

PRICING

What the law firms' clients expect during billing



INTRODUCTION

Law firms' increasing fees are the subject of current controversy. German corporate legal departments are becoming increasingly dissatisfied with fees and billing methods. New pricing models present both sides with challenges.

What are law firms' future pricing needs? How big is the gap between corporations' expectations and law firms' current offerings? To shed light on this topic, Schoen + Company conducted a survey of German law firms and corporate legal departments.

VERY DIFFERENT LEVELS OF SATISFACTION WITH THE PRICE-PERFORMANCE RATIO

Law firms assumed that none of their clients are unsatisfied, and predicted that 92% are at least satisfied. In reality, 31% of their clients are unsatisfied. Half of companies are satisfied with the price-performance ratio, and 8% even report being very satisfied.

BILLING ISSUES ARE THE MAIN REASON FOR CHANGING LAW FIRMS

A quarter of all companies who change law firms do so because hourly rates are too high. Other oft-cited reasons are excessive billing and a lack of cost transparency. Only one quarter of all changes are not motivated by billing issues.

DESIRE FOR MORE RISK TAKING AND ENTREPRENEURIAL THINKING

The companies wish for more risk-taking, economic pragmatism, entrepreneurial thinking and willingness to assume responsibility for results from the law firms. They further expect full billing transparency, itemised service invoices, and for law firms to reduce hourly rates by lowering their total overheads.

The law firms want fairer treatment, a more open attitude to billing discussions, and more performance-based compensation. They also want clients to recognise that high quality output requires time, thus justifying high hourly rates.

„31% of companies are unsatisfied with the price-performance ratio.“

„11% of law firms claim that the clients' payment behaviour has deteriorated owing to the financial crisis.“

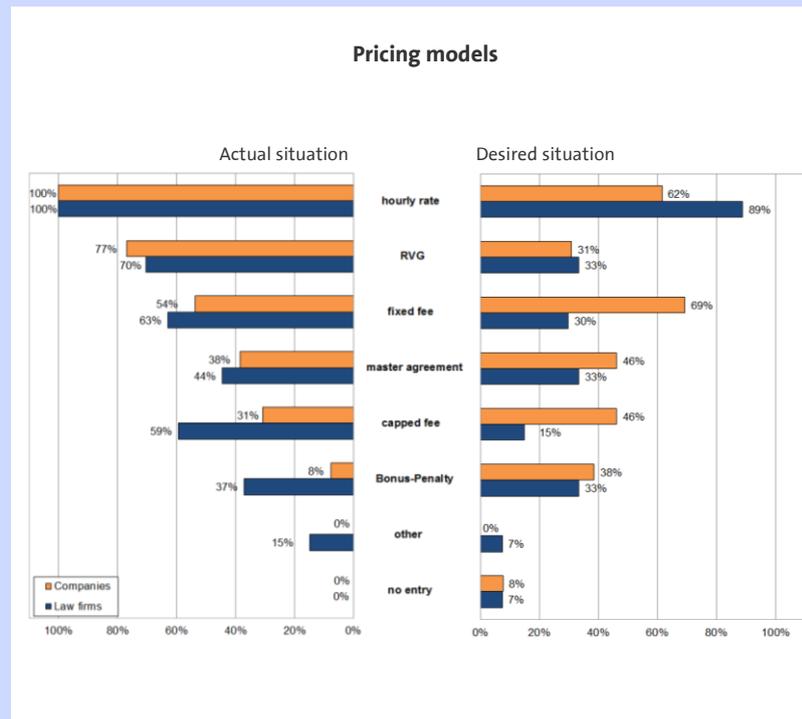
„Companies want law firms to take more risks, to be more entrepreneurial, and to assume responsibility for results.“

NEED TO OVERHAUL PRICING MODELS

Although all interviewees use the hourly-rate model, it is only favoured by 62% of companies. Both law firms and companies want to dramatically revise billing practices according to RVG (lawyer remuneration law). Of the companies, 69% would prefer fixed prices and 46% would favour price ceilings – both figures much higher than in the past.

Currently, 38% of companies negotiate framework agreements. This number is supposed to rise to 46%, whereas only 33% of law firms want to have framework agreements.

Although a third of law firms offer bonus-penalty arrangements, only 8% of companies adopt them. This pricing model should become much more popular among companies in future.



