

Thoughts About Law Firm Rate Strategies into 2022

By [Mark Medicine](#) on October 31, 2021

Economic Backdrop

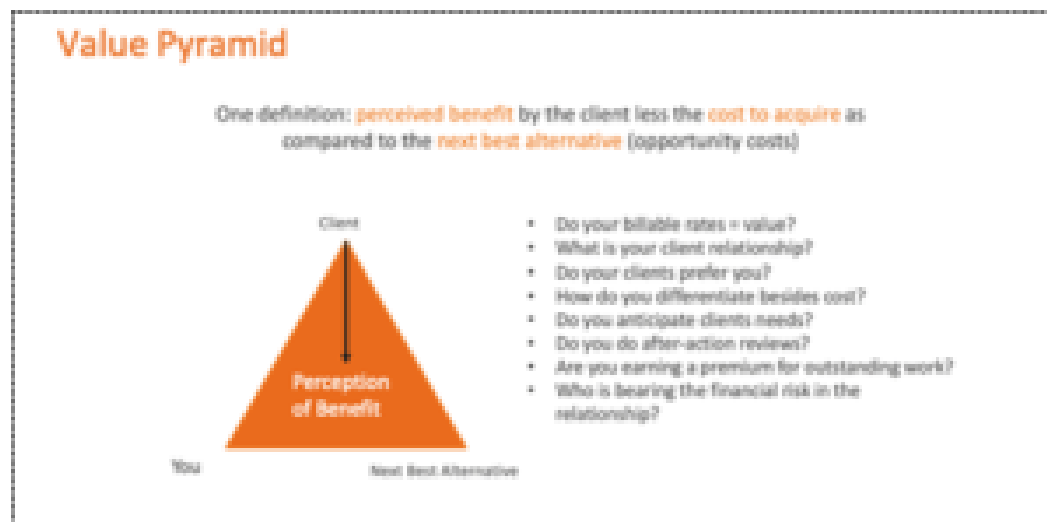
A recent AP news headline indicated that the price of cars, gasoline, restaurants, food, and other goods matched a 13-year high,^[1] raising pressure on the Federal Reserve, “whose officials have repeatedly said the increases will be transitory.” However, others believe inflation will remain elevated based on ongoing supply chain bottlenecks amid strong late-stage pandemic demand.

Closer to home, we are experiencing unprecedented associate salary wars (carrying over to income partners and lateral talent), which have inflated law firm cost structures. Moreover, firms are increasingly making more significant technology investments and hiring new roles and staff. While more favorable real estate rates and reduced marketing and travel expenses may offset some of these increases, the economic model for firms is changing.

Fair Market Value of Legal Services

Any free-market observer will agree that supply chain cost increases do not automatically raise the market value of a product or service. Therefore, how should we think about inflation and corresponding law firm pricing strategies for 2022?

It begins with the value pyramid illustrated below:



The value pyramid is a convenient tool that helps a service provider discover the market value of its service. It presents a logical process that evaluates client value perception of the benefits received, offset by the service cost and reasonable alternatives.

The value pyramid might be useful to assess whether inflationary trends have increased the market value of legal services. If market values stay constant, the result is margin compression – lower profits per value unit based on higher unit costs.

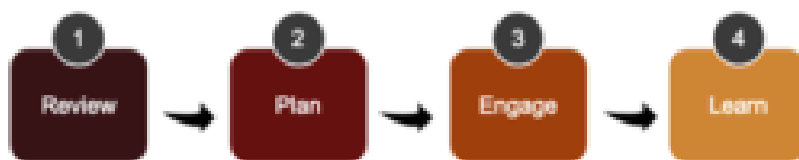
Uniform Cost Structures Contrasted to Variable Market Values

It is no surprise that the market value of legal services will vary by work type. For example, various types of corporate work may realize different value levels (e.g., private equity, institutional corporate, routine commercial contracts) and there are varied service values across practices and industries (e.g., insurance v patent litigation v white-collar litigation).

While it appears reasonable to assume that since deal work has been the driver of talent wars, the fair market value for those services has risen (how much is the question, and does it correlate to the underlying salary increases?). It also seems reasonable that many other services have not appreciated in market value despite the overall salary increases and this market variance represents the economic challenge for firms, many of whom increased associate salaries across practices.

The marketplace will sort out service value as the months progress, but law firm leaders have to decide *today* how to approach 2022. To aid in this thinking, I put together a simple process diagram to illustrate steps you might take to do your best to be fair and systematic.

The Process to Client Rate Discussion



The above sequence is a roadmap you might follow to engage clients on pricing and service value. While using this process, remember that rates are just one of many critical components of a comprehensive client engagement strategy. These steps are described below.

Review

Be informed about market conditions and do your homework on rate trends and demand levels for your services. Be comfortable with the data and where your firm is operating in the market. Use client feedback, surveys, and available research to inform your thinking. Be honest and willing to reflect on these insights. Finally, segment your clients and develop action plans for key groups and unique client situations (e.g., new clients in the past three years with growth potential).

Work with the pricing team or key finance personnel to develop your 2022 pricing strategy, including rate, realization, and profit targets. Set activity goals for the quarter (and into next year) and use this exercise to build or enhance your client feedback/development routine.

Use or develop pricing tools like client feedback scripts, pricing models, service principles, and any other devices you can apply to reinforce a disciplined approach to more nuanced client conversations.

Plan

Schedule pricing conversations with your clients. Create a discussion roadmap, anticipating difficult issues while planning your responses. Of course, you cannot anticipate everything, but the planning process will put you in your best position to be thoughtful in conversation. It will also help you articulate your position and guide you towards a win-win outcome. Planning also facilitates discipline, which is critical in difficult situations.

Engage

Act timely and don't delay. While the urgency focuses on 2022 planning, use this opportunity to establish a client discussion routine around critical topics like pricing, service, staffing, client needs, among other things. Be proactive and work collaboratively with your clients to price differently for the benefit of the firm and client. Create new organizational muscle memory.

Learn

Factor all the above into a learning loop that will enable you to operate dynamically and in a continuously improving cycle. Don't waste the critical learnings uncovered from this process. Instead, collaborate and share your observations with your peers and discover common patterns. Explore opportunities that are revealed by this process and seek effective change.

Summary

Law firm financial models are changing due to significant developments reflected in the emerging post-pandemic economy. This presents opportunities to jump ahead and create routines for client conversations about important topics. Meaningful discussion about critical issues like pricing and the value of services will lead naturally towards the development of deeper relationships and serve as the fuel for firm innovation.

[1] See AP News, October 13, 2021. ***From cars to gasoline, surging prices match a 13-year high.*** Link: <https://apnews.com/article/business-consumer-prices-inflation-prices-e80c0c24a6ec5ca1c977eccd6294d01b>.