



Thomson Reuters Institute

# Law Firm Billing Efficiency and Write Downs

# Executive summary

In an attempt to explore what types of tasks lead to inefficiencies for lawyers and therefore hurt productivity, we surveyed 245 respondents from law firms with 11 or more attorneys.<sup>1</sup> We asked them a series of questions related to their firms billing practices, as well as their own practices with regard to how they handle billing their own time and the time of the attorneys for whom they bear billing responsibility.

## Key findings:

- Despite much discussion over the past decade regarding alternative fee arrangements (AFAs)<sup>2</sup>, hourly billing remains by far the dominant model with 94% of partners identifying it as their primary billing model
- The average up-front discount offered by partners was 11.2%, very close to a threshold that is commonly set by firms as the point above which a partner must seek some form of approval
- There is some debate over the impact of proactive efforts to manage a client's bill with nearly as many partners believing their efforts to manage the client's bill has a negative impact on profitability (31%) as believe it has a positive impact (36%). On the other hand, 80% of chief financial officers responding to the survey believe that efforts to manage the client bill have a negative impact on profitability
- 43% of partners report reducing a bill because the time spent exceeds the partner's expectations, but only 14% report reducing a bill because they are concerned the client will challenge the bill, suggesting a disconnect between what the attorney thinks and what they think the client thinks
- 46% of partners do not apply a specific percentage when reducing a client bill, they "reduce by a specific dollar amount to make the client bill work"
- When asked about specific work tasks that lead to lost time, the three most common reasons partners write down time for those they supervise are the junior associate learning curve, an associate or staff took longer than expected to complete a task, and online legal research
- 41% of partners believe it is "extremely important" to reduce the number of hours worked but not billed

<sup>1</sup> A breakdown of firm demographics can be found in the appendix at the end of this report.

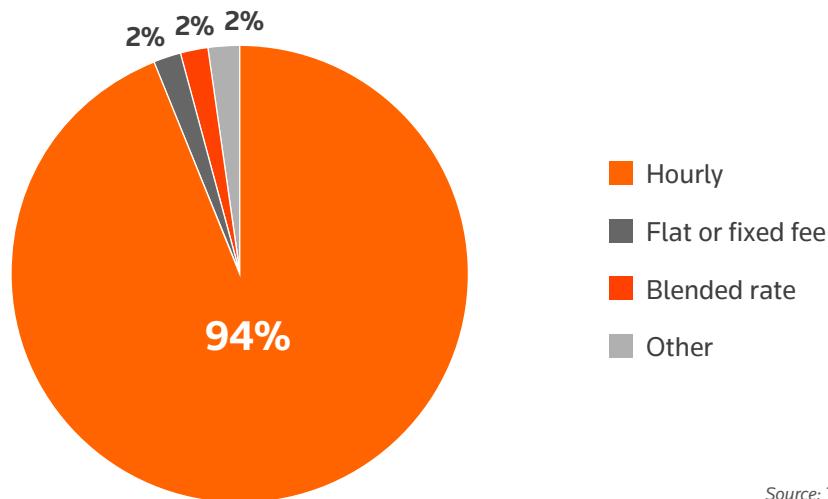
<sup>2</sup> AFAs are also commonly call alternative billing arrangements, custom fee agreements, etc. For the purposes of this study, we asked participants to distinguish between matters billed on an hourly basis, even if billed at a rate other than their standard hourly rate, and those billed in some alternative fashion. Matters with discounted hourly fees were considered to be hourly matters, not AFAs.

- 26% of partners also said it was “extremely important” to reduce the number of hours written down due to associates or staff taking too long to complete tasks and correcting or revising an associate’s work
- 66% of partners believe that their organization writes down about the same number of hours as peer organizations
- 58% of partners believe that they themselves write down about as much time as other partners do
- The number one reason partners fail to report their own worked time is because they were getting up to speed on a new or unfamiliar area of law. Correcting or revising an associate’s work was the third most common response
- 75% of junior associates report not knowing what their hourly rate is after discounts are applied

# Survey results and findings

Hourly billing remains the extremely dominant primary form of law firm billing, despite extensive discussions about alternative billing methods for the better part of a decade.

