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GCs Question If Partners Are Worth The Cost

By **Jake Simpson**

Law360, New York (May 28, 2014, 7:52 PM ET) -- General counsel have shifted their billing rate pressure from associates to partners, scrutinizing each bill that comes across their desks and getting even more aggressive in asking for reduced rates, experts say.

Rate pressure on associates has been a well-documented trend since the global financial crisis and the resulting belt-tightening across the board at most companies, including with their outside legal budget. A large part of the pressure has been due to the rise of legal process servers — companies that provide basic legal services in lower-cost markets for a substantially reduced rate — whose global market passed \$350 million in 2011.

"I can pay \$400 to \$500 an hour to an associate with three to four years of experience at an outside law firm, or I can pay \$150 to \$200 an hour for a virtual lawyer who has seven years at a law firm and three or four years as an inside counsel," Jim LaRosa, co-founder and principal of legal staffing firm JuriStaff Inc., said in a **Law360 feature** on the legal industry market in early 2012. "That's a significant development."

Since then, the market for outside legal services has remained sluggish, growing by just 1.1 percent in 2013, according to the **Billing Rate Reference 2014** report, jointly produced by BTI Consulting Group Inc. and Law360. As a result, the rate pressure felt by associates has spread to junior partners, with clients demanding justification for partners' billable hours the way they have traditionally done for associates.

"Over the last five years, partners have been under more pressure to bill more of their own hours rather than delegate to associates," BTI President Michael Rynowecer said. "As more hours flow to the partners, that's naturally where the rate pressure would go."

Part of the increased pressure on partner rates is the more sophisticated approach taken by many companies to their outside legal services. The change has been brought on by necessity, with corporate profits on average being far less than they were in the mid-2000s and with many companies forced to absorb steep quarterly or annual losses.

Kent Zimmermann, principal with legal industry consultant Zeughauer Group LLC, said that clients are no longer willing to take a hands-off approach to their law firms' work allocation decisions.

"I think clients are increasingly interested in making sure that there is an efficient distribution of labor when it comes to how they receive legal services," he said. "It's almost like the Industrial Revolution is coming to the legal industry a couple hundred years late."

Like LaRosa in 2012, Zimmermann noted that many companies are opting to use legal process servers offshore "to get more bang for their buck at a level of quality they're comfortable with." They are also less willing to pay junior partner rates for work that could be done by an associate or a legal process server.

The increased client pressure on partner rates is just one part of a new normal in the legal industry that includes more discounted rates and more legal work being brought in house by corporations. The BTI report found that firms are offering on average 15 percent off their published hourly rates, and in some cases up to 30 percent off.

Scharf Banks Marmor LLC partner Stephanie Scharf said that client pressure began hitting associate rates in the mid-2000s and has now spread to partners, continuing a paradigm shift in the firm-client relationship.

"Every year, clients would receive a letter from the senior partner saying rates were being raised, and until [the mid-2000s] clients would swallow hard and take it," Scharf said. "Now I don't know of firms that automatically raise rates the way they used to, because clients are much more sensitive about being charged more."

--Additional reporting by Keith Goldberg. Editing by Edrienne Su.

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