



Bellwether Report - LexisNexis
BRIEFING

Pricing models: Who pays in the lawyer-client relationship?

We know that fees are an important element of a lawyer-client relationship, but what kind of pricing models are currently dominating the market in today's rapidly-changing legal landscape? Do they serve the needs of firms, as well as the needs of their increasingly commercially-educated clients?

As part of our research for the *Bellwether report - The Race to Evolve*, we asked almost 150 lawyers and decision-makers around the country to answer these difficult questions, and get to the heart of this contentious issue.



It's not about how much they pay, but what they pay for, according to our research.

“Clients view what you’ve achieved, not how long it took you. If they don’t see a match between what you’ve achieved and what you’re charging them, there’s often a sense of grievance.”

In the *Bellwether Report 2016 - The Riddle of Perception*, we asked clients what they valued most when dealing with their lawyers. The results revealed a disconnect in two out of three areas relating to pricing, with only one proving to be a perfect match:

- *Clear indication of costs/fees*: lawyers believed that clients value this the most, but clients ranked as their fifth most important concern
- *Choice of pricing models*: lawyers thought this would be No. 13 for their clients. They were close, with clients putting it in at No. 12.
- *Offering a lower price than other outfits*: both lawyers and clients put this in last place. This was the only area (out of 14 total factors) where the perception of lawyers and the priorities of clients actually synced up.

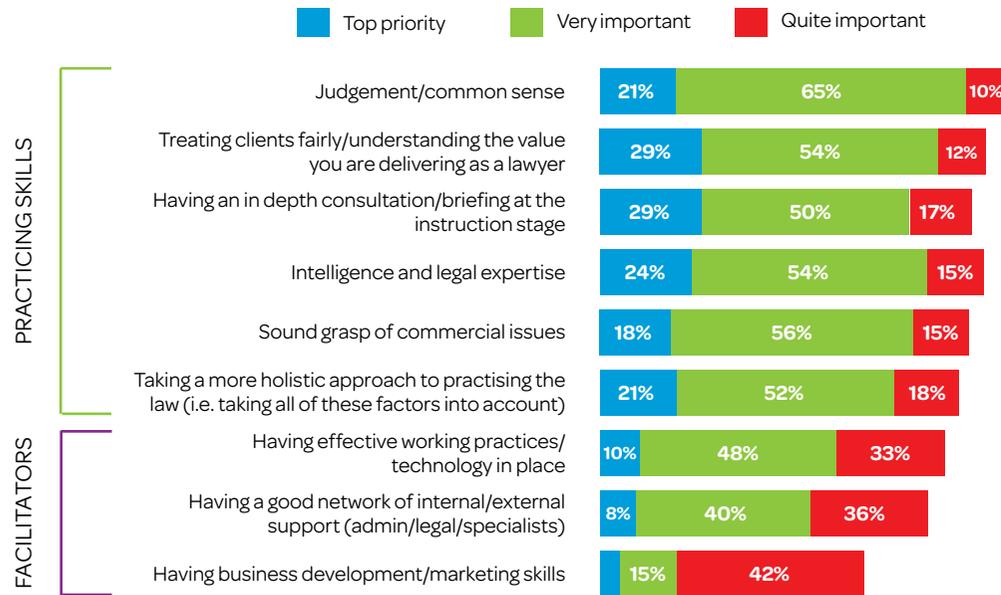
WHAT DO CLIENTS VALUE IN LAWYERS?

RANK ORDER	Lawyer perception (112)	Client priorities (108)
Clear understanding of my particular needs	2	1
Efficient	9	2
Keeps to timetable/avoids case dragging on	6	3
Keeps me informed along the way	5	4
Provides clear indication of costs/fixed fee	1	5
Easy to get in touch with	4	6
Provides good customer service	3	7
Value for money	10	8
Doesn't over complicate	12	9
Speaks plainly/not too much jargon	8	10
Makes me feel valued as client	7	11
Choice of pricing/service levels	13	12
Delivers added value	11	13
Lower prices than others	14	14

As we now know, pricing clarity isn't the top concern for clients, neither is the actual price. Instead, clients look for a cost structure which highlights service value. Namely, one that is efficient, sticks to a timetable, keeps them in the loop and understands their particular needs. The actual cost doesn't matter so much as the necessity of the service itself being *valuable*.

