

## Firm Profits Verses In-House Savings

*By: Karen Anderson*

As more in-house lawyers question the billable hour and continue to lean towards value-based alternative fee arrangements (VBFs), law firms are quick to counter that the economy is picking and that discounted fees may be nearing an end.

Who will win this tug of war of firm profits verses in-house savings? The economy may be the deciding factor.

A new study has some good news and some bad news for both law firms and in-house legal departments. The economy is on the rebound. The pace of claims for unemployment insurance continues to be the lowest since January 2008, and housing rose 0.8 percent in February.

Confidence is also up. According to an article by Corporate Counsel, Managing partners' overall confidence in the economy was up 18 points between the third and fourth quarters of 2012, and 85 percent predicted future revenue growth, according to the latest Law Watch Managing Partner Confidence Index survey from Citi Private Bank.

However, while we may no longer be in a recession, the economy still hasn't really recovered. According to an article by the Washington Post, some 12 million Americans are still looking for work, and many millions more would confirm that it hasn't felt like a recovery at all. That would include the people who have seen their incomes flatline or have been drowning in mortgage debt for years on end.

This is not just a feeling, but reality supported by hard data. According to the Post, since the start of 2010, growth has averaged 2.2 percent, which would be just fine in normal times, but is lousy considering the starting point was a time of mass unemployment and general economic despair.

In-house legal departments are weary of the future and continue to be conservative with spending. As a result, large companies with leverage have been negotiating their way into discounted legal fees. Case in point, GlaxoSmithKline increased its use of VBFs from 3 percent to 68 percent; United Technologies Corporation's use of VBFs is more than 70 percent; Home Depot, more than 75 percent; and Pfizer is 100 percent VBF according to Corporate Counsel.

In general, law firm managing partners are concerned that clients will continue to push for discounted fees. And they should be. Unless the economy begins to show stronger signs of a recovery, in-house legal departments will likely continue to push and receive discounted fees.