

DO CLIENTS CARE ABOUT THE PRICE OF LEGAL SERVICES?

Overseas experience appears to say yes.

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Most of us here in the antipodes are familiar with the ambulance-chasing 'no-win-no-fee' behaviour prevalent in the US and latterly, England. Both countries have embraced contingent fee operating styles more literally than originally intended. The Brits are putting the brakes on and the rampant advertising, which will be controlled by legislation later this year at around the same time as the basis for some torts, is to be reviewed.

However, ambulance chasing is principally for private clients who would not otherwise indulge in litigation for reasons based upon the strength of their claim and the risk/price assessment.

Whether commercial clients are price sensitive and willing to seek new service providers based on price alone has long been debated. Many practitioners still hold the view that complex commercial work is not price sensitive, which may explain how annual budget rounds frequently result in higher charge out rates, rather than increases in productivity.

Most managing partners agree the fixed and variable cost components of driving a law firm usually have salaries/wages followed by premises eating up the largest portion. Moreover, most practitioners believe these to be 'fixed' costs. They are not, as previous articles on outsourcing have indicated.

Now a new competitor is starting to enter the field – the virtual firm. This is not whimsy, it is real and up and running (go to www.lawyers-direct.biz) to see what I mean. Whilst it is not a true virtual firm as it does have an office (though for administration only) all the staff and directors work remotely via the internet. Many London firms have already embraced the 'net' and introduced job sharing and working from home but few to date have gone as far as Lawyers Direct which was founded in August 2002. Another specialist IT practice is also up and running (www.TlawA.co.uk) and claiming to provide a faster service at prices of around 30% lower than mainstream firms.

The implications of virtual working are considerable. Once the property and non-wage employment costs are removed from the equation legal service delivery charges can be substantially reduced – by a third or more. This is a powerful incentive to change lawyers, from the client's perspective, especially if the virtual firm can promise its staff are all seven years or more admitted and with the bulk of their experience gained in a 'top 20' practice. Whilst virtual firms are not yet threatening the 'big ticket' work from public companies, their capacity for making life difficult for almost everyone else is considerable.

LegalBestPractice is aware of new virtual firms planning to enter the market in 2006 and fully expect to see an Australasian venture up and running before the year's end. Will they catch on and become a mainstream supplier? Who knows, but anything that questions the status quo has to be taken seriously. After all there are those among us that admit to recalling the era when time recording was new and untried and Practice Management Systems were un-heard of. Embracing change has been a normal part of the development of legal services and virtual firms, with their very low cost base and flexible operating style, are just part of the continuum. Customer satisfaction is the overarching objective and price may be a much larger motivator once clients become more aware of the options.

Modern technology does not require the whole panoply of legal service activities to be under one high priced city centre roof. If files can be archived at some remote electronic warehouse why not have support staff and administration staff remote as well? Surely it cannot matter whether the time records, billing and secretarial services are in the same building unless, of course, you need someone to make coffee! If legal research can be carried out in Mumbai (and it is in large quantities) why not decentralise? It cannot be much longer before large commercial clients are going to look at the business structure that underpins professional service delivery and start to demand some changes. Being the best lawyer is not going to be enough. This is not just about cutting cost – that is relatively easy – it is the commercial efficacy of the service delivery that may drive sustained future profitability. In an environment where fiscal performance is unpublished clients have nothing else by which to judge a law firm apart from its 'business' behaviour.