BLOG ARTICLE FOCUS

LAW FIRM
BILLING RATES

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BLOG ARTICLE

Strategically Setting Billing Rates

Could your law firm's billing rates be improved?

It is hard to argue with a firm trying to achieve the highest billing rates possible, but not every attorney can bill at high hourly rates. Today, most attorneys are trying to find ways to practice profitability in a tight billing rate environment.

Whether a firm uses hourly or non-hourly billing methods, there is an underlying cost structure that can be evaluated and often improved.

To ensure clients' needs are being met while still making a profit, law firms should consider the factors highlighted in the following pages when setting billing rates. To read the full article from our blog, click below:

Blog Article: Strategically Setting Billing Rates

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KEY CONSIDERATIONS FOR LAW FIRMS WHEN SETTING OPTIMAL BILLING RATES

When setting billing rates, firms should consider multiple factors, including their current position in a client's supplier mix and prevailing market forces. They must also consider the efficiency of both staffing and overhead costs when analyzing profitability. Contemplating intangibles such as volume and training opportunities that may arise at certain rate levels is also important. Finally, law firms shouldn't overlook opportunity cost implications in any rate decision.

If a law firm is vying for a prominent spot in a client's buying strategy, raising rates may put that position at risk. Law firms can unwittingly encourage clients to pivot towards higher-priced competitors who also deliver results but were previously more costly by comparison.

Law firms should measure their value by considering factors such as outcomes achieved, their place in a client's buying mix, and the strength of relationships before adjusting pricing structures. The legal market is naturally competitive in pricing, but there is room for increased rates if law firms can prove they are an effective part of a client's solution mix for legal services.

Understanding your client's market and health is invaluable when determining the right time for a rate increase. Too often, firms underestimate their real competitors in favor of those they perceive as direct rivals – so you must take stock before deciding how much your services are worth. Before agreeing or proposing any new conditions with clients where services have been valued at existing rates, ask yourself if they will still find value in them after being compared with other options. As an extra precaution, consider whether you would still accept work at current rates if invited by a new client. If not, you have your answer, and it is worth the risk.

UNDERSTAND YOUR STAFFING INEFFICIENCIES BEFORE ASKING FOR A RATE INCREASE

When evaluating a client's account to justify a rate increase, law firms must examine the overall staffing mix and complexity of work. Partners often prefer senior-level staff - even though this may drive up costs and hurt profitability – as they are less keen on training or overseeing younger lawyers. Clients can become accustomed to such highly experienced personnel but not be prepared to pay premium rates for them, consequently reducing firm profit margins. In other cases, assigning team members according to availability rather than suitability for the work could lead to inefficient results that do not reflect the true value provided by your services. When asking for a rate increase, ask yourself how much of it is necessary to cover your inefficiencies.

Fair and Competitive Billing Rates in Law Firms

THE IMPORTANCE OF OPTIMIZING OVERHEAD COSTS

Setting client billing rates involves accounting for overhead costs, which is often a contentious issue within a law firm. To ensure billing rates are fair and competitive, examining two key aspects of overhead is important.

First, consider the overall expense load exclusive of revenue-producing timekeepers. Inefficient firms suffer from lower profit margins and increased pressure to raise billable hours or hourly rates, ultimately diminishing the value of their offerings and costing clients more.

Second, take a closer look at the allocation of overhead once determined. Within reason, the allocation should reflect the efficiency of each timekeeper. One approach is to sum direct and indirect costs, excluding compensation, and allocate them to each hour worked using a graduated approach based on the timekeeper type and effort.

Firms that recognize the impact of their overhead load and inefficiencies on their rate structure are better positioned to price work competitively while enjoying the advantages of higher profit margins and pricing flexibility.

BLENDED RATE STRATEGIES IN LAW FIRMS

WEIGHING THE BENEFITS & RISKS

To increase case volume, some firms opt for a blended rate strategy where they reduce their top rate in exchange for additional work. Firms that need training opportunities and volume may use a blended rate approach to attract business from clients who focus on the maximum billing rate for their work. Though a blended rate approach may have advantages, it also poses risks as clients are not guaranteed to send additional work even if top rates are lowered. Thus, it is essential for firms considering this option to carefully evaluate each client by considering factors such as capacity, client quality, communication, and potential volume before deciding on a blended rate strategy to attract more work.

Firms would do well to start with a couple of accounts where the potential for increased volume exists but is going to a competitor.

THE PRICE OF OPPORTUNITY:

BALANCING THE COSTS AND BENEFITS OF HIGH-VOLUME CLIENTS FOR LAW FIRMS

Considering opportunity costs is crucial when pricing legal services, mainly when servicing high-volume clients for a law firm. While servicing a high-volume account may be profitable, it is essential to determine the opportunity cost of reallocating resources to these clients instead of higher profit opportunities. Relying too much on one or a few clients can put the firm at risk if the clients leave.

It is essential to recognize that each firm should focus on its situation. If a firm already has plenty of volume, it should consider reallocating resources to higher-rate work or pushing the price up for higher-volume clients. On the other hand, if a firm needs work to cover fixed costs, it might be beneficial to take on high-volume clients. Therefore, setting rates without considering all of these factors is not likely to produce the best result.

Law firms must weigh the opportunity cost of servicing high-volume clients. While they can be profitable, the firm should also consider the risk of relying too much on one or a few clients. Ultimately, it is essential to consider the firm's situation and make decisions that will maximize profitability in the long run.

TOOLS FOR SMARTER LAW FIRM DECISION-MAKING:

CLIENT NET INCOME AND RATE SETTING

Assessing the value of a law firm's offering in the market and to a client requires the right tools. One of the most effective tools for this purpose is calculating client net income. A reliable system for determining client net income can quickly identify issues and opportunities within clients, allowing for informed decision-making.

It is also essential to have a good understanding of the relationships between payroll, overhead, and work effort on a per-hour basis to ensure that your firm sets intelligent rates. We recommend evaluating and setting rates on a client-by-client basis instead of adhering to a monolithic rate policy. It is crucial to consider your firm's staffing mix, capabilities, and capacity, as well as existing efficiencies, when setting rates. Most firms know their weaknesses, but few understand how they affect a client's invoice.

VALUE-BASED PRICING:

A KEY TO PROSPEROUS AND SUSTAINABLE LAW FIRM BUSINESS MODEL

Law firms can maximize their profitability by taking a strategic approach to pricing their services. The traditional approach of adopting a monolithic pricing model often proves ineffective as it overlooks the specific needs and preferences of individual clients. Firms should instead aim to provide pricing that aligns more with the value of the service to each client. This approach helps firms differentiate their services and attract a broader client base. To set an appropriate value-based price, firms must calculate total employee costs, encompassing salaries, overheads, and benefits. This method ensures that the pricing strategy aligns with the firm's business goals and financial interests

DEVELOP A MORE VALUABLE BILLING MODEL FOR YOUR LAW FIRM

- Increase Productivity
- Provide More Value
- Boost Profits
- Communicate with Transparency

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