Alternative Fee Arrangements for Law Firms: 9 Examples

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When it comes to law firm billing, hourly billing is still a mainstay of the legal industry. But the billable hour is no longer the *only* option for law firms. Alternative fee arrangements (also known as AFAs) can fill gaps, complement your practice's billing structure, and benefit your clients and firm.

Law firms can reach more clients by offering hourly billing and setting prices for other services. These might include drafting a will or unbundled fees. Alternative fee arrangements could also help fill the access to justice gap. They do this by helping clients who might otherwise be unable to afford legal services.

In this blog post, we'll explore the benefits of incorporating alternative fee structures for law firms. We'll also dive into the most common types of alternative fee arrangements that could benefit your law firm and clients.

Why should your law firm consider alternative fee arrangements?

Hourly billing continues to be a significant part of law firm billing. But there are many potential benefits to incorporating alternative billing structures into your overall firm strategy, as outlined below.

Improve law firm billing workflows

Although the billable hour is the standard billing method, it's not always the most transparent billing choice. Alternative fee arrangements provide more price transparency for clients. Because alternative fee arrangements can provide more price clarity upfront, lawyers can set clearer client expectations from the start. By setting clear expectations, lawyers can save time and energy on explaining bills to confused clients.

Moreover, with alternative fee structures (like flat fees), a lawyer's value isn't measured by the number of hours billed. Instead, law firms measure lawyers by the results that they achieve for clients. Asking clients to pay for results instead of process incentivizes legal professionals to work more efficiently. However, for this fee structure to work, attorneys need to identify the resources required to produce a favorable result.

Lawyers can optimize their billing workflows via a combination of alternative fee arrangements and law practice management software like Clio Manage. Using alternative fee structures and legal software can also improve lawyer wellness and help lawyers achieve long-term success. Billable hours requirements often fuel long lawyer working hours, which can lead to lawyer burnout. By being more efficient and results-oriented, lawyers can focus on serving clients and achieve better work-life balance.

Technology can make it easier for lawyers to track time and offer clients greater clarity and predictability to billing workflows. For example, Clio's intuitive flat fee feature immediately adds a billable amount under the Work In Progress area of a Matter. In addition, you can also track your time spent.

Potentially improve on law firm collections

Beyond helping lawyers become more efficient in their workflows, alternative fee arrangements can also benefit law firms financially. When clients can pay more easily, law firms will more likely get paid.

Clients who face legal problems can't always afford to take on a large legal invoice. According to the *2017 Legal Trends Report*, 44% of firms found that clients don't pay their bills because they lack the funds to pay all at once. If a client can't pay, they either won't seek a lawyer's help, or won't pay their bill. Firms then miss out on potential revenue, or clients may not get the help they need.

When law firms can provide a suitable alternative fee arrangement that makes it easier for clients to pay, everyone wins. Finding an alternative fee structure also helps firms increase their revenues. The best part? Offering alternative billing solutions goes a long way to delivering client-centred service.

Provide a better client-centered service

According to the *2020 Legal Trends Report*, 78% of consumers say that lawyers should adopt pricing and payment models to make legal services more affordable. But can a law firm have client-centered pricing structures but still be cost-accessible and profitable? With the right mix of fee arrangements, yes.

Alternative fee arrangements can offer clients cost predictability. This cost predictability can be a powerful way for lawyers to increase access to legal services in two key ways:

1. **Clients can better assess if they can afford legal assistance**. When clients can determine whether they'll have the funds they need to pursue their legal issue, they can make a more informed cost-benefit evaluation of the situation. Armed with a more accurate cost expectation, clients can better decide if it's the right time to move forward with a legal issue.
2. **Clients want more ways to pay**. Today's legal clients want more payment flexibility. The *2020 Legal Trends Report*notes that the majority of consumers (65%) prefer to pay using electronic forms of payment. In addition to wanting more options for *how* they pay, clients also want options for how law firms structure their billing and services. —

Alternative fee arrangements give clients more flexibility to decide how many services they want to use a lawyer for. For example, clients can use a firm's unbundled legal services or more structured payment options, such as paying a set monthly subscription fee. These options let clients access legal help in a way that better suits their needs.

While law firms need to prioritize providing value to clients, they don't have to sacrifice profitability. For example, simply offering discounts may lower final costs to clients in the short-term. But discounts don't necessarily provide a better client experience. Discounts can also have negative long-term impacts on law firm revenues.