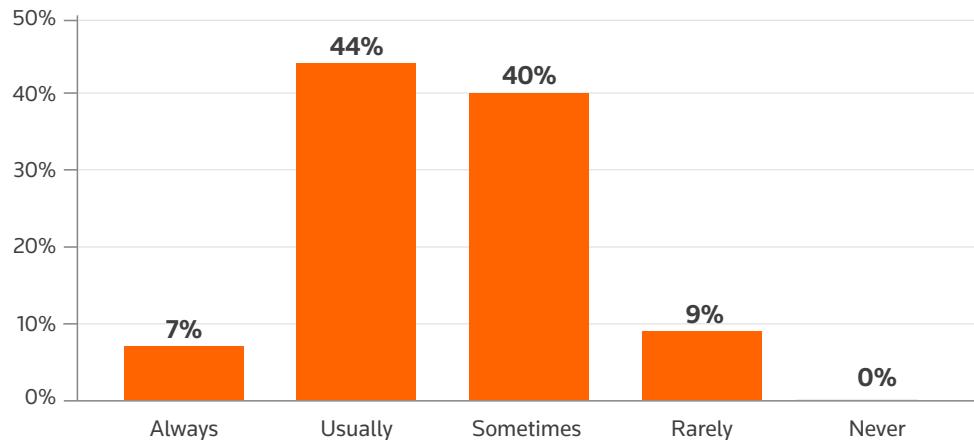
## Firm's primary billing policy



Source: Thomson Reuters

Even as clients express an increasing desire for matter budgets, 49% of partners responding to the survey report that they provide estimate of the cost of work only “sometimes” or “rarely” compared with just 7% that report they “always” offer such estimates.

