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## Pricing Policy

BUSINESS CLIENTS LAWYERS

### Abstract

Pricing:

*A coherent pricing policy design has become one of the most challenging tasks for office managers.*

Pricing is multidimensional.



## Full article

# Pricing Policy

### 1) The price “talks”!:

**The price does not only allows having an income** but also determines:

- a **profitability**, and, in addition, it also transmits
- an **image**,
- a **brand**, and is
- a **sign of quality**

Therefore, it plays a key role in customer loyalty as well as in the recruitment phase.

In a crisis period, **the definition of a “good price” is even more important**. The chance to get more Clients is bigger and, then, the rest (hard work to maintain the Client) is up to you.

### 2) Price/fees versus Expenses:

Never make the mistake of having “price/fees” and “expenses” in the same pocket; **we talk about two completely different concepts and must be treated differently**.

Having this in mind, the separate reference to “expenses”, **to be supported by Client, is also essential**.

Usually, a written agreement related to fees/price, between Lawyer and Client, refers to a **previous written authorization**, asked from lawyer to Client, to make these expenses (that, sooner or later, are going to be supported by Client).

This (authorization to have expenses in the name and on behalf of the Client) must be done, preferentially, before doing the expenses. Otherwise, it's obvious that the Lawyer is going to have problems to justify these expenses to Client (...).

A Lawyer should never pay in advance any expense that is going to be supported by Client because justification for the expense and reimbursement is always more difficult than getting the money from Client to make previous payment.

**The best solution, here, is to put Client paying the expenses directly, without any intervention of the Lawyer.**

In any case, expenses must, always, be documented.

### 3) The Written Form:

Considering this, both price and authorization for expenses, must be always made in a written form.

With this same argument, our hours of work, need to be registered (please search for a SAAS good program on the cloud to manage your office) both:

- For our internal managing, to have an idea of how much some determined Client is rentable, or not (...);
- As a precaution, **“just in case”**, if the Client has any doubt about our work and the hours we’ve spend in a determined project/demand (especially when the agreement between Lawyer and Client is based in a price per hour definition);
- Last but not the least, **a written document is always one step ahead in order to have better changes to recover from the Client that didn’t pay at the beginning of the Lawyer’s work** and, now, refuses to pay because he disagrees with values;
- This is also why Lawyers should agree with Clients to be paid for a big part of their fees at the beginning of the work, as a precaution (...).
- If this is not possible (is must be!! If not, Lawyers are not doing well their homework) the **“written document of the agreement fees and expenses”** must be valid to be used as a tool/document to improve all the legal mechanisms to recover the payments lawyer didn’t receive from Client.
- In this previous specific situation, for example, in the Portuguese law, a recognized signature from the Client (made in Notary or by another Lawyer) made in a written form of the fees/expenses agreement allows Lawyer to prepare an execution, in court, against Client (based in the recognition of a debt) avoiding, most of the times, the need to discuss the conditions of the agreement in a previous demand (to have a Sentence that recognizes de debt) in Court.

#### **4) How to define the “price per hour”:**

Price per hour is defined and calculated according with the references that Lawyers have from their work in the past years.

To do so, Lawyers must have the value paid by Clients per year (of the last year) : **11 months : 20 days per month : 6 hours a day.**

Ex: 50.000,00€ (value earned per year) : 11 (months)= 4545,00€ (value earned per month) : 20 (days of work per month) = 227,00 (value earned per day): 6 (medium hours of work per day) =37€

37,00€ will the price per hour of the Lawyers’ work

This “price” is, obviously, defined after a previous separation between “costs” of the office and “liquid money” after supporting these costs.