Clients take a more holistic approach to costs, which is something lawyers are beginning to understand. 91% of the lawyers we spoke to for the *Bellwether report – The Race to Evolve*, acknowledge that employing a holistic approach was an important factor contributing to successful client outcomes.

WHAT DO CLIENTS VALUE IN LAWYERS?



HOW CLIENTS JUDGE VALUE – RANKED 1ST/2ND

	All (153) %	Partnership (44*) %	Other model (104) %	<40%+ Repeat business (60) %	40%+ Repeat business (93) %	Declining (13*) %	Growing (89) %
By the outcome/end result	91	91	90	88	92	92	91
By the process/working relationship	69	55	75	59	75	46	75
By the amount billed	39	52	34	53	31	62	33

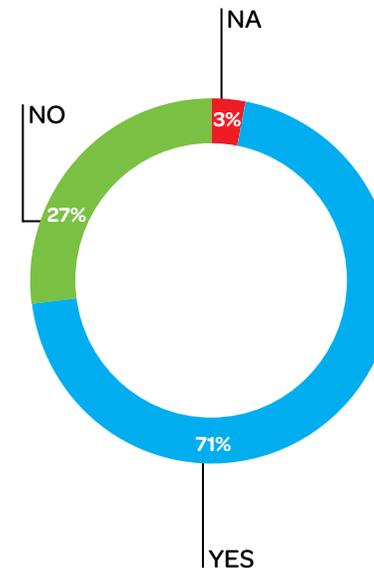
Lawyers exhibit an understanding that client satisfaction is determined by the following:
outcome + process = cost = value.

While this is understood, it is not always incorporated into day-to-day working practices. Lawyers typically believe that time spent is commensurate with value delivered. Clients, meanwhile, maintain that the value delivered is determined by *how* the time is used, with efficiency being particularly valuable.

Lawyers and clients keep returning to the issue of *time*. For lawyers in particular, it's fundamental. Our research suggests that time underpins *how* they think, determining what is valuable. When asked whether they think in terms of hourly rates, even if the firm operates on a different charging basis, for example, 71% agreed that hourly remains the dominant mindset. But does that mean that hourly is the current dominant billing model?

Client satisfaction:
Outcome + Process = Cost = Value

ARE LAWYERS MINDSET ON HOURLY RATES WHEN ASSESSING COSTS FOR A NEW INSTRUCTION?



While firms offer a variety of billing models, the most widely used are fixed fees and hourly rates.

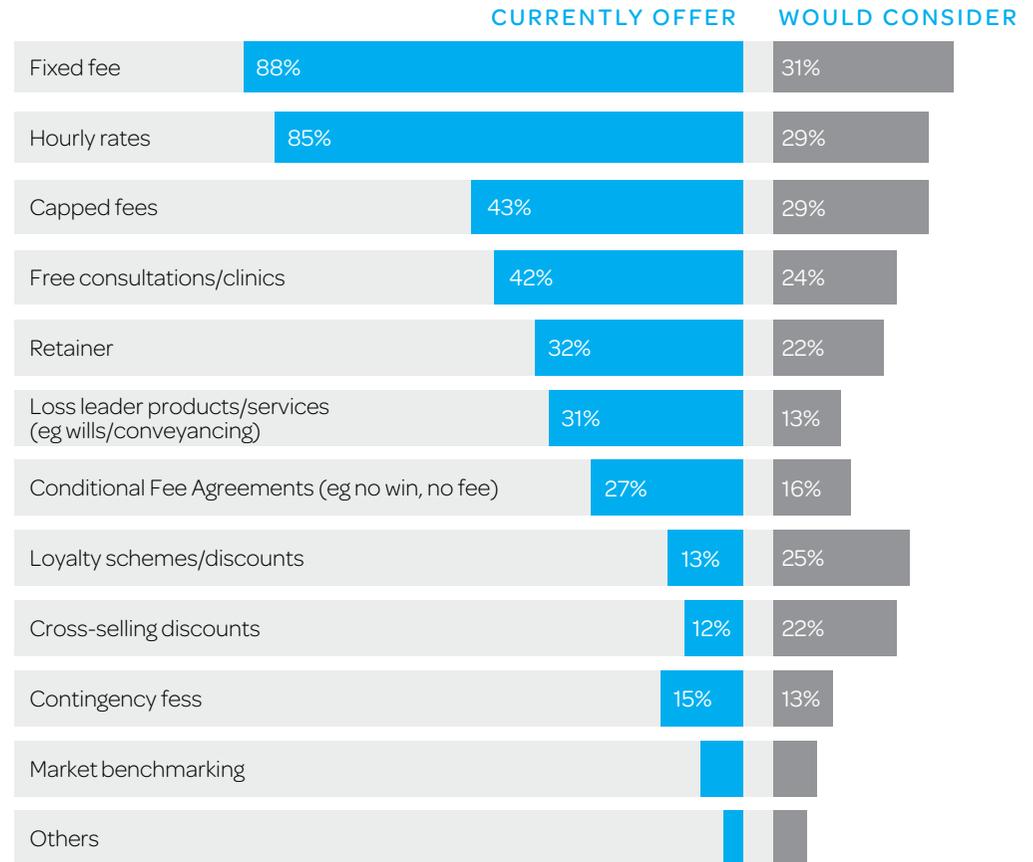
“The important thing is to give people a choice... When they feel in the driving seat, they can say yes or no.”

