Billing Rate Gap Widens as Big Firms Demand Ever-Higher Premiums

When it comes to hourly billing rates, the largest firms have pulled even farther ahead.

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Bigger may not always be better, but there's no denying that partners at bigger law firms are able to get away with ever-higher hourly billing rates compared with their smaller-firm counterparts.

That was one of the takeaways from a report released Tuesday by CounselLink, LexisNexis' legal pricing data service, and it echoes the news from other recent law firm billing rate studies.

CounselLink analyzed 2017 partner billing rates at firms with 750 or more lawyers and compared them with rates at firms with 501 to 750 lawyers. The study found that the gap between the two groups widened by 11 percent over 2016, with the bigger firms now demanding a whopping 45 percent higher rate on average than their less gigantic counterparts.

To reach their conclusions, CounselLink researchers analyzed 2017 data derived from $30 billion in legal spending, including almost 7 million invoices and about 1.7 million legal matters.

Kent Zimmermann, a Chicago-based consultant at Zeughauser Group, wasn't surprised by the findings. "This is further evidence of the benefits of scale," he said.

Other recent reports have shown that when elite firms hike their published rates, their realization rates increase faster than at firms publishing smaller rate increases.

When hiking rates, big firms have the advantage of momentum, Zimmermann said. "With scale, firms can grow their breadth and depth and quality in less rate-pressured practices and, by doing that, those firms tend to command higher rates than the rest of the pack," he said.

The phenomenon builds on itself. The larger firms, precisely because they charge higher rates, have access to larger profit pools and may use that money "to spend on highly sought after lawyers" in practices such as M&A and private equity, Zimmermann said.

"Smaller firms generally don't have the resources to get as many as those high-quality, high-rate people," he said.

Bolstering that thesis, the CounselLink report showed that the larger firms dominated in the M&A area—a practice for which rates rose higher, at more than 4 percent, than for all other practices except corporate, tax and IP.

The larger firms were responsible for 68 percent of the billings generated by M&A transactions, reversing a trend shown in prior years' CounselLink reports that showed such work shifting to the second-largest tier of firms.

For those lawyers who are not at big, often New York-oriented firms, there's some silver lining in the report's finding that rate increases were a bit more widespread geographically in 2017. The report showed that Seattle, Chicago, Los Angeles and Boston all rivaled New York for partner billing rate increases. The Big Apple firms still led the pack, with a 5.7 percent growth rate. But firms in those other cities experienced greater than 4 percent annual growth in their rates. Nationwide, partner rates increased an average of 3 percent, with Minnesota, Georgia, Oregon and California seeing the highest increases on a statewide basis.

In a similar trend, a slighter broader group appeared to be grabbing more client matters, with CounselLink showing that clients' consolidation of their outside law firm had stabilized. According to the report, 60 percent of companies in the data pool have 10 firms or fewer accounting for at least 80 percent of outside counsel fees. In 2016, 62 percent of the surveyed companies were in that camp.