Alternative fee arrangements benefit clients and your law firm

Law firms that want to set themselves apart from the competition need to adapt to these changing client needs and expectations. To adapt, law firms need to offer accessible and affordable legal services to clients. As the *2020 Legal Trends Report*explains, recent studies indicate 86% of civil legal problems faced by low-income individuals receive either inadequate or no legal help at all.

Offering affordable, flexible billing options is critical for satisfying client needs while maintaining law firm revenue. Specifically, the *2020 Legal Trends Report* found that other than positive reviews, customers ranked affordability factors as most important among consumers when asked what makes a lawyer hireable. Affordability factors include pricing, discounts, payment plans, and fixed fee billing structures. These factors are especially true for lower-income clients, who may not be able to afford legal help at regular rates.

Adopting more flexible and transparent legal billing models puts the client experience first. At the same time, underserved consumers can better access legal services. Alternative fee arrangements can benefit clients by helping them find ways to resolve their legal matters while helping lawyers bring in revenue for their firms.

What are the three most common types of legal fee billing?

The most common types of legal fee billing vary depending on a law firm's area of practice. But in general, the three most common billing arrangements are hourly, contingency, and retainer fees.

While the above are the most common type of legal fee billing practiced, alternative fee arrangements are increasingly common in the industry and popular among consumers. In the *2020 Legal Trends Report*, survey data found that 28% of law firms offer unbundled legal services and 8% of law firms offer subscription-based legal services.

9 examples of alternative fee arrangements

Billing by the hour has its place in law firms, but it shouldn't be the default. These nine examples of alternative fee arrangements can benefit your firm and, most importantly, your clients.

Fixed or flat fees

Fixed or flat fees are where clients pay a predetermined fee in exchange for a specific legal service. Flat fees empower customers to feel more in control over their purchasing decision. Also, law firms can focus their resources on completing the legal service instead of explaining bill amounts and charges.

Fixed or flat fees are a better fit for straightforward, repetitive services. Additionally, in some practice areas and types of legal matters, offering this kind of transparent pricing model where possible gives clients a consistent experience. For example, offering a flat fee of $1,000 for drafting a will can provide both clients and attorneys value.

Capped fees

Capped fees use the traditional hourly billing model. At the same time, capped fees also provide clients with an agreed-upon maximum cost or "cap" for a specific matter. For example, a litigation attorney who bills $250 per hour could work on a contract dispute for a client with a capped fee agreement. This might stipulate to charge no more than $10,000 total for all services related to the matter.

This cap gives clients peace of mind and lowers their financial risk. Clients know that they can afford services up to the limit and don't need to worry about an unmanageable, surprise bill. However, this type of legal fee does mean that firms should be able to

reasonably predict the maximum cost of a given matter from the beginning. Otherwise, the firm could risk hitting the cap and having to complete work on its own dime.

Blended fees

Blended fees are another type of alternative fee structure that offer a twist on standard hourly rates.

When a law firm agrees to a blended hourly rate, they charge one average hourly billable rate for work on a client's case. For example, the firm may charge $300 per hour regardless of which attorney completes the work. The firm uses this fixed rate: Whether it's a new attorney who charges $100 per hour, a partner who charges $300 per hour, or a senior partner who charges $500 per hour.

In this way, a blended rate helps shield clients from a higher-than-expected bill if a senior partner completes much of the billable work on their matter. However, if only lawyers with a lower hourly rate work on their matter, the higher cost could disadvantage clients.

Success or performance incentives

Lawyers always want a good result for clients. But alternative fee arrangements that include predetermined success or performance incentives that reward them for achieving a great result for clients can be extra motivation. With this fee structure, firms can pay lawyers for their strengths while also ensuring clients get what they want.

For example, a success incentive could mean that an attorney will receive a certain agreed-upon amount for their legal services whether they win or lose. However, if they win the case and meet specific predefined criteria, they may receive an additional payment based on that success.

Unbundled legal services

A client may sometimes face a legal problem but can't afford to pay for a full scope of necessary legal services. In these cases, offering unbundled legal services can provide more affordable access to legal help in a limited capacity. Unbundled legal services are where clients can choose specific tasks that they can handle and represent themselves. Then, clients can pay for the most pressing legal services they need.

For example, unbundled legal services for a client involved with a divorce case could include an attorney preparing the necessary court documents. At the same time, the client would manage the rest of the case.

