

Lost Momentum in the Evolution of the Law Firm Business Model

By [Michael D. Short](#) on February 1, 2022

In the midst of a global pandemic, the legal industry has remained incredibly resilient as the demand for services – particularly deal support – and bounced back to such a level that matching lawyers to the demand for services has become problematic and increasingly expensive. The upside is that many firms are reporting great, if not record-setting results for 2021. The downside is that, within some firms, the evolution of the business of law has slowed to a crawl as profits soar and they return to pre-recessionary habits.

Prior to the big recession, improvements in any law firm's business model simply meant determining how high billing rates could be boosted each year. Demand for services exceeded the supply of lawyers' time and practice leaders could raise rates with little real resistance from clients. Even back then, many wondered how long that model could continue and, more importantly, how high hourly billing rates could go?

After the recession, control of this discussion and the financial relationship swung dramatically to the clients, who discovered their atrophied "leverage muscles" and flexed them with vigor. As a result, strange (for the legal industry) concepts such as "efficiency," "innovation" and "profitability" took root in our world. Some very interesting changes emerged as lawyers learned that it is possible to generate more profits from less revenue...a concept dismissed as heretical prior to 2007. This great work looked particularly prescient in early 2020 when the industry (and the world) became paralyzed with fear over a terrifying global health event. At that time, no one could have predicted that a) we could effectively shift to a remote work model overnight, b) 2020 would end up quite well, c) 2021 would be even better, and d) a compensation-elevating war for Associates was in the offing.

Here we are...back to a pre-recessionary environment for legal services. Along with this marketplace backslide comes an ability to revert to the much simpler business model based on billing rate increases and the commensurate handwringing related to "how high can they go"? That approach is exponentially easier than focusing on efficiency and the costs associated with the delivery of services. I am sensing lost momentum and a slowing in the evolution of the business model.

The supply/demand pendulum always swings, as will this one. It may take a while this time, but this is a predictable pattern. When it does, we will be left with too many lawyers at very high compensation and billing rate levels and an even greater need for a focus on efficiency, innovation and profitability as part of that next evolutionary step.

As easy as it is to relax and rely on the simple rate-based model, now is the time to create a soft landing spot and expand the competitive gap between the evolving firms and those that choose to go back in time. Continue to focus on profitability (hopefully at the client and matter levels), which begets a healthy focus on staffing and the costs of providing the services, which begets innovative thinking about processes and different ways of accomplishing the needed tasks.

To be VERY clear – keep raising hourly billing rates as much as possible. Rates, or the proper valuation of services, are the primary driver of profitability by far. Easing on rate increases while others achieve boosts creates a long-lasting disadvantage. Just don't rely solely on this driver of profitability because you can. Keep the balance and continue with the hard work done before the pandemic. What's the worst that could happen? Your firm makes even more money now while preparing for a demand downturn? Stay balanced and focused.