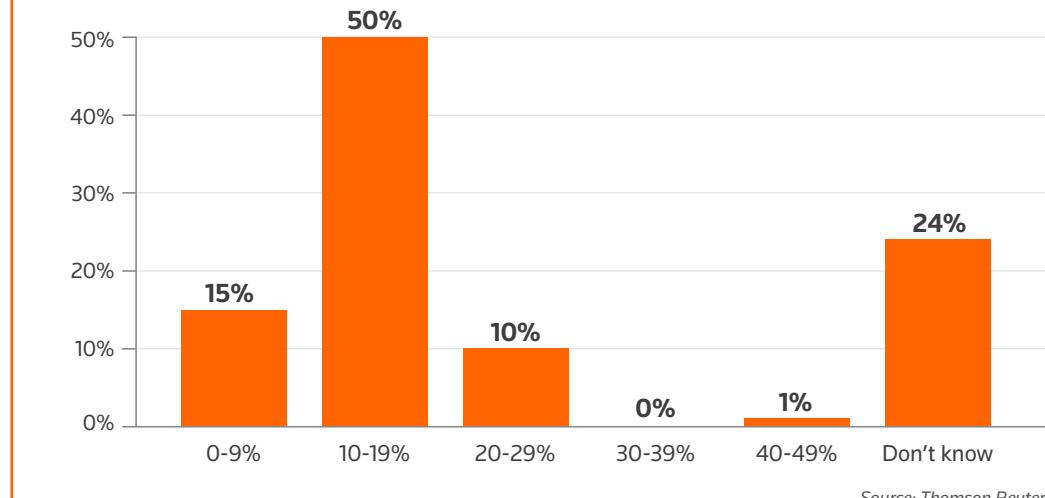
## Firm's primary billing policy



Source: Thomson Reuters

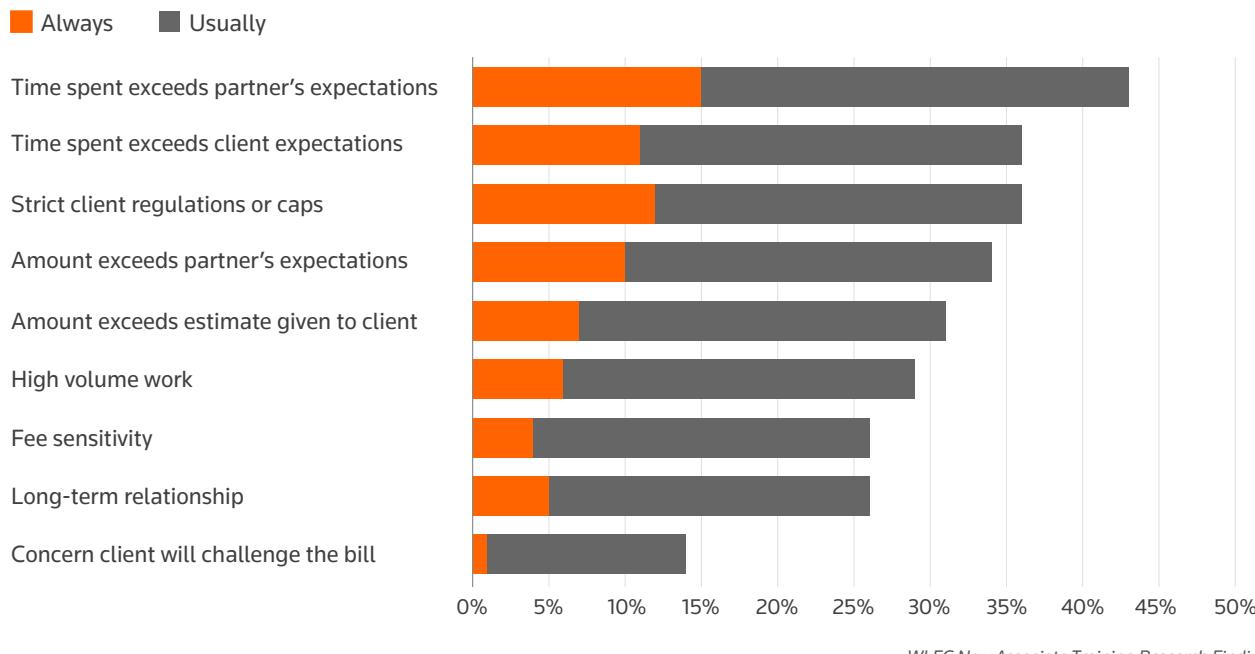
The majority of respondents report offering an average up-front discount of between 10% and 19%, with the mean discount being offered at 11.2%. Many firms have adopted policies allowing partners to discount up to 10% without seeking additional approvals, which likely explains why the mean discount reported in this survey falls so close to that mark.

### Average up-front discount



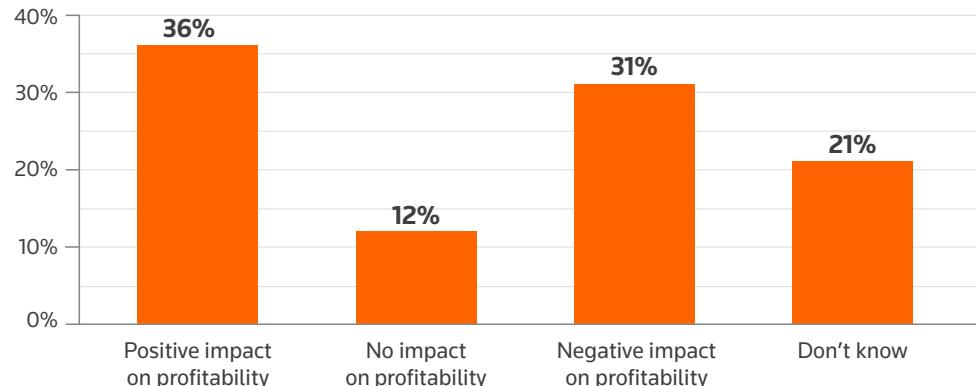
Partners most often said that they “always” or “usually” make proactive adjustments to a client bill because the time spent exceeded the partner’s expectations (43% of respondents). This is compared to the 36% of partners who gave similar responses because the time spent exceeded expectations set by the client. Only 14% of respondents said they “always” or “usually” adjust a client bill because they are concerned that the client will challenge the bill.

### Frequency of situational adjustments



Nearly as many partners believe that their efforts to manage a client's bill had a positive impact on profitability compared to those who believe it has a negative impact.

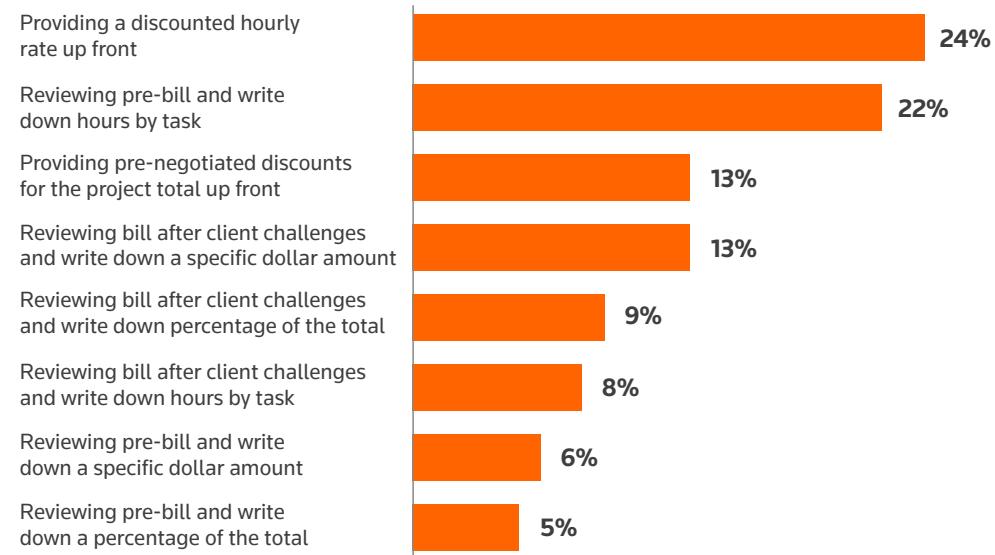
### Client bill management impact on profitability