46% OF COMPANIES ARE NOT SATISFIED WITH TRANSPARENCY OF BILLING

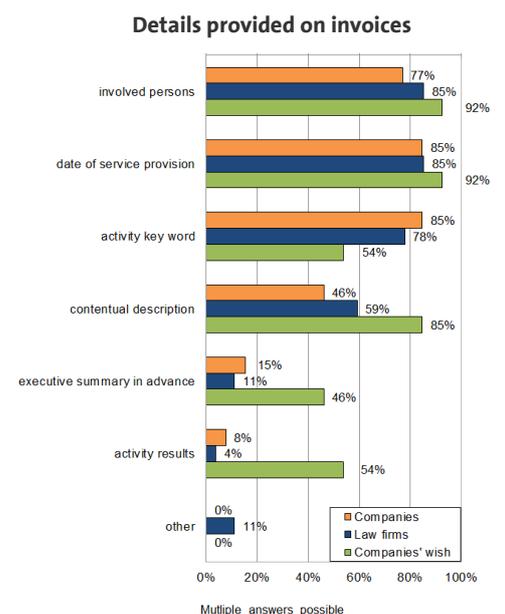
This is the topic that law firms misjudge the most. Even though only 8% of companies report being very satisfied with law firms’ transparency, law firms themselves believe the number to be 37%. Although 8% of companies report being very unsatisfied and another 15% unsatisfied, none of the law firms are aware of this dissatisfaction among their clients.

STRUCTURE OF INVOICES OFFERS AVENUE FOR IMPROVEMENT

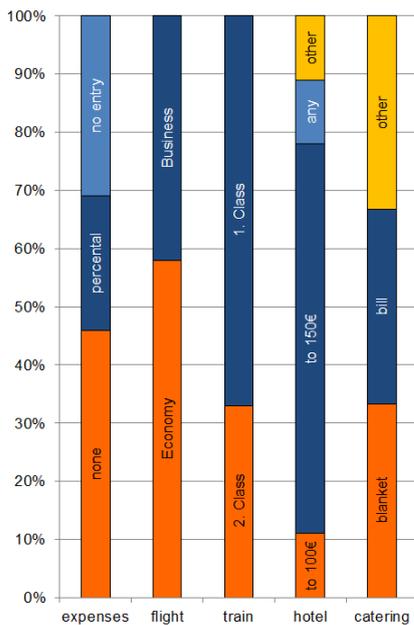
Services billed in terms of time are listed on the invoice by the minute by 67% of law firms and by the hour by 33%. Almost every law firm also details the participants, date and a few keywords as their standard procedure for the ‘substantial description’ section of their invoices. Companies do not however find this sufficient. More and more companies would like to see a more substantial description, including the results of the firm’s activities, on their invoices. They would prefer to see an executive summary at the beginning of an invoice as well.

LONG TIME NEEDED FOR INVOICING

Each lawyer at the law firms spends an average of 15 minutes recording their hours each day. They bill an additional 60 minutes for issuing the invoice at the end of every contract. This adds up to 3% of lawyers’ productive work hours.



Expense accounts



CLIENTS HAVE BECOME MORE FRUGAL REGARDING LAWYERS' EXPENSES

Only 23% of companies stipulate a proportional lump sum during billing. Regarding flights, 58% stipulate their legal advisors fly economy class, while 42% approve business class trips. Regarding train journeys, first class outweighs second class at 67% to 33%. Hotel budgeting is more varied: 11% of companies will pay for rooms costing up to €100 per night, 67% those up to €150 per night, whereas the remainder do not set any limits. As regards expense accounts, one third of companies allow lawyers a fixed allowance, while one third pays according to individual receipts.

COST ESTIMATE WANTED IN ADVANCE

Of law firms, 56% do not send a fee estimate beforehand, 19% do so only occasionally and 22% send one regularly. In contrast, 38% of companies would prefer to have such a cost estimate.

SHORTER BILLING CYCLE NEEDED

Three quarters of companies want to receive monthly invoices, while 50% of law firms still bill either quarterly or per client. In 8% of all cases, billing is still done on a yearly basis, which companies no longer want.

MORE ELECTRONIC BILLING WANTED

More than 96% of law firms send their invoices by mail, and 15% also send them by e-mail. Since a third of companies prefer their invoices to be sent by e-mail, there is room for improvement in this area. Electronic billing, using an online form, is only used for 4% of all invoices.

