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LEADERSHIP DEVELOPMENT

The Billable Hour Zombie: Why You Need to Act Now to Avoid an Attack on Your Business

By Jessika M. Ferm

The billable hour has been dead in the minds of your clients for a long time, but because your firm is built around the idea of making money in minute-by-minute increments, the billable hour continues to aimlessly wander the hallways of your office, devouring productivity and goodwill.

No doubt your firm expends tremendous time and effort managing timesheets. Elaborate and expensive IT systems have been created to track how each person is spending their time in order to bill clients, allocate resources and calculate revenues and bonuses. You negotiate with clients over just how long it should take to draft a simple letter or file a form. Or even worse, you lose clients without warning because they think another firm might complete the job faster. Not better, just faster. Although these and other problems with the billable hour have been apparent for some time -- in 1987 the American Bar Association created the "Task Force on Alternative Billing Methods" and published several articles on the topic -- the practice remains the core of most professional services firms' fee generation models.

Lately, however, major shifts in the environment give us hope that the day of the billable hour zombie may be ending. Three factors seriously threaten the traditional hourly billing system: (1) The current strain on the economy has created a buyers-market for clients, (2) Generation X & Y decision-makers will demand less cumbersome systems and complimentary services; and (3) Advanced technology will streamline numerous tasks, emphasizing quality of product over production time.

The Economy

The effects of our current economic upheaval will be felt for years to come. It is unlikely that we will soon go back to the days of impressive profit margins, casual corporate jet travel, and inflated bonuses. With the exposure of widespread corporate mismanagement, clients have become cynical and are demanding that professional services firms justify the hourly rates of their employees. They are asking for the specific reasons someone is charging \$150 per hour and why another is charging \$495. Replying: "Because that's what the market will bear," is no longer a viable response.

According to Robertson and Calloway, authors of [Winning Alternatives to the Billable Hour](#), clients are more likely to comparison shop on hourly rates if they feel that the service provided is a fungible commodity or if the task seems routine and could be easily duplicated. During challenging times, clients will conduct rigorous costs/benefit analyses. If you have focused on generating revenue from billable hours and have missed the opportunity to emphasize the value and results of your services, you may find that you will be caught off guard as clients tighten their budgets.

Generation X and Y Decision-Makers

Over the next couple of years, the very make-up of decision-makers will change. Baby Boomers will retire and a flood of Generation X (born between 1961-1981) and Y leaders (born between 1982-2001) will take over. When making decisions, they will rely less on loyalty and more on end-results or proven track records from trusted sources. They are sometimes called the "Why" generations and will question everything from hourly rates to corporate management. They won't accept answers like: "That's how it is done in this business" or "I can't tell you how long that will take because it depends on a lot of external factors over which I have no control." They grew up in

a business climate where you could do anything (think the Dot-Com era, Napster, and the iPhone) and could do it for free (think Google, Wikipedia, YouTube, etc.).

Stating that your hourly rates have to cover overhead, training, and business development simply won't register. Their response may be: "Why don't you just cut those expenses then?" Remember, they converted old warehouses into office spaces, worked from home, and as long as they have access to WiFi, they can work anywhere. They conduct business using social media and networking such as Facebook, LinkedIn, and A Small World. While golf club memberships and expensive dinners may have been powerful networking strategies for Boomers, you are more likely to find the next generation decision-makers at casual dinner parties, "under the radar" networking events, and at the local coffee shop. To keep and develop these clients, you must frame your value in terms they understand. It's about the end product – not the process. Sending the message that you are paying for your "time" rather than "the result" will not resonate and you may find yourself with a slowly dissipating pipeline.

Advanced Technology

The advancement of technology makes us more efficient. While this is good for productivity, it is detrimental to the traditional billable hour system. Remember that the new generations of decision-makers are extremely tech-savvy and they expect that your firm has and uses technology effectively. If you have been focusing on billing per hour, you will have difficulty justifying charging \$500 for a routine task that, because of technological advances, now takes 30 minutes to complete. Back when it took three hours to coordinate an appellate brief or produce a story-board presentation, a 3-hour bill was appropriate. When technology allows us to produce the same task in 30 minutes, the traditional hourly billing system works against us. Not only does it affect the bottom-line, but it can also reduce your value in the minds of your clients. The key is to show clients how, by having and effectively using technology, you help them meet their goals faster, more efficiently, and with less challenges.

Strategies for Killing the Billable Hour Zombie:

While it may seem daunting to consider changing from a traditional billing system to one with flexible options, these easy-to-implement strategies will get you aligned with the future of business.

Strategies related to the economy:

- **Package routine services and promote them using all-inclusive pricing plans.** While these services may have lower profit margins, they get the clients in the door and provide opportunities to market and promote other more "personal" services. The key is to position yourself and your firm as a resource so clients return for more complex challenges. By calculating the average hourly rate it takes to deliver specific services and creating all-inclusive pricing plans, clients will assume that you are efficient, know how to manage your time, and look out for their best interests. In this economy, the key is to show that your number one focus is serving your clients' needs.

Strategies related to generation X & Y decision-makers:

- **Change your billable-hour language and focus on establishing client goals.** X & Y decision-makers will want to know that you understand them (even if you can't relate to their thinking or working philosophy). They will most likely respond positively to success-based pricing strategies or payments for meeting benchmarks. These decision-makers tend to have specific goals in mind when hiring professional services firms. At the beginning of an engagement, ask the client to identify the goals, milestones, and benchmarks. Ask questions like: "What is your number one reason for retaining us?" "What milestone or benchmark will we need to meet for you to feel we are meeting your expectations?" "If we meet these milestones and benchmarks, do you agree to pay X?"

One of our professional services clients uses a success-based pricing structure where he and the client agree that, if the results of his services meet their expectations, they pay X. If they feel that the results were outstanding, they pay significantly more. If they are unhappy, they pay a minimum. They also use milestones and benchmarks to accurately evaluate the results. This success-based strategy allows our client to bill at an average rate of \$495 (about 30% higher than his competitors). Of course, a success-based strategy only works when the service provider offers exceptional work, manages his time effectively, and understands the importance of providing outstanding client services.

Strategies related to advanced technology:

- **Conduct an audit of your current technology systems and show clients how you can help them meet their goals faster and more efficiently.** Because the tech systems you created to be efficient work against the traditional billable hour model, you will find it difficult to charge the same rate for routine tasks that now take less time to complete. The trick is to refocus your clients' attention on the value of your services rather than the time it takes to complete them. Conduct an audit of your current systems and map out which routine services are made more efficient, effective, and meet your clients' goals faster because of technology. Show your clients how they will benefit from the service and highlight the end-result. You will find that most clients (especially Gen. X & Y) don't care how long a task takes, they simply care about the results you are able to produce.

Now is the time to consider and explore alternative billing strategies for your professional services firm. These tips and strategies will get you started and will help transition your firm and your clients into a system that will create mutually beneficial partnerships for years to come.

About the Author: Jessika M. Ferm is the President of J.Ferm, LLC, an international leadership development firm, and specializes in relieving management pains for professional services firms. She is known for her "no frills no fluff" approach and writes extensively on management and leadership topics. She co-developed the "No Frills No Fluff™ Management Skills Program: Lawyer's Edition," which is tailored to assist lawyers and law firms in managing their time, clients, and staff effectively. For more information, please visit the No Frills No Fluff™ website at: <http://www.nofrillsnofluff.com> or blog at: <http://nofrillsnofluff.com/blog/>