Source: Thomson Reuters

More respondents said that up-front discounts to hourly rates and pre-bill reviews and write downs had the greatest impact on profitability.

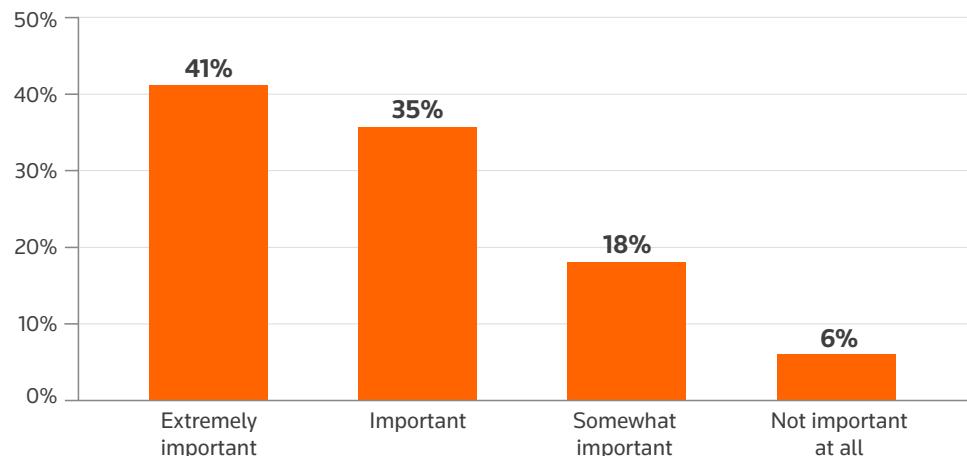
### Approach with greatest profitability impact



Source: Thomson Reuters

Forty-one percent of partners rate reducing the amount of hours that are worked but not billed as “extremely important.” Overall, the vast majority of partners believe that reducing the amount of non-billed work time needs to be reduced. This indicates that there is a large appetite for creating greater efficiency within attorney workflows if properly introduced and implemented as a way to reduce non-billed time.

