

Which Pricing Option Is Right for Your Firm?

Law firms have several pricing options from which to choose, including discounts and blended hourly rates.

HISTORICALLY, law firms have not tracked cost information well, and tracking is a key to effective budgeting (and some methods of pricing). For example, what is the average "cost" of an interrogatory? A deposition? A shareholders' agreement? Assigning values means that the firm must attempt to break down each type of matter into specific steps or phases. Then, working with the client to ascertain the next year's legal priorities, the firm can estimate how many of each service may be required.

Of course, certain services cannot be anticipated; the company and the in-house counsel understand this. But by and large, the more accurately a law firm can help a client budget for its services, the better its relationship with the client will be because the goal of the law firm should be to make the in-house counsel look good.

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Choosing the Right Pricing Option for Your Firm

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Some law firms have chosen to "reward" their best clients by charging them discounted hourly rates. In effect, the law firm is saying, "We appreciate our relationship with you and the volume of business you have provided us."

There are caveats to this approach. First, a firm must be selective in determining who receives this offer. For example, is there a chance that clients will discuss their rates with other clients?

Similarly, some law firms have discussed giving reduced rates to prospective clients or new clients, but not to any existing ones. In truth, a firm's existing clients are its more valuable asset for many reasons, and should be the obvious target of any discount programs.

Second, some attorneys worry about diluting the "value" of their work; when it comes to professional services, many clients have the mentality that "you get what you pay for." This potential dilution of value can be corrected by indicating both the true value and discounted rate on each invoice.

Third, one must ask whether a discounted rate provides disincentives internally for attorneys to work on the client's matters. This depends on the firm's compensation and reward systems and certainly must be considered.

By and large, however, if a client is concerned about fees and provides a significant ongoing stream of business, giving special benefits such as discounted rates can be an excellent way to solidify the relationship.

Blended Hourly Rates

Similar to discounted rates are "blended hourly rates," which some law firm are negotiating with their clients. This means that every hour of work done for the client is charged at one predetermined rate, whether performed by an associate or a senior partner.

Clients like this method because it is understandable and easy to predict. From a law firm's perspective, it would appear to force the firm to be more efficient, delegating work to the attorneys with the lowest hourly rates.

Whether it works to the benefit of clients is uncertain. New associates could spend enough additional time on a matter because of inexperience so as to cancel out

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any benefits of having them involved.

Retainers

A retainer is an old pricing and billing technique that seems to have fallen out of favor in recent years. From the client's point of view, it was difficult to tell whether they got their "money's worth." Current billing practices, on a matter-by-matter basis, have their own disadvantages for clients, too; for one, it is very difficult to predict legal costs.

Retainers — charging a flat monthly or annual fee for certain activities — appear to be regaining popularity. They help clients budget and often make them feel more free to call upon the firm when they have questions or for advice. Obviously, the law firm must be very clear when negotiating the retainer as to what it covers, and to ensure that the amount is adequate to cover the anticipated work.

Invoice as a Marketing Tool

The sad fact in many attorney-client relationships is that the invoice is the most frequent communication the client receives from the firm. Because of this, it is important to see the invoice as a marketing tool.

First, timeliness is critical. A client should receive bills periodically so he or she can judge the investment made in a particular matter. In addition, the closer to the end or resolution of a matter a firm can send its final bill, the more likely the client will be happy to pay, and the less likely the client will scrutinize the invoice.

Second, the invoice should be used to help a client understand what he or she is paying for. Since most of an attorney's work is done outside the view of the client, an invoice can help explain all the activities that were performed on a client's behalf.

Third, detail is important. While many firms are reluctant to provide much detail for fear that a client will question every item, lack of detail may have the same effect or worse — that is, what am I paying for? Most clients will not complain about invoices, but this does not mean they do not have concerns.

Fourth, firms must recognize that clients need more communication. If they can see on their bill that a deposition was taken, a firm should send them a transcript. If they can see that research was performed, the firm should send a copy of the research memorandum. These tangible results of the work performed will help document the value of the services outlined on the

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Playing the Pricing Game

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invoice.

Fifth, just as a firm should indicate on a bill what a client is paying for, it should indicate what a client is *not* paying for. Discounts should be noted, and any free services performed on the client's behalf should be listed with a simple "no charge."

Finally, some firms use their invoicing to express their appreciation for a client's business. A note of thanks for the work, or even a questionnaire with which the client can evaluate the firm can help a client feel better about the fees and about the firm in general.

As law firms become more sophisticated in their marketing efforts, they undoubtedly will move away from the emphasis on promotion and begin to design programs and strategies that integrate the other Ps — product, price and place — as well. Pricing strategies, when considered in relation to other components, can be extremely effective marketing tools, and in some cases, will result in better service and relationships with clients.