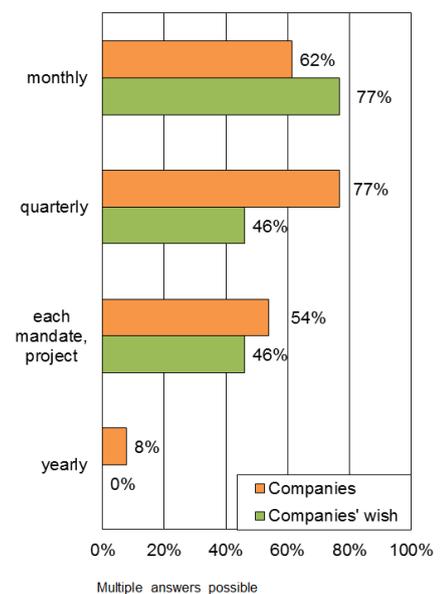
DATE OF PAYMENT

Astonishingly, 33% of invoices are sent without stipulating a date by which payment is due. Of those that do specify a payment period, 30% of invoices are due immediately, 15% are due for payment within 14 days and another 15% within 28 days. The receipt of payment occurs after an average of 27 days. If a dunning letter becomes necessary, a dunning process is started, albeit erratically and unsystematically.

INVOICE VERIFICATION WITHIN THE COMPANY

Even though the legal department revises the invoices in 75% of all cases, and the corporate division that contracted the legal work is itself involved in a third, important details often go unexamined. Companies allocate an average of 2.4 hours for the revision of invoices.

Billing cycles





„Every fifth invoice is rejected by the companies, and then reduced by an average of 12%.”

ONE IN FIVE INVOICES IS REJECTED

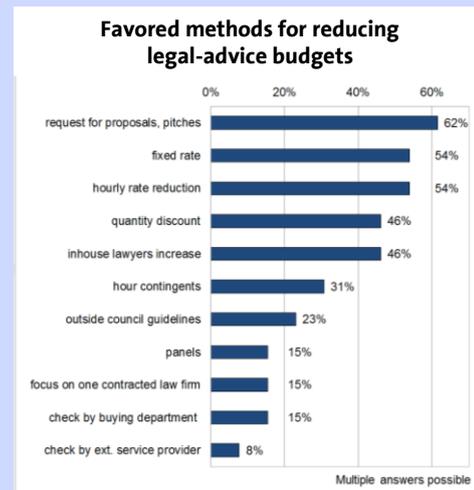
Every fifth invoice is rejected by the companies. These invoices are later reduced by an average of 12%. More than 90% of law firms say they are cooperative during price discussions. However, only 54% of companies report that law firms behave cooperatively, while the remaining 46% even call them dismissive of discussions.

HOW DO COMPANIES REDUCE THEIR LEGAL ADVICE BUDGETS?

The favoured tool of companies is the pitch. One third of law firms claim to have lost pitches because their hourly rates were too high. Companies also often mention fixed lump sums, a general reduction of hourly rates, as well as quantity discounts.

BUDGETS FOR LEGAL ADVICE STAGNATED IN 2009

An average of €4.6 million was spent on external legal advice in 2008, with individual figures ranging from €200,000 up to €16 million. The budget will change only slightly in 2009, at a rate between -10% and +7.5%.



Executive Summary

1. One third of companies is unsatisfied with the price-performance ratio.
2. Non-transparent and/or excessive billing is the main reason cited for changing law firms.
3. Payment behaviour has deteriorated owing to the financial crises.
4. Companies expect entrepreneurial thinking and for the law firms to assume responsibility for results.
5. Companies favour fixed pricing and price ceilings more than law firms.
6. Bonus-penalty arrangements are already offered by one third of law firms. Companies want to make more use of these in future.
7. The service description should include detailed results and the advice offered.
8. 50% of companies are not satisfied with billing transparency. It would be ideal if they received their invoices on a monthly basis and by e-mail.
9. Every fifth invoice is rejected and then reduced by 12%.

Study design

We interviewed the top 200 law firms and the top 200 companies in Germany. The study was conducted in writing by means of a questionnaire. At the law firms, we questioned managing partners, heads of marketing or heads of business development; at the companies, we questioned either the heads of legal departments or managing directors. The participation rate was 10%. The study was conducted in November 2008. Evaluation was carried out anonymously.



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