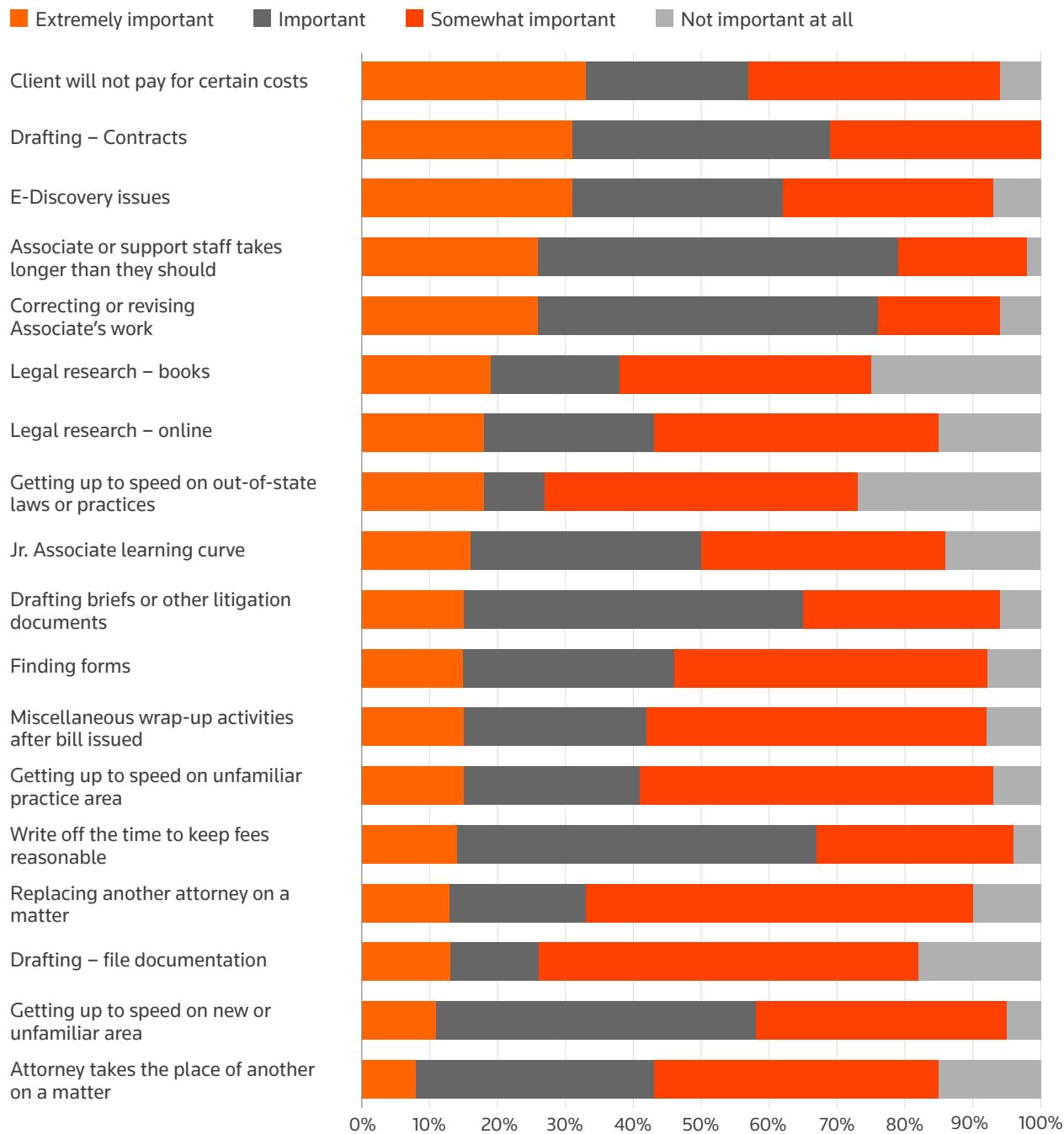
### Importance of reducing non-billable hours



Source: Thomson Reuters

Interestingly, partners were most likely to rate reducing the amount of time not billed due to clients’ unwillingness to pay for certain costs as “extremely important” compared to other tasks. This is intriguing because, of all the tasks listed, this is the task over which partner arguably exercise the least control.

## Importance of reducing non-billable hours

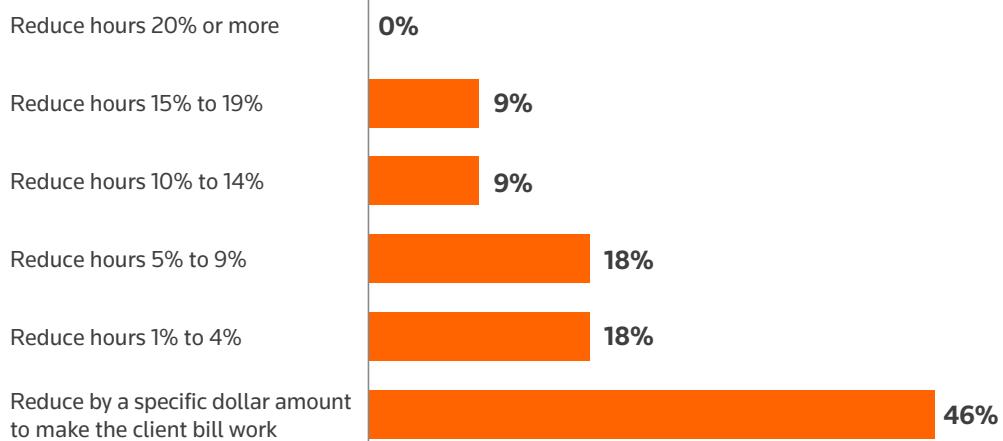


Source: Thomson Reuters

A plurality of partners report that they do not use a specific methodology or formula when calculating the amount of time to write down or write off from a client's bill. Instead, they "reduce by a specific dollar amount to make the client bill work." This shows consistency with the findings related to how frequently and for what reasons partners proactive adjust a client bill. Both sets of findings show a propensity for partners to manage bills based on, for lack of

a better term, 'gut feeling.' Both also show that many partners commence work on a matter with at least an expectation of what the final cost of the matter to the client should be. If directed properly by experienced pricing professionals, these propensities could help improve the popularity and efficacy of AFAs.

