

## The Gig is Up in 2023: Where's Your LPM?

By [Carla Landry](#) on March 14, 2023

In the first full pandemic year, law firm pricing outpaced inflation. It seemed that law firms couldn't lose. It's a new day, though, and 2023 will prove challenging for many. We reviewed the BigHand Report covering 2022 and in the middle of a pile of revealing statistics and data, a quote literally jumped off the page. As a former crew athlete at the University of Wisconsin, it was a sentiment I could relate to:

"What you allow when you are winning, you live with when you are losing."

I'm pretty sure our coach never said these exact words, but it was a recognizable philosophy. You can't slouch through practice sessions or give a half-hearted effort against the worst teams in the league and expect to beat the champions. After my teammates and I finished congratulating ourselves on a victory, the post-mortem was an introspective discussion of what we could and would do better next time.

Law firms can benefit from an introspective look at what is being allowed right now. To be clear, firms certainly aren't losing. Many partners and lawyers earn far beyond what they ever believed possible. But profits per equity partner are down 4.2% for the 12 months ending in November 2022, according to the 2023 Thomson Reuters State of the Legal Market.

Law firms that will thrive in 2023 need sustainable strategies. The economy is uncertain and although no one can be sure how long or how deep the economic downturn will be, most experts agree that a recession is on the horizon. Even without a recession, the realities of the market underscore a challenging year for law firms.

### The Market Realities

Are there barbarians at the gate? Well, clearly someone is knocking on the door. The BigHand Report, Thomson Reuters, and others increasingly point to high associate salaries established in 2021 during a fiercely competitive talent market. The pursuit of quality associates will keep salaries high even as demand for legal services starts to fall. In fact, associate productivity in Q3 was reportedly the least productive third quarter since Thomson Reuters has been tracking the number. Now combine those record-setting salaries with the current double-digit increases in expenses. According to their report, the return to the pre-pandemic operating model also brought the return of costs, such as travel and client entertainment.

Meanwhile, ALSPs continue to make inroads, now commanding a [\\$20.6 billion segment](#) of the legal market and counting. So, yes, the market challenges are there. To combat growing expenses and declining demand, firms have plans. According to the BigHand report, these plans include, for example:

- 96% of firms have increased target billable hours, with 46%, or nearly half, increasing those hours by more than 10%. However, this does not appeal to younger lawyers who want to work fewer hours, not more.
- 33% of firms plan to bill more frequently and 30% plan to collect more frequently. Collecting accounts receivable faster is always a sound account receivables practice, but unless lawyers have the tools they need to support billing conversations, more frequent, ill-informed discussions will not help the bottom line.

According to the Thomson Reuters report, firms were able to significantly raise their prices in 2022 to offset inflation. In 2023, that's not the case. Clients face economic pressures of their own. Further, it's likely that they will continue to expect any concessions they were granted during the pandemic years and perhaps look for alternatives. Meanwhile, lawyers are increasingly pushed to reduce discounting and write-offs, assuming more responsibility for profitability.

## **Laws Firms as Commercial Businesses**

There will undoubtedly be some serious cost-cutting measures in the event of an actual recession. But no business, your law firm included, can sustain itself without profits. Even in an economic downturn, even in an increasingly competitive arena, there is money to be made from the clients you have. Law firm partners must be able to demonstrate, however, the work performed. According to the BigHand report, 40% of law firms plan to improve client communications throughout their matters. This is good business and greatly reduces billing disputes. But in order to do this, firms need better processes.

Law firms have always been in the business of making a profit. But without the data to support their billing practices, many partners habitually keep the peace by discounting and writing off charges that do not align with client expectations. Often, these discounts and write-offs occur before the client has raised an issue. In other words, sometimes these moves are done based on perception, not communication. In 2022, write-offs increased for 75% of firms with over half of these reporting increases of more than 10%. While discounting was never a great strategy, in 2023, a year promising to be fraught with economic challenges, it's a really bad idea.

LPM helps you to ensure that the scope is agreed upon before you start the work. It also helps you put in place the right resources and provide clients the visibility they need into the work performed. LPM gives your firm the information needed to avoid triggering discounts and write-offs while providing better insights into profitability and warning of potential risks. At the end of the day, it's not just about getting the most money out of each client. It's about demonstrating value. Clients will gladly pay for value. It's your most sustainable strategy.

In good times past, you offset issues through write-offs, discounting or increasing your prices, and pushing lawyers to work more billable hours. In 2023, the gig is up. Changes in the marketplace underscore the call for greater efficiency. Lawyers need real-time matter-level insights for clients who are demanding financial transparency and reporting. You can start establishing the right practices now that will see you through challenging economic times and position your firm for long-term success.