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IBJ NEWS

Indianapolis law firms raising rates again

Scott Olson May 15, 2010 **KEYWORDS** ASSOCIATES, ATTORNEYS, ECONOMIC RECOVERY, ECONOMY, INFLATION, LAW, LAW FIRMS, PARTNERS, RECESSION

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Recession's over. Time for law firms to get cracking on raising rates.

Firms don't dare demand the 6-percent to 8-percent increases they enjoyed before the recession. Corporate clients with little wiggle room to ratchet up their own prices are in no mood for bigger bills.

Law firms can, however, shoot for middle ground. And they are.

An *IBJ* survey of the largest firms in Indianapolis shows that most plan to charge as much as 3 percent more this year.

The intentions, which come at a time when inflation is virtually nonexistent, nevertheless are in line with findings of a national survey late last year by Altman Weil Inc., a suburban Philadelphia consultant to law firms.

Many firms held the line or even cut prices during the recession, Altman Principal Tom Clay noted.

"This is an attempt to start to make up some of that ground."

IBJ polled the top-10 firms in Indianapolis, measured by number of attorneys, to determine how many raised rates this year and by how much. Six managing partners responded, indicating their increases largely were lower than, or in line with, the Altman Weil findings.

Toby McClamroch, who has been managing partner of Bingham McHale LLP for five years, said his firm raised rates about 3 percent. But McClamroch added that clients have grown extremely sensitive.

"We spend more time openly discussing rates and invoicing issues with clients than we ever have," he said.

Client perceptions are tempering rate increases at the Indianapolis office of Cincinnati-based Taft Stettinius Hollister LLP. The local office hiked fees an average of just 1 percent in 2009 and 1.5 percent this year, Managing Partner Robert Hicks said.

"We did not want to be perceived in any way, shape or form as jumping on our clients who may be struggling with the economic conditions," Hicks said.

Other firms were less forthcoming about the traditionally taboo topic

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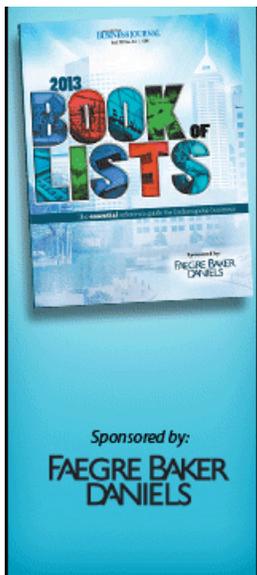
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of rates. Barnes & Thornburg LLP and Ice Miller LLP—two of the city’s largest law firms—declined to participate.

“Any information concerning our rates or other such issues are internal business matters and we prefer to communicate directly with our clients about such matters,” an Ice Miller spokeswoman wrote in an e-mail.

Krieg DeVault LLP and Hall Render Killian Heath & Lyman PC also chose not to take part.

Across-the-board raises rare

Lawyers command greater fees as their experience rises. Associates at larger Indianapolis law firms typically charge \$150 to \$200 an hour, though prices range as low as \$130 to as high as \$220.

Partners earn more—usually \$200 to \$350 an hour, although the fee can rise for high-profile lawyers or for counsel involving complex litigation.

In this economy, it’s more difficult to justify raising rates for partners already at the upper end of the pay scale, several managing partners said. They instead instituted rate increases at the associate level, which likely were easier for clients to swallow.

Scopelitis Garvin Light Hanson & Feary has resisted raising compensation for its most senior partners since the end of 2008, Managing Partner Greg Feary said.

“Clearly, when you’re talking about your highest rates,” he said, “that’s where the greatest sensitivity would be.”

At the other end of the spectrum, Baker & Daniels Managing Partner Tom Froehle is equally sensitive about raising fees for new associates. Their rate has remained unchanged for three years. Partners, meanwhile, are given more discretion in deciding what they should charge, though many have conceded that, for now, their rates can’t move higher, Froehle said.

“There’s no question that there’s a concern [among clients] about brand-new lawyers making a ton of money,” he said.

So Baker & Daniels’ fee increase, which evens out to about 3 percent, is most evident among experienced associates, Froehle said.

Bose McKinney & Evans has taken a similar approach. Hourly rates for starting associates stayed the same, while those ascending to partner earned a rate increase of nearly 3 percent, Managing Partner Jeff Gaither said. He assumed leadership of the firm in March after spending 27 years as a business litigator.

The rate hike is less than the 5-percent annual increase Bose McKinney might normally command. Still, one large client proposed receiving a discounted rate if it committed to at least \$1 million in legal fees.

Did Gaither acquiesce?

“We reached an agreement that both sides are comfortable with,” he said.

Alternative fees gain steam

Hourly rates have been a staple among Indianapolis law firms, both large and small, for decades. Yet firm leaders are slowly accepting alternative fees for certain types of practice areas.

The most common example is a flat fee in which clients are charged a set amount up front rather than receiving an estimate that could be much larger once the work is finished.

Most firms are embracing flat fees for legal work that involves a large amount of repetition, such as estate planning, so it’s simpler to gauge how many hours might be necessary.

Local legal consultant Bob Birge is a big advocate of alternative fees, arguing that firms that continue to avoid the progressive billing run the risk of losing business to competitors more willing to embrace

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it.

“As long as the economy remains floundering, clients will be looking for some sort of relief from their lawyers,” he said. “The use of alternative fees may be both fiscally responsible, as well as responsive to your client.”

In fact, Birge contends that alternative fees, if used properly, can produce more revenue for law firms than traditional hourly billing.

The Indianapolis office of Frost Brown Todd LLC held its hourly rates steady in 2009 and raised them about 3 percent this year, Managing Partner Nelson Alexander said.

Even so, the firm is evaluating the use of alternative fees as aggressively as its clients are requesting them.

“Let’s be honest, law firms are in the service business,” Alexander said. “We have to continually modify our business value to suit our client base.”

Feary at Scopelitis concurred. He likened client requests for flat fees to consumers shopping for the best deal on a new automobile.

“When you walk on a car lot, do you feel more empowered as a buyer than ever before?” Feary asked. “It runs across all markets and segments. Bargaining with lawyers is not really going to be an exception.”•

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