

Professional Perspective

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# Ultra-Transparency in Law Firm Fees Is a Competitive Advantage

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In theory, legal service delivery is straightforward. A law firm agrees with a client what they will deliver, by when, and at what price. In practice, it's much harder. A byproduct of this, and where things typically go awry, is when the client receives an invoice amount they were not expecting.

Naturally, the client wants to know what happened. More importantly, the next time they will demand more predictability about forthcoming legal expenses.

## Fixed Fees as Panacea

Fixed fee agreements are sometimes cast as the panacea to spend transparency. Law firms that diligently capture time and billing data, the conventional thinking goes, ought to be able to reasonably forecast matters. Here again, there's a gap between theory and practice.

First, fixed fees push all of the risk onto the law firm in the event a matter proves more complicated once the firm starts digging into the matter. This is especially true for volatile work like arbitration and litigation.

Second, just like the billable hour, fixed fees can induce undesirable behaviors. An unprofitable matter provides an incentive to cut corners or to push work down to under-qualified staff. Then work may take longer than it should and perhaps the quality is lower as well. The result is an unhappy client who won't stick around.

Third, while clients find the notion of fixed fees desirable, few actually demand such pricing in practice. This is because many corporate attorneys who have reached the ranks of general counsel began their careers as associates in law firms clocking billable hours. It's a measure that's familiar and universal.

There's data behind these assertions. For example, the annual [Law Firms in Transition](#) survey by Altman Weil suggests most law firms generate the vast majority of their fees on a billable hour basis. In 2020, the survey polled 182 law firms and found just 8% of firms claim 30% or more of their revenue streams stem from non-hourly fees.

And so, the billable hour reigns.

## Predictable Costs Outweigh Lower Costs

Sometimes when clients say "predictability" their law firms hear "discount." However, that's not necessarily the case. The vast majority of clients believe that predictability of legal spend is more important than an absolute reduction in spend.

Bet-the-company litigation is the quintessential example. Clients are willing to pay for the best legal counsel money can buy—but they still want to know how much it will cost. What clients are really asking for is transparency. When clients understand what their law firm is doing, rather than "nickel and diming" every invoice, they value the work more and pay the bill on time.

## Sharing Work-In-Progress and Accruals with Clients

Data-driven law firms usually price matters based on historical averages. They can break complex matters, like litigation, down into phases—and price the phases. But they are still in a difficult position when the competence and attitude of the opposing party influence the cost, among other factors outside of the firm's control.

Despite a firm's best efforts, sometimes an invoice is larger than anticipated and the client is still caught by surprise when they receive it. The solution is to eliminate those surprises. A proven way to do that is to share work-in-progress (WIP) and accruals in real-time with clients. That means providing each lawyer's time entry with a breakdown of how it was spent and a detailed narrative. And doing this in near real-time.

This ultra-transparency might worry some law firms, but it eliminates the surprises for clients. When a budget is going over, clients can see exactly how and why. They can make an informed decision about the desired outcome and work being performed as it happens.

Ultra-transparency prevents those awkward phone calls about money. It removes those resource-intensive scrambles to run (and scrub) a report after the client phones the partner for a status update. Most importantly, the client is never surprised to learn their matter is over the forecasted budget when they receive an invoice because they've been informed all along. Partner and client can make micro-changes as the matter progresses and avoid the macro shock of the surprise invoice.

## Benefits of Ultra-Transparency

A law firm that shares its WIP with clients has to be ruthless about making sure the team closes their time out every day. This has a direct impact on cash flow and law firm profitability. That's a benefit, rather than a risk to the law firm: Transparency to this degree focuses the entire organization on getting its processes in good order.

To that end, there are three primary benefits to law firms in exchange for ultra-transparency.

### **Law Firms are Paid Faster**

When clients are surprised by a higher-than-expected invoice they challenge individual line items, negotiate discounts, and delay payment. The money is locked up, it puts a crunch on cash flow, and it introduces unnecessary friction between the client and their law firm.

By contrast, when law firms are ultra-transparent, clients understand how matters are unfolding and have predictability as to the ensuing costs. When the invoice is sent, they already know what's on it and are more inclined to pay it without objection.

This is measurable too. In an experiment, Dentons and [Apperio](#) have calculated ultra-transparency reduces the time between invoice and payment by between 22% and 56%.

### **Law Firms are Paid More**

There's a strong correlation between the time it takes to collect on an invoice and the size of the collection. There are several reasons this happens including:

**Time entries initiate invoices.** Time can't be invoiced until it's entered. Since many firms struggle to get their team to enter their time, it slows invoicing. This lengthens the collection timeline and at the very beginning of the process where law firms have the most control.

**Contemporary time entry improves accuracy.** The longer a lawyer waits to complete their time entries, the less accurate the entry. Lawyers who put off logging their time until later are more prone to underbill than overbill, so some law firms are likely billing less than what they earned.

**Late invoices beget even later payments.** There's a special irony that late invoices can delay payment even further. The client and law firm alike, tend to forget the details when an invoice is published three months after a matter closes. When that happens, clients are more likely to ask for write-downs and law firms are inclined to oblige.

By contrast, law firms that share WIP with clients must have tighter processes and better data hygiene. Following the same experiment, Dentons and Apperio have calculated this enables a law firm to produce contemptuous and accurate invoices between 28% and 34% faster.

### **Stronger Client Relationships and a Greater Share of the Work**

Transparency builds trust and strengthens client relationships. Law firms that are ultra-transparent usually get to work with the best clients— and also earn more work from them too.

## Ultra-Transparency Is a Competitive Advantage

Law firm pricing has come a long way in the last decade, especially at the behest of pressure from clients. While it's improved tremendously, it remains imperfect which presents an opportunity for forward-thinking firms. Ultra-transparency, like sharing real-time WIP and accruals, provides a significant advantage in a competitive market teeming with rivals, potential substitutes, and the threat of new entrants.