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## An Increase in Hourly Rates? Get Ready for a Fight

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Last month, Susan Blount, the general counsel of Prudential Financial, sent a letter to the 60 law firms the insurance giant uses regularly. The letter addressed the general economy and the need to cut costs, but one announcement stuck out: Prudential informed the firms that in calendar year 2010, the company expected to pay for legal services at 2008 hourly rates. It wasn't a request as much as a take it or leave it deal, Blount says.

"The response," Blount says, "has run the gamut, from acceptance to disgruntled acceptance to firms saying, 'You just don't understand!'"

Blount, of course, is not alone in her quest to control legal costs. Law firm and legal department consultants say GCs are looking for at least a freeze on rates in the coming year. Many are asking for cuts to 2009 billing rates of as much as 15 percent, says Ward Bower of Altman Weil.

Paul Hurd, general counsel of Daimler Trucks North America, already instituted a significant rate cut a year ago, when he asked the 75 firms Daimler uses to set 2009 billing rates at about 90 percent of 2008 rates. What does he have in mind for 2010? Hurd says Daimler will ask firms to stick with the current hourly rate. That translates to an hour rate in 2010 that is lower than the firms' 2008 rates.

All this comes against the backdrop of [an Altman Weil survey](#) indicating that law firms, on average, are projecting an increase in 2010 hourly rates of about 4.1 percent, with the largest U.S. firms (those with 500 or more lawyers) expecting an even (slightly) higher increase. The Altman Weil results largely mirror those from *Corporate Counsel* sibling publication [The American Lawyer's recent Law Firm Leaders Survey](#) on 2010 hourly rates.

"There's an inevitable collision here," Bower says. "And I think the corporations are going to prevail."

"It's a buyer's market," says Bradford Hildebrandt, the chair and founder of the consulting company Hildebrandt International.

The Altman survey (which drew responses from 288 firms, including 45 percent of the firms in the "NLJ 250") includes some anonymous respondent comments indicating that firm leaders expect the billable increase fight to be tough. "Most clients are not honoring rate increases in 2010, just like in 2009," one respondent writes. Another is a bit feistier: "Firms need to push back on the clients' unreasonable demands to hold rates at 2008 levels and give a 15 percent discount off of those rates."

How hard will the firms fight? Are they willing to lose client business in order to take a stand on rates? Hurd says only "a couple" of the firms Daimler Trucks uses parted ways with the company over last year's rate cuts. Blount says that none of the 60 firms Prudential contracts with have said "no thanks" yet, though she says she is receiving letters from firms explaining why the proposed cuts shouldn't apply to them. "They are detailing why they are special," she says. But she is ready to defend the cuts. "We find ourselves at an economic crossroads in 2009," she says. "We have a special obligation to the company to be smart purchasers of legal services. We're not trying to undermine the economics of law firms. We are looking for the right way to get high quality work for our company at a reasonable price."

Like other GCs we've talked to, Blount is open to alternative fees and fixed rates, and she's looking to give more business to mid-sized firms. She's also willing to offer firms the carrot of more business in exchange for discounted costs.

Even as such arrangements become more common, everyone agrees that the billable hour remains king. "I've been doing

this for 30 years, and people keep talking about the death of the billable hour," Hurd says. "But it's still around."

And that will make for some interesting back-and-forth as 2010 rates get set over the next few weeks.

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