

Five Tips for Setting Your Law Firm's Fees

Like any professionals, attorneys have a [wide variety of options](#) when it comes to determining how they are paid. Whether they choose to charge clients on an hourly basis, take flat fees or use some other compensation arrangements, how a law firm sets its prices can have a dramatic impact on the success of its business. In fact, some firms are looking to legal-industry [pricing specialists](#) for guidance on their fee schedules.

In addition to paying the bills, pricing is key to a law practice's [marketing strategy](#). Unfortunately, there's no magic formula for determining the exact right amount you should charge your clients. Here are a few tried-and-true tips for pricing that should at least help solo attorneys and smaller law firms get started.

1. STUDY THE MARKET.

Attorneys need to know how stiff their competition will be. Also, how much demand is there for your services in your area?

Without a detailed understanding of your potential client base and the competitive landscape, it's impossible to come up with appropriate rates for your time. You can also use that information to determine if there might be a particular niche to target in the market, allowing you to charge clients a premium for your services.

2. FIGURE OUT YOUR COSTS.

This would seem to go without saying, but your practice will find itself underwater quickly if it is spending more money than it is taking in. The U.S. Small Business Administration offers some [guidelines](#) for estimating your costs if you're just starting a business, but generally speaking, firms should account for materials, labor and overhead, which includes indirect costs such as insurance and taxes.

3. ASSESS YOUR COMPETITORS.

What are other firms charging for their services? Do their rates seem extraordinarily high or low? How do their rates square with your cost analysis? As you survey the marketplace, pay attention to more than just what other practices are charging. How do they structure their fees? It's possible you can come up with an alternative pricing model that is more appealing to clients.

Also, take note of what services other firms provide. You might be able to add value—and ask for higher rates—by filling gaps in what's available from a service standpoint.

This leads to an important question ...

4. DO YOU WANT TO COMPETE ON PRICE?

This might work for some industries or markets, but business gurus would almost universally tell you the answer to this question should be “no.”

In other words, [don't set price points just to undercut your competition](#). Establishing yourself as the low-cost service provider in your market may seem like a winning strategy in the short run. However, if your clients are coming to you because you offer the lowest rates, you can guess what happens when a new player comes to town charging even less.

Notably, some companies take the opposite approach to setting the prices for their goods and services. The thinking goes that inflated price points signal to the market that they are offering something of higher quality; a strategy known as [premium pricing](#).

5. INVOLVE YOUR CLIENTS.

Rather than making their fee structures a one-way street, some law practices are involving their clients in preliminary conversations intended to arrive at [mutually satisfactory rates](#). That can involve multiple pricing options from which the client can choose the preferred arrangement. Importantly, [these interactions](#) can help lawyers understand their clients' needs, while clients get a better idea of costs.

Pricing isn't everyone's favorite subject, but there are far worse things than putting some thought into it—like going broke. And with some careful attention to the above considerations, a law firm can make a dramatic, and favorable, impact on its bottom line.

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