After making all this calculation, each Lawyer has his own “price per hour” well defined and ready to justify (in a well-organized office) the fees that presents to Clients and to himself (meaning that “he knows” why he works with this price per hour)

## **5) Factors to take into consideration when presenting a price to the Client:**

- The fixed and variable costs, margin/benefit, productive capacity.
- **Price x hour x Professional x no. of billable hours**
- The costs / prices of a Lawyers’ competence;
- Received value / Potential value;
- **The Value to the Client: increasingly informed, more demanding, with the ability to evaluate the legal content of a fee proposal and in an environment of companies / services that can be less and less differential**
- Customer sensitivity to price: demand for more information, more details;
- Price Purpose (market penetration / customer maintenance);
- Different Rates (customer location, place, international, discounts, reductions, urgency, etc.)

## **6) The different types of Price:**

### A) Setting hourly fees:

Formula of Anglo-Saxon origin that implies the need to implement procedures for recording and verifying the time spent by each professional in each client (“Time Sheet”).

It simplifies the final fee calculation, **but it generates anxiety in customers who do not have an accurate reference of how much it can be paid for a particular subject** according to its possible extension in time or its complexity.

*A few years ago a group of young lawyers from an important New York firm told the Financial Times that they practiced ‘padding’, meaning that they increased the billable hours due to the strong pressure imposed on them by the board that imposed a number of billable hours per day totally unreachable without losing their health.*

### B) Setting hourly fees:

On the other hand, it has been argued that the time-based system does not promote efficiency and it can sometimes penalize the skills and experience of the lawyers.

**The pressure of companies to have their lawyers do hours can produce an increase of more hours than necessary in each subject**

Customers are increasingly aware of this fact and have started asking for the hour details, increasing the control of time spent in meetings or telephone conversations.

*It is recommended to establish a maximum number of hours to charge for a specific service, thus reducing the uncertainty of our client.*

C) Setting Fees by fixed Value (Flat Fees):

The invoiced fees are established as a quantity to be invoiced for the provided services.

**The main advantage is the reduction of customer anxiety as it makes clear with total certainty the economic cost that one will have to bear for each service**

It makes it much easier to manage and promote the efficiency and experience of the lawyers.

D) Setting Fees by fixed Value (Flat Fees):

It is an approach that transfers the client's risk to the office, and the profitability of the project can be compromised if it lasts longer or becomes more complicated than initially expected.

*This type of fees is recommended for those types of services that are more standardized and predictable in terms of volume and complexity, defining in an accurate way the scope of what is included in them, alerting the Client that exceptional circumstances will entail a modification.*

E) Setting the Fees by Adjustment, Retaining Fee (Retainers):

Fees are set in a fixed and in advance manner, for a period and for a very concrete and defined type of service.

This is a good way to make clients loyal and retain them. – “Retainer”.

F) Setting the Fees by Results (Contingency Fees):

Results-based fees.

They are supported by obtaining a percentage of the achieved economic result of the client after the provision of the legal service.

Although in general the so-called ‘**quota litis**’ **pact is strictly prohibited in some countries, it is possible to define part of the fees with a percentage of the economic result**, and its application is more frequent in matters concerning the procedural scope.

*These fees are gradually being transferred to areas such as ‘Project Finance’ and other real estate and financial transactions.*

G) Setting the Fees by Results (Success Fees):

Derived from this formula is the so-called ‘success fee’ in corporate mergers and acquisitions in which there may be several companies undergoing a negotiation process.

**A minimum price is usually set for due diligence and another part of the value depends on the result of the operation**, such as the purchase of a company with total success for Lawyers’ client.

## H) Setting the Fees by Project (Legal Project Management):

A new trend / discipline is now being used by law offices to communicate with Clients not only to have a definition of “price” but also, and essentially, to speak the same language clients do.

The definition of a “legal project” turns easy the possibility to define “price” and to transmit it to Client, according with the different steps and parts of the project that Lawyers do.



## **Conclusion**

As we can see, **there are multiple ways to reach to an agreement with Clients considering the price Lawyers think is the most appropriated to each kind of work that Lawyers do.**

It's up to Lawyers to propose, in any specific matter, which type of price shall be adopted.

I, personally, **do not agree with the use of “price per hour” although it must be recognized that even if we don't use it to get to an agreement with Clients** we must still have it always present, at least to have the minimum idea of how we are working and for what price ...

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