Payment plans

As previously noted, the most common reason clients don't pay their bills is their inability to afford the whole bill at once. Offering payment plans can help.

Let's say that you have a client that owes your firm a $5,000 bill. While the client may not have the funds to pay the entire invoice, they may be able to pay in installments of $500 a month. If you set up a mutually agreed-upon payment plan that works for you and your client, your client can pay in a way they can afford. Also, your firm won't lose out on earned revenue—your firm will receive the payment over an extended period.

While it's preferable to have clients pay their bill in full, well-structured payment plans offer a solution that makes it easier for them to pay their bills over time. When clients pay their bills on time, your firm gets paid and can improve its collection rate.

Payment plans also provide an opportunity for firms to simultaneously deliver a better client experience. This could potentially lead to positive reviews and repeat future business. After all, as survey data in the *2020 Legal Trends Report* notes, 72% of consumers would rather pay their legal fees on a payment plan.

Learn more about how to set up payment plans in Clio and alternatives to payment plans.

Sliding scale fees

Affordability is a common factor when consumers look for an attorney. But affordability can also be the difference-maker for clients looking to access legal services. Sliding scale fees, which are based on a client's ability to pay—including factors like household income and family size—allow clients to pay lower hourly or flat fees. These fees are more affordable for clients' specific situations. In short, sliding scale fees are different for different clients. In practice, sliding scale legal fees help narrow the access to justice gap while bringing in more clients to your firm.

For example, if a client faces a legal problem related to their housing, you might normally charge an hourly rate of $200. For a lower-income client, however, you may instead charge a sliding scale hourly rate of $50 for the legal work. This rate is based on the client's ability to pay to access your legal services.

Contingency fees

In instances where clients may not be able to afford a lawyer but have a complex or costly case, like a medical malpractice case, contingency fees might be a good solution. Contingency fees are where you're paid a percentage of a client's pay out if the case is

successful. For example, you may receive 30% of the result if you win your client's malpractice case.

While contingency fees can be substantial if you're successful in a clear-cut case, law firms also have to be careful to stay within legal and ethical boundaries. There are ethical rules to follow, and contingency fees are prohibited in certain types of cases. Lawyers *must* check and abide by your state and jurisdiction's ethics rules before deciding to bill via contingency fees.

Subscriptions

Subscriptions-based fees are where clients pay a set, recurring monthly fee to access services. These fees are similar to how you would pay your gym membership or media streaming service.

When clients subscribe to a predetermined legal services plan, they can benefit from affordable costs for ongoing legal services. For example, a business client could choose a plan to pay a flat monthly fee in exchange for unlimited legal advice, regular document review, and ongoing brand strategy planning. Further, a law firm gains more predictable, consistent work and revenue while simultaneously developing an ongoing relationship with their client.

The idea of offering a subscription fee option may seem scary. But it's important to note that you can and should tailor the concept of the fee model to solve the specific pain points your firm and clients struggle with. This means you and your firm can decide what this model offers and costs clients.

And, with tools like Fidu that help law firms transition to a subscription-based model, offering subscription services at your law firm has never been easier! Learn more here.

Note that you should always customize subscription fee structures to consider factors like your firm's location and practice area, ethics rules, and your clients' needs.

Learn more about how to select the best billing structures to serve your clients and your law firm cash flow.

Alternative fee arrangements are a win-win for everyone

For law firms and clients, finding the best fee arrangements are essential to long-term success. Alternative fee arrangements allow lawyers to serve clients in the most efficient and value-based way. At the same time, lawyers can empower clients to access the legal services that they need.

However, adopting alternative fee structures doesn't mean lawyers no longer need to track their time and project progress. In fact, when offering different fee arrangements, it's more important than ever for firms to be organized and efficient. Legal practice management software can help firms find balance and achieve this.

Hourly billing isn't going anywhere. However, incorporating new alternative fee arrangements alongside hourly billing structures may give your firm more flexibility to serve clients. Not to mention a higher chance of getting paid.

About Clio

Clio is the global leader in legal AI, powering legal work across the profession, from law firms of every size to corporate legal teams, government agencies, and courts. Its Intelligent Legal Work Platform unites the business and practice of law, connecting the people, information, and processes behind legal work. Clio's AI brings the context together with legal sources drawn from Clio Library, a growing collection of more than one billion legal documents. Over 400,000 legal professionals in more than 130 countries rely on Clio to run their legal world. Learn more at www.clio.com.