Over 80% of firms offer either fixed fees or hourly rates.

Fixed fees are currently the most used fee structure, offered by 88% of firms, with a further 31% considering using them. Hourly billing is only slightly behind, however, offered by 85% of firms and considered by an additional 29%.

On average, firms also offer two other fee packages. Just over a third of firms, for example, offer capped fees, retainers, conditional fee arrangements, free consultations/clinics or loss leader products/services. But such alternatives are far from being as widely used as fixed fees and hourly rates.

FEE PACKAGES OFFERED/CONSIDER OFFERING



The most used billing methods are not the most mutually beneficial.

“I think it’s part of our job to sell to and inform the client as to the benefit they’re paying for.”

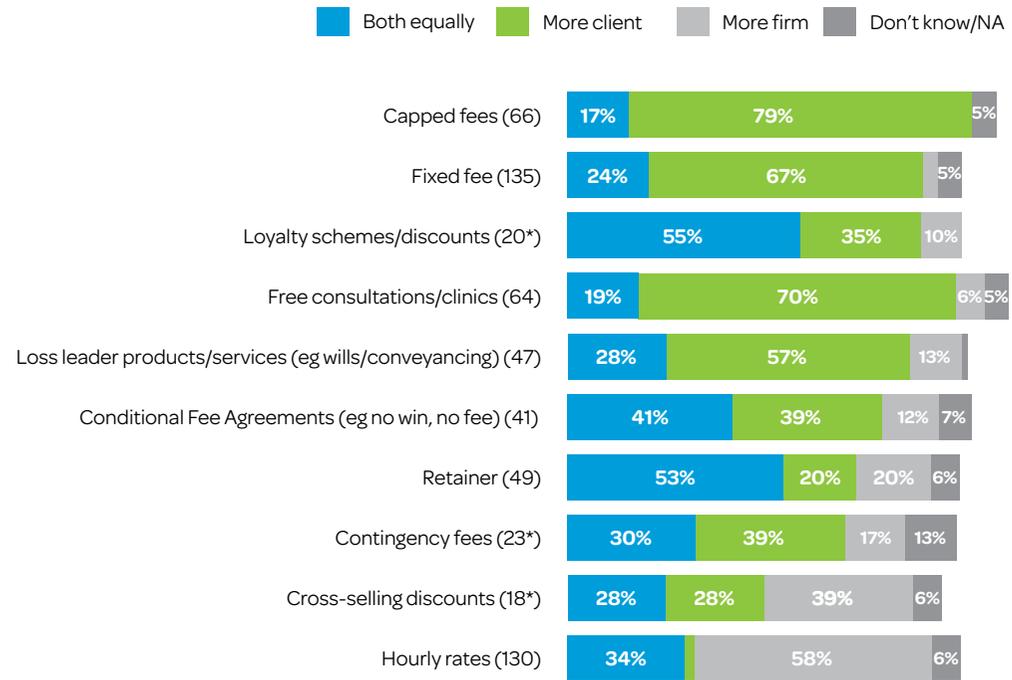
Fixed fees and hourly rates are almost neck-and-neck in terms of current market presence. However, our research reveals that there is a marked difference in who benefits from them.