### Methods Applied for write downs and write offs

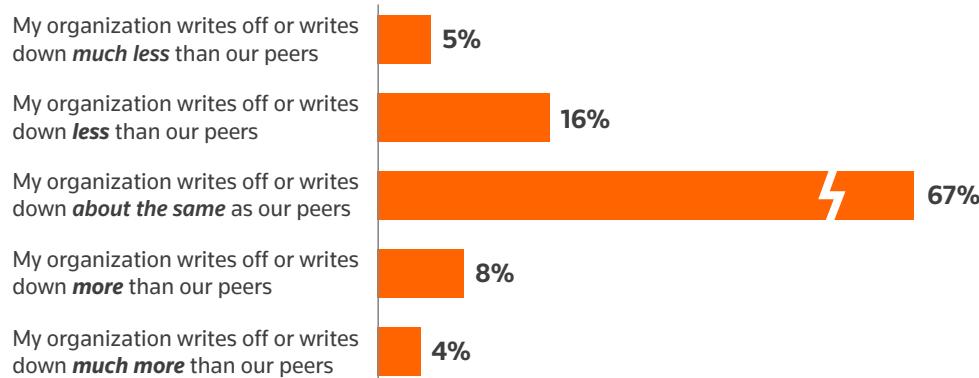


Source: Thomson Reuters

A majority of partners, senior associates, and junior associates all believe that they write off or write down about the same amount of time as their peers, whether with regard to their own time or broadly for the firm as a whole. In contrast, CFOs were evenly split between those who felt write downs and write offs by their firms were on par with peer firms and those who felt their firms lost more time than their peers. Interestingly, relatively few respondents described themselves or their firms as writing down or writing off less time than their peers.

