The Art of Negotiation:
How AI is Changing Law Firm Pricing & Fee Negotiations

By Ken Callander and Brandi Pack, UpLevel Ops

As AI continues to transform how legal work gets done, it's also forcing a long-overdue reckoning with how that work gets priced. In this Q&A**, Brandi Pack**, AI Specialist at UpLevel Ops, sits down with **Ken Callander**, a nationally recognized expert in legal pricing strategy and the newest member of the UpLevel Ops Advisory Team. Ken has spent decades helping legal departments move beyond the billable hour—designing data-driven fee structures that prioritize outcomes over effort. Together, they explore how generative AI is disrupting traditional law firm economics and what legal teams can do to drive smarter, more strategic fee negotiations.

Brandi: Tell us about your role at UpLevel Ops.
Ken: I work with corporate legal departments across a wide range of industries—from tech to healthcare to private equity—helping them extract greater value from their outside counsel. I focus on moving off the billable hour and over to value-based fee arrangements, pushing back against unsustainable rate increases, and aligning firm incentives with client outcomes. It's part strategy, part advocacy, and always grounded in analytics and results.

Q: Clients are super frustrated about the huge annual rate increases they are seeing from their firms. What can they do about it?
A: The first step is understanding that legal departments *do* have leverage—they just need to use it. In 2024, average law firm billing rates rose **6.5%**, the highest since the Great Financial Crisis, even though inflation was just **2.3%**. Economic fundamentals don't justify that kind of "gravity-defying" increase. Too often, corporate legal departments don't push back because of long-standing relationships or lack of internal metrics. Legal departments should establish important performance metrics for each key firm and then tie these metrics to rate discussions. Have a process to capture these metrics at the end of each matter using a simple query to the in-house attorneys responsible for the matter. Have the firm explain what extra value the corporation will be receiving for the part of the increase that exceeds the commercial inflation rate.

In addition, it's essential to negotiate proactively—not reactively. Have your executive team put a rate increase strategy in place at the time you are creating budgets for the next FY (September for CY). Then, proactively send a letter to all your firms in early October stating your rate increase expectations for the next year. This puts the firms on the defensive, having to respond to your expectations rather than you playing defense to each of their letters of rate increase. They most likely will not respond to your "increase expectations" letter and will still send their standard notice of increase letter, to which you can respond with your previous expectations. Again, this puts the firms on defense, explaining why they cannot meet your expectations.

Q: Why do large firms still do most of their work under the billable hour, and why do they have difficulty changing to a value-based model?
A: The billable hour model rewards input instead of output and does not incentivize firms to be efficient (most would say it incentivizes the opposite). Shifting to a value-based model of being paid for deliverables and results instead of effort would require firms to completely restructure their compensation models and leverage ratios. And frankly, law firms are run by senior partners who don't really have incentives to make those types of changes. According to the 2025 *NetDocuments Trends Report*, **67% of corporate counsel expect firms to use cutting-edge tech** like AI—yet many firms lag in adopting alternative fee models that reflect this new efficiency. The use of AI in law firms will reduce the number of hours required to perform specific tasks, which is inherently in conflict with their current revenue model.

Q: What can corporate legal departments do to better align incentives between them and their law firms?
A: Structure fee arrangements to align financial incentives, as much as possible, between the client and the firm.

This might include fixed fees for well-scoped projects, success fees tied to results or specific outcomes, or long-term scope-based contracts for recurring work where the firm can build in process efficiencies. Also, increase a true partnership culture with key firms by having annual or close-of-matter reviews. These reviews should include opportunities for both sides to review metrics and discuss ways to better the relationship. The *Blickstein Group's* survey found that only **33%** of legal departments use consistent metrics to evaluate law firms—and just **25%** of those share the metrics with firms. That's a huge missed opportunity. Incentive alignment starts with clear expectations and mutual accountability.

Q: What is one simple thing that LDs can do to significantly reduce OC spend?
A: Build a simple matter intake process that will align the value of a matter with the value-price point of the firm. Just having a repetitive process that ensures that expensive firms are not working on lower-value matters will significantly reduce OC spend. Many regional and super-regional firms can manage lower-value matters very well at a lower cost. It is useful to know that this type of program is much easier to roll out when the in-house team members have budget management metrics as part of their personal evaluation process.

Q: How is AI putting pressure on law firm billing models?
A: AI automates many tasks that were once billed by the hour— currently starting with contract review, diligence, and legal research, but the list of tasks will only continue to grow. Axiom reports **20–40% efficiency boosts** and higher-quality work product with AI-assisted workflows. That means clients can—and should ask firms at the beginning of each matter how AI will be used and how it will benefit them as a client. Those questions should be followed up with one more important clarification: How will this use of AI reduce total matter spend? I believe that the use of AI will force firms to start billing for the value delivered instead of hours worked in order to maintain their revenue projections.

Q: Do you think AI will make the billable hour obsolete?
A: Not obsolete—but definitely diminished. For bespoke, high-stakes work, the billable hour may still make sense. But for anything repeatable, document-intense, or data-driven, AI is already reshaping expectations. As the *NetDocuments* report points out, **law firms will adopt more alternative billing models** in response to AI's impact on workflows.

Q: What's your advice for companies negotiating legal fees?
A: First, as mentioned above, be proactive in setting your rate increase expectations and then push firms to comply with those expectations, requiring them to explain why they are the exception. The key to any negotiation is to understand both leverage and alternatives. You are the buyer and you always have the option to walk away from the table. Although the firms (and often members of your in-house team) will explain that institutional knowledge and existing relationships are sacrosanct, most attorneys know that almost all legal services are fungible. Make sure your firms face the fact that you have alternatives to using them for legal work and use that as leverage to meet your rate increase expectations. Also, the competitive process through the use of RFPs and other tools (especially with the use of value-based fee arrangements) is a great way to drive down legal spend as it forces the firms to sharpen their pencils. We use both of these methodologies extensively and see savings in the range of 20% - 50% reduction in outside counsel spend with increased predictability.

Q: One final question: If you could have an AI assistant for anything outside of work, what would it do?
A: I would build an AI tutor to teach me a new language that would change how it teaches based on my skills and needs. I took classes in Japanese about 20 years ago, and since I am going to Japan soon, I wanted to brush up.

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