

## Who Will Be Getting Squeezed In 2010?

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As we are nearing the end of 2009, one of the toughest economic times of our generation, one would hope to see lessons learned on the eve of a new year. One thing remains clear: greed is far from dead. It is alive and kicking. So who will be getting squeezed in 2010?

In a recent survey by Altman Weil, law firms are not standing idle. Rather than pondering measures to reduce or freeze their fees for the coming year, they are planning an average overall increase in rates of 3.2 percent for 2010. No, your eyes are not deceiving you; you've read the word increase correctly.

That said, no need to worry, law firms have a heart after all, and most of them won't seek an across-the-board rate increase. That's a relief, except for those poor clients who'll fall in the increase pool. One has to wonder who they are to be deserving of such treatment?

Will legal services be any better in 2010? Will law firm associates be better compensated in 2010? Will fixed costs increase for law firms next year? There are no reports of anything that would indicate changes in the quality of legal services to be provided in 2010. If you've read recent reports regarding outsourcing, law firms have been looking at creative ways to offshore legal work at a fraction of the cost. Law firm training has remained relatively stagnant over the years, and there are no changes being proposed by law schools to improve the practical skills of its graduates. The answer here seems rather clear.

As for compensation, if you're a law firm associate, chances are you will receive a smaller paycheck in 2010. An American Lawyer survey of law firm leaders found that 40 percent of the firms had reduced starting pay for their associates, and 44 percent are considering cuts next year. If you are counting on bonuses, these are disappearing almost as fast as our polar ice caps. They are unlikely to increase overall compensation figures for 2010.

What about fixed fees? Due to intensifying focus on expense control, total overhead expenses decreased 0.6 percent from the previous year in the first three quarters of 2009 according to [www.constantcontentblog.com](http://www.constantcontentblog.com). Law firms cut expenses and saw decreases in the areas of non-lawyer compensation, including occupancy, technology, library, marketing etc. That trend is likely to continue into the New Year. One has to wonder where the impetus for a 3.2 percent increase came from.

Could law firms try to freeze their rates for two consecutive years in a row? Yes, but are they ready to continue to deal with decreased profitability? The answer is evidently no. Partner-per-profit concerns continue to gnaw away at law firm leaders who are scrambling to find solutions to keep these profits from decreasing any further. A 5% partner-per-profit decrease seemed to take law firms into a tailspin of unprecedented layoffs, salary cuts, delayed starts dates, and other cost cutting measures. When Clifford Chance reported a record 30% decrease in partner profits; the news reports were full of dread. Of course, partners still took home a hefty \$900,000 a year. That made for fewer sympathetic readers.

When the Am Law 100 showed yet-another-across-the-board 5 percent bump in profitability, you would have expected compensation figures to hit rock bottom. Profits per partner fell by 4.3 percent, to an average of \$1.26 million, and revenue per lawyer dropped 1.2 percent, to \$818,000. One might argue that if you were already overweight, losing 5% of your body weight is not such a big deal. I guess it's all relative.

If law firms are relying on client goodwill to support this proposed rate increase, they may have to rethink their strategy. According to a recent Reuters press release, for the first time in nine years in-

house counsel predict they'll pay no increase in outside law firm hourly rates. 64 percent said they have implemented or will implement rate freezes. 46 percent of law departments surveyed said they have cut their hourly rates paid to outside counsel, or will reduce their rates. That still leaves a rather significant 36 percent who may go along with rate increases, and 56% who will be requiring as much if not more legal services for 2010, which is probably what law firms are banking on.

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