### Peer comparison of writing off or writing down hours

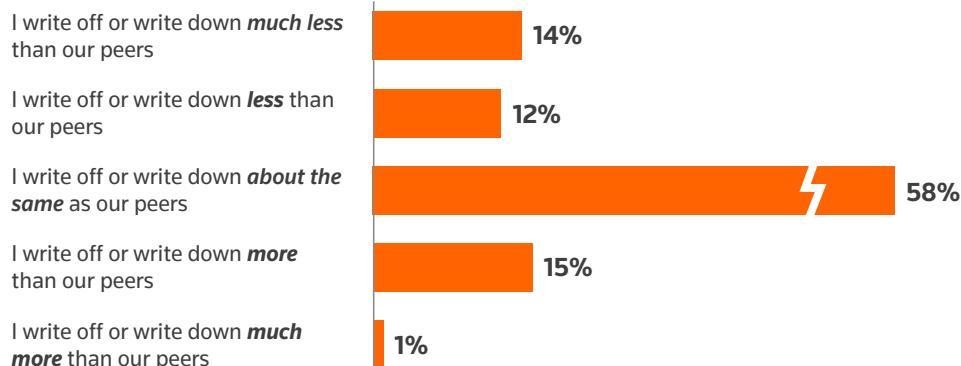
#### Partners



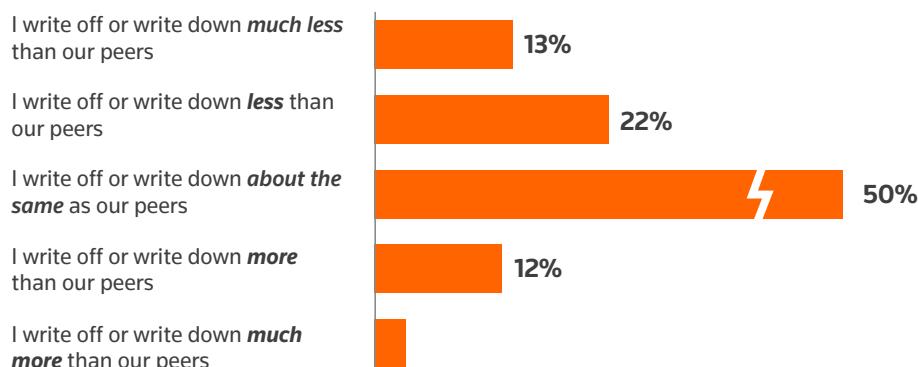
Source: Thomson Reuters

## Peer comparison of writing off or writing down hours

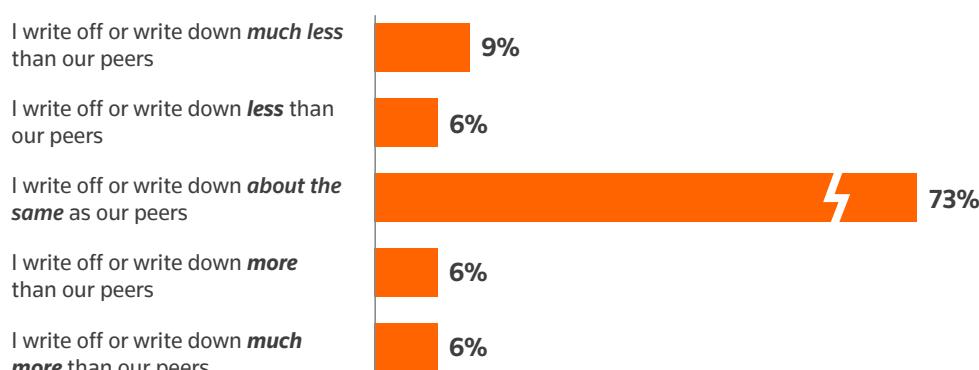
### Partners



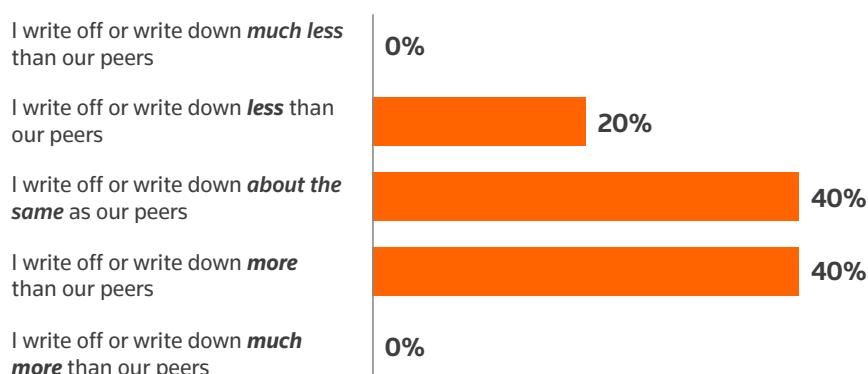
### Sr. Associate



### Jr. Associate



### CFOs



Source: Thomson Reuters

# Reported time written down

Silent write offs by partners<sup>3</sup> account for over 76 hours and nearly \$47,000<sup>4</sup> per partner per year in lost potential fees.

Task	Hours	Cost of partner silent write down by task
Getting up to speed on a new or unfamiliar area of law or practice area	19.4	\$11,950
Miscellaneous wrap-up activities that take place after the bill has been issued	14.1	\$8,686
Correcting or revising an associate's work	14.0	\$8,624
Legal research – online	8.7	\$5,359
Replacing another attorney on a matter	4.0	\$2,464
Finding Forms	4.0	\$2,464
Drafting – briefs or other litigation documents	2.7	\$1,663
E-Discovery issues	2.6	\$1,602
Getting up to speed on laws or practices out of your state	2.5	\$1,540
Legal research – books	2.4	\$1,478
Drafting – meeting notes or minutes	1.5	\$924
Negotiating contracts	0.2	\$123
<b>Total cost of silent write downs per partner</b>		<b>\$46,878</b>

Source: Thomson Reuters

<sup>3</sup> "Silent write downs" is a term we use to refer to time spent working on a matter for which the attorney has at least mentally accounted, but which they ultimately do not report to the firm's time and billing system. The most commonly cited reasons for engaging in a silent write down include "does not produce a tangible result or product to show the client," "learning curve time," and "complexity of the task makes it difficult to predict time."

<sup>4</sup> Dollar figures for partner hours are derived by multiplying the hours reported as written down by the average annual worked rate for partners in 2019 as reported by Thomson Reuters Peer Monitor of \$616.

Partners write off over 300 hours of their own potentially billable time even after it's been reported to time and billing as part of the pre-bill review process, accounting for nearly \$190,000 of lost potential fees.

Task	Hours	Cost of write down by task
Correcting or revising an associate's work	53.1	\$32,710
Write off time to keep fees reasonable	52.4	\$32,278
Getting up to speed on a new or unfamiliar area of law or practice area	51.9	\$31,970
Miscellaneous wrap-up activities that take place after the bill has been issued	36.6	\$22,546
Client will not pay for certain costs	27.5	\$16,940
Legal research – online	20.6	\$12,690
Drafting – briefs or other litigation documents	14.8	\$9,117
Replacing another attorney on a matter	12.2	\$7,515
E-Discovery issues	7.4	\$4,558
Getting up to speed on laws or practices out of your state	7.0	\$4,312
Legal Research – books	5.6	\$3,450
Creating forms	4.5	\$2,772
Drafting – contracts	4.5	\$2,772
Drafting – file documentation	4.1	\$2,526
Finding Forms	3.7	\$2,279
Negotiating contracts	1.3	\$801
Drafting – meeting notes or minutes	0.7	\$431
<b>Total cost of write downs per partner</b>		<b>\$189,666</b>

Source: Thomson Reuters

An additional 8% of partners don't attribute write downs to specific tasks.