Over two-thirds of lawyers believe that fixed fees benefit the clients, with 24% suggesting that the fee package benefits both firms and clients equally. Hourly fees, meanwhile, benefit firms, according to the 58% of lawyers. Only 2% believe hourly billing to be in the best interests of the clients. Interestingly, hourly billing is the only fee structure where over half of lawyers believe it to exclusively favour firms – all the other fee structures considered by the lawyers we spoke to are seen to lean towards benefitting either clients, or both parties equally.

There are two fee packages that stand out, regarded as mutually beneficial by the majority of lawyers – namely, retainer fees and loyalty schemes/discounts. Conditional fee agreements (e.g. “no win, no fee”), meanwhile, divided opinion, with 41% believing that both parties benefit, and 39% believing that clients came out ahead.

But if there are fee structures that benefit both clients and lawyers equally, why are they not used more? Retainer fees, for example, are currently only used by 32% of firms and loyalty schemes a mere 13%.

FEE PACKAGE BENEFICIARIES



Has the time come to move on from hourly rates and explore potentially mutually beneficial fee structures.

“Estimating fees is not a scientific process. It’s just part of the risk you take.”

Despite the client drawbacks, hourly rates still have a stranglehold on the industry, both in terms of actual use and as a way of thinking.

But today’s clients, are informed, tech-savvy and clear about what they want to receive from their lawyers. In fact, they are demanding change. Efficiency in working practices is currently in the spotlight, but this issue has a trickle-down effect. How long will it be until hourly billing comes under scrutiny?

Our research shows that lawyers are exhibiting an interest in extending the range of fee packages available. While the juggernauts of legal pricing, fixed fees and hourly rates, are still enjoying preeminence, between 30% and 58% of firms are either using or at least considering alternatives. Change is coming. It might now be time to take the leap from consideration to action.

For a more in-depth discussion of what today’s clients are in the market for, you can read the latest *Bellwether Report 2017 – The Race to Evolve* in full here.

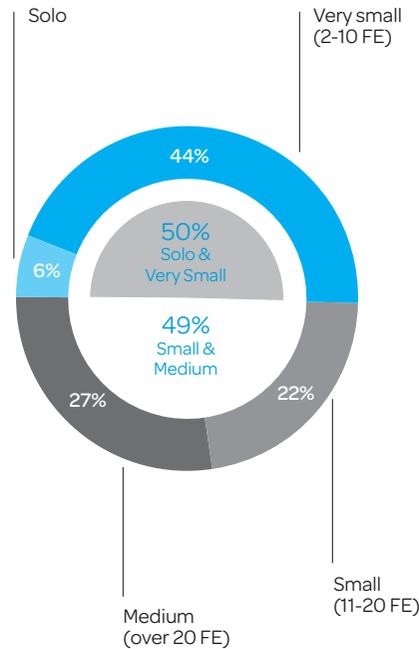


Our research sample for this report included 10 in-depth interviews, followed by an online survey among 149 lawyers, via the LexisNexis databases.

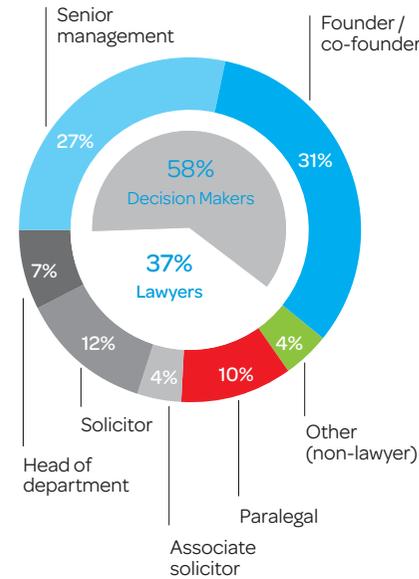
The majority of respondents were decision-makers spread across the country in firms that were equally split between small and medium-sized, and very small or sole practitioner outfits, with a good balance of specialist and generalist practices.

The research was conducted throughout June 2017, by an independent market research agency, Linda Jones & Associates.

PRACTICE SIZE



RESPONDENT'S ROLE IN FIRM



OTHER DEMOGRAPHICS



2017

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