
Value-based pricing strategies for law firms – embracing the future of legal services pricing

By Ken Callander



The pricing of legal services is undergoing a fundamental transformation. What was once labeled “alternative fee arrangements” is rapidly becoming the standard expectation from sophisticated corporate clients. Value-based pricing (VBP) is not merely an alternative to the billable hour – it is an entirely different pricing methodology for legal services that benefits both law firms and their clients.

Over the past decade, we have worked with legal departments at some of the world’s largest technology companies, financial institutions, healthcare organizations, and multinational conglomerates to implement VBP programs. The results have been consistent – clients achieve administrative efficiency, cost savings, and budget predictability while law firms that embrace this model develop stronger client relationships, more predictable revenue streams, and often improved profitability through efficiency gains.

This article provides an updated and expanded view of VBP strategies, incorporating lessons learned from years of real-world implementation across diverse practice areas and matter types.

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The shifting landscape

Corporate legal departments are under unprecedented pressure to manage costs while delivering better outcomes. General counsels are now held to the same budget accountability as every other business unit leader – the days of legal getting “a pass” on budget management are long gone. Meanwhile, hourly rates at major firms have crossed the \$2,000 threshold, prompting the question in their minds: “Where does this end?”

Most other top-tier professional services industries, such as management consulting and accounting, moved away from hourly billing decades ago. McKinsey, Bain, and the Big Four accounting firms price most engagements based on the value of the project to the client, rather than on a cost-plus calculation of hours expended. The legal industry remains one of the last holdouts, but the change, especially in the new world of AI, is now accelerating. For law firms, this shift represents both a challenge and an opportunity. Firms that master VBP can differentiate themselves from competitors, build deeper client partnerships, and potentially earn premiums for superior outcomes that the hourly model would never allow.

To fully understand the nuances of service pricing, one must distinguish between “price” and “value”. For law firms using the standard hourly rate model, there are typically two types of prices – asking price (the published rate) and transactional price (what the firm actually collects). The difference between the two is called realization, and for many firms, the leakage between these prices represents a significant erosion of potential revenue.

There are also multiple types of value – economic, perceived, and strategic. Economic value is the direct financial impact – obtaining a \$15 million favorable judgment for \$1 million in legal fees creates \$14 million of economic value. Perceived value reflects what the client believes is at stake (often different from the face amount of a claim). Strategic value incorporates broader business implications – the precedential impact of a decision, the impact on the corporate brand, the effect on future litigation, or the consequences if a transaction fails to close.

Importantly, under the hourly model, law firms are often not appropriately compensated for the value they deliver. If a partner with a \$1,000 hourly rate saves a client \$10 million in a 30-minute phone call, the firm earns \$500 for delivering \$10 million in value. VBP creates an opportunity for firms to earn compensation that reflects the actual value that they delivered.

The hourly billing model has several fundamental weaknesses that both clients and most firms recognize. There is no fee predictability – a 15% discount on infinity is still infinity, and discounts

do not stop firms from billing additional hours. The client bears all risk with hourly fees – both the financial burden and the risk of a poor outcome – while the firm bears none. And when conversations center on hourly rates, the discussion is always about price and cost rather than the value delivered. The model discourages efficiency – a task that one attorney completes in five hours might take another ten, and the hourly model actually penalizes the efficient attorney. From a business standpoint, it's a bit crazy that law firms are among the few businesses that inherently cap their maximum revenue. A firm achieving 100% utilization and 100% realization has hit its ceiling.

Many firms and clients default to “capped fees”, thinking this provides budget certainty. It does not. A capped-fee arrangement says: “Bill hourly, but we will not pay more than \$X”. This is actually the worst of both worlds. The client must still review every invoice to verify that the hours are reasonable, so the administrative burden remains. The firm faces unlimited downside risk (hours can always exceed the cap) and zero upside if it is efficient. From the firm's perspective, capped fees create a perverse dynamic – if you are efficient, you are only paid for the hours worked; if the matter becomes complex, you hit the cap and work for free. There is no scenario where the firm has potential upside.

True VBP, by contrast, involves fixed fees based on defined scopes of work with clear assumptions. When structured properly, the client eliminates invoice review entirely and knows exactly what they will pay. The firm faces both risks and rewards, as efficiency is rewarded rather than penalized. Both parties benefit when matters resolve favorably and efficiently, and the relationship becomes collaborative rather than adversarial.

How VBP works in practice

VBP is applicable to virtually all practice areas, with the approach varying by the nature of the work.

- Task-based pricing involves a *fixed fee* for specific, repeatable tasks common in patent prosecution (fixed fee per filing), immigration (fixed fee per visa), and trademark maintenance.
- Tier- or category-based pricing divides work

into complexity tiers with *fixed fees per tier*, and it works well for contracts (by value or complexity), real estate leases (by square footage), and many other types of work.

- Scope-based pricing applies a *fixed fee to a defined scope* delivered to a specific timetable, ideal for specific projects with set deliverables and timelines.
- Retainer-based pricing involves a *fixed monthly fee* covering a defined scope of ongoing work, suitable for advisory relationships where work is predictable and consistent.