Partners also bear responsibility for managing the billing for the time spent by other timekeepers working on matters for which the partner bears ultimate billing responsibility. This results in additional lost potential fees for the law firm.

Task	Hours for Junior Associates	Cost of Junior Associates time <sup>5</sup>	Hours for Senior Associates	Cost of Senior Associates time <sup>6</sup>	Hours for other Partners	Cost of other Partners time
Junior associate learning curve	84.6	\$30,964	NA	NA	NA	NA
Associate or support staff takes longer than should be needed to complete a task	52.6	\$19,252	20.4	\$9,078	16.5	\$10,164
Getting up to speed on a new or unfamiliar area of law or practice area	35.3	\$12,920	7.4	\$3,293	6.0	\$3,698
Legal research – online	31.5	\$11,529	12.2	\$5,429	9.9	\$6,084
Drafting – briefs or other litigation documents	25.6	\$9,370	9.9	\$4,406	8.0	\$4,947
Correcting or revising associate's work	23.6	\$8,638	9.1	\$4,050	7.4	\$4,561
Client will not pay for certain costs	24.3	\$8,894	9.4	\$4,183	7.6	\$4,708
Replacing another attorney on a matter	10.6	\$3,880	4.1	\$1,825	3.3	\$2,041
Write off the time to keep fees reasonable	20.9	\$7,649	8.1	\$3,605	6.6	\$4,047
Miscellaneous wrap-up activities that take place after a bill has been issued	10.5	\$3,843	4.1	\$1,825	3.3	\$2,039
Attorney takes the place of another on a matter	10.9	\$3,989	4.2	\$1,825	3.4	\$2,113
Legal research – books	9.6	\$3,514	3.7	\$1,647	3.0	\$1,859
Drafting – file documentation	8.8	\$3,221	3.4	\$1,513	2.7	\$1,693
Drafting – contracts	4.1	\$1,501	1.6	\$712	1.3	\$798
E-Discovery issues	6.7	\$2,452	2.6	\$1,157	2.1	\$1,290
Finding forms	3.0	\$1,098	1.2	\$534	1.0	\$590
Getting up to speed on laws or practices out of your state	2.8	\$1,025	1.1	\$490	0.9	\$540
Drafting – meeting notes or minutes	1.3	\$476	0.5	\$223	0.4	\$247
Creating forms	1.6	\$586	0.6	\$267	0.5	\$306
<b>Total cost</b>		<b>\$134,798</b>		<b>\$46,058</b>		<b>\$51,725</b>

Source: Thomson Reuters

<sup>5</sup> Dollar figures for junior associate hours are derived by multiplying the hours reported as written down by the average annual worked rate for associates with between 1 and 5 years of experience in 2019 as reported by Thomson Reuters Peer Monitor of \$366.

<sup>6</sup> Dollar figures for senior associate hours are derived by multiplying the hours reported as written down by the average annual worked rate for associates with more than 5 years of experience in 2019 as reported by Thomson Reuters Peer Monitor of \$445.

Junior associate silent write downs add an additional level of complexity and potential fee loss, with the added difficulty that such time loss is incredibly difficult to measure or manage.

Task	Hours	Cost of Junior Associate silent write down per task
Getting up to speed on a new or unfamiliar area of law or practice area	13.6	\$4,978
Legal research – online	8.2	\$3,001
Miscellaneous wrap-up activities that take place after a bill has been issued	7.2	\$2,635
Finding forms / model documents	4.9	\$1,793
Legal research – books	2.6	\$952
Correcting or revising associate's work	2.4	\$878
Getting up to speed on laws or practices out of your state	1.6	\$586
Client Intake	1.4	\$512
It varies; it is just time that I don't capture	1.4	\$512
Emails	1.4	\$512
Filing	1.1	\$403
Replacing another attorney on a matter	1.0	\$366
E-Discovery issues	0.9	\$329
Drafting – client memos	0.7	\$256
Drafting – briefs or other litigation documents	0.6	\$220
Budgeting	0.4	\$146
Negotiating contracts	0.2	\$73
<b>Total cost of silent write downs per Junior Associate</b>		<b>\$18,154</b>

Source: Thomson Reuters

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