



BLASTING BILLABLE UNITS IN THE TOP-TIER

Some significant structural changes are necessary for a firm to move away from billable hours. So how does a well-established top-tier firm manage it? Angela Priestley speaks with Freehills managing partner Mark Rigotti.

Debate regarding the death of the billable hour has been circling the legal sector for some time now. But despite the arrival of some legal start-ups and small law firms promoting alternative billing mechanisms, the trend has still not free-fallen into the industry-wide revolution once predicted.

For well-established top-tier law firms - the six largest Australian law firms that still retain around 13 per cent of all legal services, according to IBIS-World - making dramatic shifts away from billable hours is, and will be, no easy feat. Not only must the practical apparatus surrounding pricing be adjusted to account for such changes, but lawyers must also be trained in the art of negotiation, budgeting and project management. Clients, meanwhile, must also restructure their legal relationships to also enable pricing changes.

And not all clients are waving the flag for alternative billing.

Although Freehills managing partner for clients, Mark Rigotti, is adamant that his firm is moving on alternative pricing strategies, he's not sure that demands from clients for more value-based pricing are as loud as some people might think.

"Like all trends, it might be a little over-baked

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at the moment," he says. "I say that both from the client and law firm's perspective. Hourly rates still feel like old slippers, they might be a little worn and a little ragged to look at, but they are still something that are comfortable."

He added that on one particular occasion when the firm presented a mixed-pricing option for a panel proposal, it was actually met with some concern. "The client said 'Look, we just can't get there on alternative [pricing] yet, we're not sure how it will operate, we'll go with traditional'."

Still, Rigotti is quick to point out that Freehills has, for some time now, been adapting to a need for alternative pricing mechanisms. "We [work on the assumption that] we will be doing more billing via alternative methods in the months and years to come so we have to get good at it and determine what clients want," he says.

As such, Rigotti says the firm has deployed a team of partners to form a pricing committee, while also applying a "cost consciousness" training strategy for teaching budgeting and pricing skills to lawyers as they become senior associates, and initiating a comprehensive database of all pricing decisions made across the firm. Often,

he adds, the firm will trial new pricing arrangements with longstanding clients and, at the end of a matter, workshop through how the client perceived the value that was offered.

All in all, Rigotti highlights the importance of client relationships in testing the boundaries of alternative pricing – and notes that it's with the long-standing and trusted client relationships that trialling alternative billing arrangements works best.

"Typically, it's with somebody where we understand their business quite deeply," he says. "And quite often it [the style of the legal work involved] doesn't lend itself to ringing up the friendly lawyer to get a quote and turning on the tap of hourly rates."

Rigotti also points to the value of partner secondments, and the knowledge his firm can obtain on client value by seating a partner on a daily basis next to the project director on a matter.

Capped-fees also remain close to the pricing heart of Freehills, says Rigotti, but it's a pricing mechanism that is only appropriate – or sits comfortably – with certain clients. A capped-fee may work with investment banks, for exam-



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ple, but they are unlikely to work for resource companies which tend to retain a little more conservatism when it comes to pricing. However, Rigotti says the firm is starting to see a desire for more capped-fee arrangements in infrastructure and PPP bids – particularly during the global financial crisis.

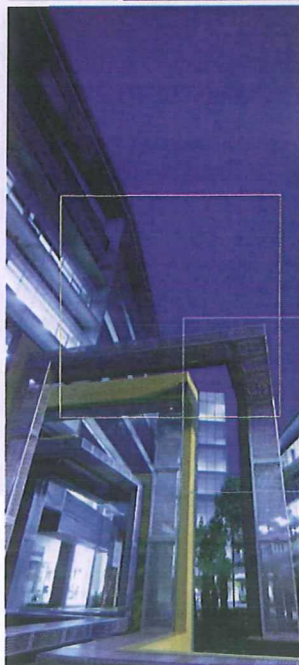
And an increased desire from clients for alternative billing options to better manage their risks in line with the GFC has encouraged Freehills to seek better tailored solutions for clients that are less "off the shelf" in nature, and more able to respond to specific needs of clients.

Although it will always be difficult for a large law firm like Freehills to completely re-shift its thinking away from timesheets, Rigotti is adamant that his firm will be ready for any billing revolution that may materialise in the future. "Freehills needs to be at the vanguard on it and needs to be understanding and participating in it – instead of just waiting for it to happen," he says.

"The debate about alternative billing is not about discounts, it's about value," adds Rigotti. "It's not a threat, it's an opportunity for both clients and for law firms."

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