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Litigation presents unique challenges because of its inherent variability. The methodology that has proven most successful is a *fixed-fee-by-phase* approach. This approach breaks litigation into discrete phases, each with its own fixed fee based on defined assumptions. An important distinction is between one-time fixed fees and per-occurrence fees. One-time fixed fees apply to phases that happen once, regardless of how the matter proceeds – initial case assessment, motion to dismiss, summary judgment motion, and trial preparation. These can be priced as a single fixed fee because the process and scope are knowable. Per-occurrence fees apply to activities that may repeat an unknowable number of times – depositions, sets of written discovery, and discovery motions. These are priced as a fixed fee per unit (per deposition, per motion) because you cannot know at engagement how many will occur.

Each phase must have clearly documented assumptions that define the scope. These

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assumptions are written by the client, not the firm. The client defines the scope, and the firm prices accordingly. If actual facts differ materially from assumptions, both parties understand that pricing may be adjusted by mutual agreement. Firms should not price in every possible contingency, as doing so will make the fee uncompetitive. Instead, the engagement should specify that material scope changes will be addressed collaboratively, creating a partnership dynamic rather than an adversarial one.

A well-designed VBP arrangement also addresses cash flow for both parties. The payment model we have developed provides that two-thirds of the fixed fee for each phase is amortized in equal monthly amounts across the estimated duration of that phase, with the remaining one-third invoiced upon completion. This creates a predictable monthly cash flow for the firm while incentivizing timely completion. If a matter settles or is dismissed mid-phase, pro rata payment is calculated based on the percentage of work completed. Importantly, firms are not asked to provide hourly equivalents or “shadow bills”, as requesting shadow billing perpetuates hourly thinking and undermines the entire value-based approach.

Success fees represent an additional opportunity for firms to earn premiums above standard fixed fees when outcomes exceed expectations. Clients typically add success fees when and where they deem appropriate, but not all matters are conducive to doing so. Clear definitions of “success” must be established up front to avoid ambiguity, and well-designed success fees align incentives between firm

and client. Success can be tied to specific legal results (winning a motion, achieving a favorable settlement) or to client metrics. From the firm’s perspective, success fees offer the opportunity to earn compensation commensurate with value delivered, something the hourly model rarely permits.

Understanding the client perspective

Understanding how sophisticated clients implement VBP helps firms position themselves effectively. Clients increasingly establish practice- and region-specific panels through a competitive RFP process, with firms evaluated on experience, proposed team quality, strategic approach, commitment to VBP, diversity, and overall value. In litigation, when a new matter arises, several panel firms receive the complaint along with substantive questions and a pricing template. Selection is heavily weighted toward substantive responses, but pricing is a factor. For advice and counsel work, engagement letters typically cover three years for a specific area of law with a monthly fixed fee tied to a specific scope of work. Competitive success depends not just on pricing but on demonstrating substantive expertise, providing strong teams, and showing commitment to the VBP model.

The four qualities that tend to drive most clients’ hiring and retention decisions are:

- *Efficiency* (clients want quality answers quickly and appreciate brevity, responsiveness, and succinct communication);
- *Predictability* (consistently at the top of every GC’s list, as being able to predict total legal spend is a high priority);
- *Value* (corporate clients want to know that the benefit received is equal to or greater than the price paid); and
- *Results* (without positive outcomes, everything else is secondary, and clients increasingly measure outcomes by firm).

While qualities like integrity, expertise, and responsiveness are important, they are table stakes as all good firms possess them. The differentiating factors are efficiency, predictability, value, and results.

Positioning your firm for success

Firms seeking to embrace VBP should focus on several practical areas. First, VBP requires firms to become more efficient, which means investing in matter management, process mapping, and ensuring work is performed at the correct value-price point. Work that should be done by associates should not be done by partners and work appropriate for paralegals should not be done by associates.

Second, to price effectively under VBP, firms need better visibility into their actual costs for different matter types. Historical data on similar matters is invaluable for pricing new engagements.

Third, clients do not intrinsically understand the value they receive from counsel. The closest thing to value communication most firms provide is the invoice – a cryptic document of short phrases and tenth-of-an-hour increments. Firms that communicate their strategies, discoveries, and problem-solving effectively will find clients more willing to pay their fees.

Finally, the best VBP relationships are true partnerships. This means proactive communication about scope changes, collaborative problem-solving when matters take unexpected turns, and a shared commitment to achieving the best possible outcome, not just completing tasks.

Conclusion

With the total annual volume of high-level work going to outside counsel flattening and more work being pulled in-house, the legal market has become increasingly competitive. Law firms need to develop new service delivery models and pricing methodologies to differentiate themselves from competitors and maintain market share.

VBP, when implemented correctly, creates a win-win scenario. Clients achieve the budget predictability and cost savings they need, while firms develop stronger relationships, more predictable revenue, and the opportunity to be compensated for the value they actually deliver. The change will most likely not come from law firms unilaterally – it is being driven by clients who are demanding results-based compensation models. Firms that proactively embrace this change, developing the capabilities and mindset needed to succeed under VBP, will be best positioned for the future of legal services.

Just like the other top-tier professional services industries that converted to value-based methodologies more than 20 years ago, VBP is the future of legal services. The firms that master it now will have a significant competitive advantage in the years to come.



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