this task. He opposes the idea of individual attorneys setting rates independently, arguing that it deprives the firm of the necessary control to effectively assess and manage profitability.

From Uri's perspective, it's crucial for individual attorneys and the firm to be aligned, leaving rate determination solely in the hands of individuals could place the firm in a reactive, rather than proactive, position.

John provided a practical example from his previous firm, where setting a new client rate required approval from a practice group chair. Any deviation from established rates necessitated a review by an intake committee.

What is Meant By Pricing?

Pricing in the legal industry encompasses standard rates, agreed client rates, billed and collected rates, as well as alternative fee arrangements (AFAs). Pricing necessarily reflects not only the rates set by the firm but also what will realistically be paid and processed.

Bo pointed out that the emergence of pricing directors in law firms is a direct response to the growing complexity of fee structures, especially with the rise of AFAs that deviate from traditional hourly rates.

What Goes Into Pricing?

If a firm hasn't raised its rates in the last three years, it doesn't automatically earn the right to implement a significant catch-up increase all at once. Factors such as the economy, the firm's location, and various expenses must be taken into account. The concept of 'leakage' (the impact of rate losses on profit margins) was also identified as a significant factor.

For clients, it matters how and when they pay, their preference for cost caps, the nature of the work (is it a cost of doing business for them?), and the importance of cost certainty.

Bo noted a growing market recognition of midsize firms' capabilities as being on par with larger firms, providing them with more leeway to increase rates, leveraging their value proposition. The demand for their services is rising, offering them a competitive advantage.

Uri highlighted the benefits of flexibility for midsize firms, and John pointed out the advantages of midsize firms in terms of lower commodity costs compared to larger firms, and their ability to be more responsive and accessible.

Midlaw Pricing Takeaways

By simply enhancing efficiency in billing and collection processes, often referred to as 'hygiene', firms can optimize their financial performance without necessarily raising rates.

Another best practice every firm should implement is the establishment of a structured pricing mechanism. This typically involves a committee or a centralized process responsible for approving or adjusting rates.

Time-Keeping and Billing Practices

John emphasized the importance of proper time management and billing practices within law firms, particularly for younger attorneys. He stressed the necessity of teaching them to track time and bill contemporaneously, rather than delaying until the end of the week. This approach, he argued, is crucial to avoid underbilling and ensure that the firm's services are accurately and fully compensated.

Uri mentioned the pitfalls of letting receivables age. He pointed out that old receivables tend to deteriorate in value, often leading to client dissatisfaction and disputes, which can cause clients to question the quality of the work they received. He also noted the benefits of flat fee arrangements, explaining that they often lead to higher client satisfaction when the terms are clear and agreed upon upfront.

Profitability

Among webinar participants, there was a collective expectation of increased profitability in 2024, which aligns with anticipated rate increases across the legal industry. Uri pointed to a significant factor contributing to this positive trend: the cooling off of the talent war. With the demand for legal services on the rise and the frenetic pace of hiring and salary increases slowing down, law firms are positioned to see a boost in their profitability.

John mentioned the costs associated with staff turnover. He pointed out that attrition is always expensive due to the direct costs of hiring and training new personnel.

AI and Its Implications

Webinar participants recognized AI's potential to expedite work processes, along with an understanding that it cannot replace all human functions.

Bo emphasized the importance of focusing on workflows where AI can be leveraged to enhance efficiency. He suggested that law firms should explore how AI can solve specific problems, noting that many modern solutions incorporate some form of AI. He also made a distinction between generative AI, which is a newer development, and older AI models that are being incorporated into various technologies like CRM and time tracking systems.

John highlighted the projected significant impact of AI on the legal industry. In certain areas, machines can operate faster and more accurately than humans. Firms that adopt these innovative methodologies are likely to gain a competitive edge. He also cautioned that firms slow to embrace these technologies risk falling irreparably behind, encouraging firms to lean into AI integration as part of their strategic planning.

Uri suggested that as AI continues to improve legal services, clients will increasingly expect its utilization. He advised firms to embrace AI proactively, as client demands and competitive pressures will necessitate its adoption.

Competitive Intelligence

Understanding competitor pricing is also vital for law firms to plan accordingly. Sources for competitive intelligence include industry-specific reports and surveys such as the Thompson Reuters Peer Monitor, ALM Survey of Law Firm Economics, and the ALA Compensation and Benefits Survey. Financial organizations like CitiBank also provide valuable data. Additionally, insights can be gleaned from consultants, headhunters, MPF leadership surveys, law firm networks, affiliations, and networks of associates within the firm.

