

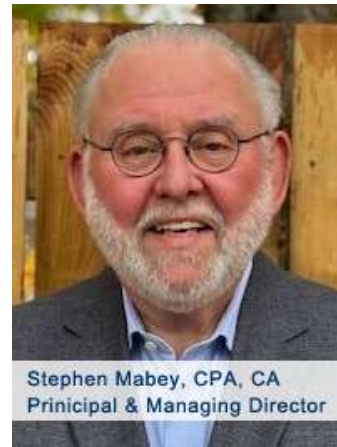
## *Keeping Your Clients in the Face of a Rate War*

Thomson Reuters' latest report explores the strong law firm rate performance in 2024, and its continued growth year-over-year and the recent phenomenon of steadily increasing rate growth throughout the year versus just at the beginning. *However*, signals indicate - while firms needn't restrain rate growth where the market can tolerate it - clients may push back and question how long this surge in rates will be sustainable.<sup>1</sup>

If history repeats itself (as it always does), law firms facing a competitive market of clients seeking cost-effective solutions (A.K.A. cheaper) will resort to competing primarily on price.

Least firms have forgotten the last round of price competition, the downsides include:

- **Decreased Profit Margins:** This makes it challenging for firms to sustain operations, invest in talent, and upgrade technology.
- **Perception of Quality:** Clients associate lower prices with lower quality, which can undermine a firm's reputation.
- **Client Expectations:** Create expectations of discounts or reduced rates on future engagements.
- **Focus on Volume Over Service:** Encourages firms to prioritize the quantity of work over the quality of service.
- **Competitive Race to the Bottom:** Create a "race to the bottom, harming the entire industry and potentially leading to substandard legal services.



- **Difficulty in Attracting Talent:** Higher-quality lawyers often seek firms that value their expertise and pay competitively.
- **Client Loyalty Challenges:** Price-sensitive clients are often less loyal, which makes it difficult to build long-term client relationships.
- **Limited-Service Offerings:** Limits a firm's ability to invest in high-value services.
- **Neglected Marketing and Differentiation:** Divert efforts that highlight unique strengths, specialties, and value-added services.
- **Regulatory and Ethical Considerations:** Concerns about the delivery of legal services and law firms could face scrutiny for perceived conflicts with professional standards.
- **Impact on Client Outcomes:** Lawyers might rush through cases or compromises, which can lead to poorer outcomes for clients in complex legal matters.

While in the short term, competing on price may well attract clients to the firm, it has always had a less positive impact in the mid and long term on their profitability, reputation, and service levels.

It is human nature to look for positive reinforcement in your buying decision, be it from a personal or business perspective!

There is an approach that you can adopt before clients become too focused on price that reinforces the client's use of your firm irrespective of the cost.

***Competing on price has and always will be a slippery slope away from profitability.***

Historically, key performance indicators (KPIs) have been calculated for internal consumption. However, some focus on the value of legal services delivered by your firm that would be beneficial to share with your clients as support for directing their focus to service levels and not just cost.

The following is a sample of KPIs which, in part depending on the nature of the engagement, demonstrate the value of the firm's services and, at the same time, provide standards for firms to seek continuous improvement:

- **Case Resolution Time:** The average time is taken to close cases or legal matters.
- **Client Satisfaction Score:** Use surveys to gauge client satisfaction levels and express results as Client Satisfaction Score (CSAT).
- **Cost per Matter:** Analyze the total legal expenditure for your cases or projects.
- **Success Rate:** Track the percentage of cases won versus lost.
- **Compliance Outcomes:** Measure improvements in compliance rates or reductions in violations or penalties.
- **Repeat Business Rate:** Measure the percentage of clients who return for additional services or engagements.
- **Referral Rate:** Track how many new clients are referred by existing clients.
- **Billing Realization and Collection Rate:** Monitor the percentage of billed time that is ultimately collected.
- **Project Milestone Achievement:** In project-based engagements, track the percentage of milestones met on time and within budget.
- **Training & Education Engagement:** Track participation in legal education or training programs, which can indicate the firm's commitment to client knowledge and empowerment.
- **Resolution Method Analysis:** Analyze the percentage of cases resolved through negotiation, mediation, arbitration, or litigation.

While not a popular approach yet, the early adopter will set service benchmarks that other firms will start to be measured against in selections by clients, which is a competitive advantage that should not be undervalued.

Competing on price has and always will be a slippery slope away from profitability.

1. Thomson Reuters, Legal Practice Management: [Law firm rates in 2024: New report finds that rates continue strong growth, but could face shifting trends](#)

#### Who is Stephen Mabey?

Stephen Mabey is a CPA, CA, and the Managing Director of Applied Strategies, Inc. His credentials include:

- Fellow of the College of Law Practice Management (one of 19 Canadians - 276 Fellows);
- Author of *Leading and Managing a Sustainable Law Firm: Tactics and Strategies for a Rapidly Changing Profession*, and *Key Performance Indicators An Introductory Guide*;
- Over 25 years in a senior management role with Stewart McKelvey, a 220-lawyer, six-office Atlantic Canadian law firm;
- Over 15 years experience providing advice and counsel to small to mid-size law firms on a broad range of issues;
- A panelist and facilitator of the Managing Partner Information Exchange ("MPIE") at the annual Managing Partner Forum Leadership Conference held in Atlanta, Georgia, each May; and
- A group mailing list that circulates articles, directly and indirectly, impacts law firms and offers free mini-benchmarking surveys.

Stephen has been advising law firms for over 15 years on a wide range of issues, including - strategic action planning, leadership, understudy (succession) planning, compensation (Partner and Associate), organizational/governance structures, partnership arrangements, business development, capitalization of partnerships, partnership agreements, lawyer & staff engagement, marketing, key performance indicators, competitive intelligence, finance, mergers, and practice transitions.

Applied Strategies Inc.'s website contains references from clients describing the value of the services rendered <https://www.appliedstrategies.ca/references.php>.

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