Bo highlighted that some billing and accounting systems offer services to compile this competitive information for their clients, making it easier for firms to access relevant data. Uri emphasized the importance of this intelligence, noting that understanding the market rates and how a firm's pricing aligns with them is important for determining if the firm is on the right trajectory.

Conclusion

Moving into 2024, it's vital to have a strong grasp on how to move your law firm's rates forward without holding your potential back. Small increases, AI integration, and optimized billing practices are just a few of the ways law firms can keep up with the competition and reach their revenue goals.

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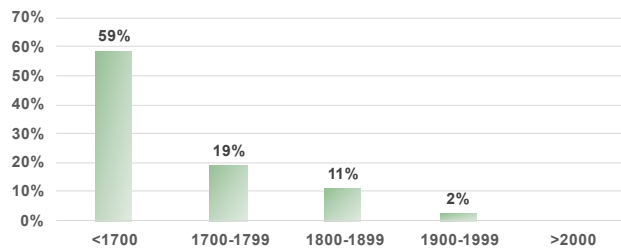
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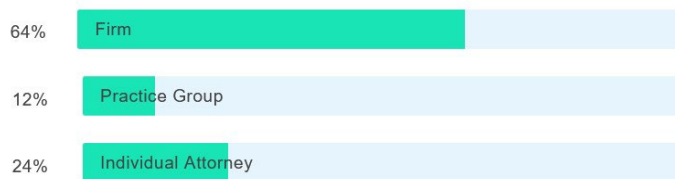
REGISTRANT SURVEY QUESTION #1

What is the billable hour expectation your firm has for its Income Partners?



AUDIENCE POLLING QUESTION #2

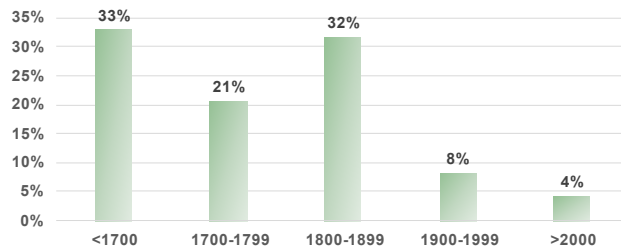
Who determines pricing and sets rates at your firm?





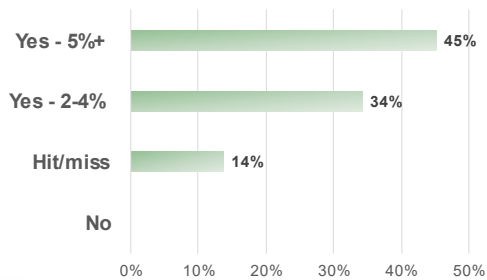
REGISTRANT SURVEY QUESTION #2

What is the billable hour expectation your firm has for its Associate Attorneys?



REGISTRANT SURVEY QUESTION #3

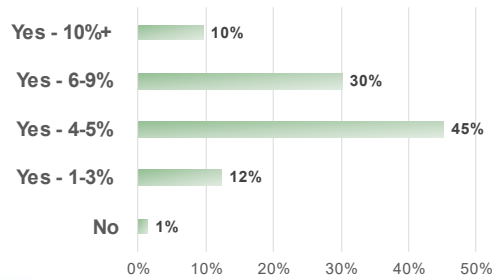
Did your firm achieve meaningful rate increases in 2023?





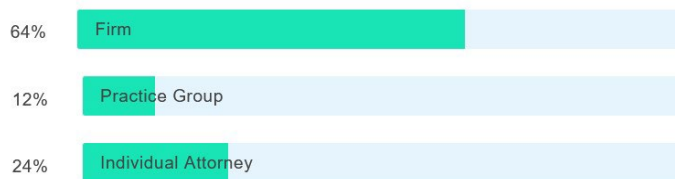
REGISTRANT SURVEY QUESTION #4

Does your firm plan to increase its rates in 2024?



AUDIENCE POLLING QUESTION #2

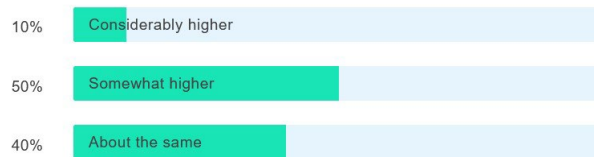
Who determines pricing and sets rates at your firm?





AUDIENCE POLLING QUESTION #3

As to firm profitability, what is your firm projecting in 2024?



AUDIENCE POLLING QUESTION #4

Is your firm considering the impact of AI on future pricing and billing practices?

