

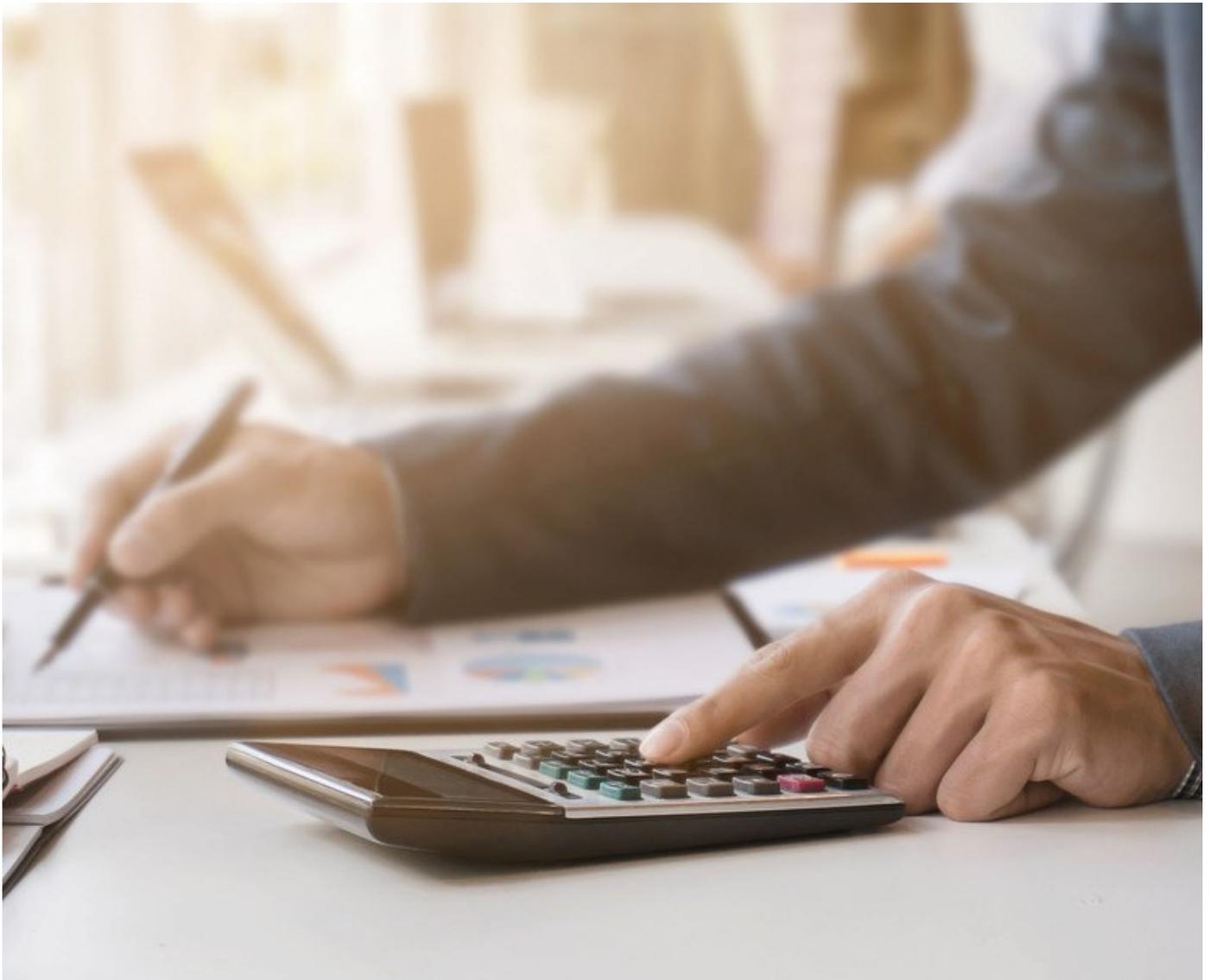
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Lawyers Often Underprice Their Services, Pricing App Developer Says

At a time when more and more clients eschew the billable hour, preferring to negotiate flat rates for many matters, Joel Barolsky says lawyers often don't know how to accurately value their services.

By Christopher Niesche | September 10, 2021



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Lawyers typically underprice their services by between 5% and 10%, says an adviser to professional services firms who has developed an app to help attorneys more accurately and fairly price different matters.

Joel Barolsky, the managing director of Melbourne-based Barolsky Advisors, says the right price for legal work is one that is both fair to the firm and fair to the client.

At a time when clients increasingly eschew the billable hour, preferring to negotiate flat rates for many matters, Barolsky has developed an inexpensive app dubbed "Price High or Low." The app is designed to enable lawyers to adjust their pricing based on different criteria, including the importance of the matter to the client, how much capacity the legal team has, and whether or not the client is difficult to deal with.

"Generally speaking, the feedback that I get is that people price 5% to 10% higher than their original estimate when they use the app," Barolsky says. "And most importantly, they get the client to say yes."

Lawyers tend to underprice for three reasons, Barolsky explains.

Firstly, in their eagerness to win work, they often overidentify with the client. While strongly empathizing with their needs isn't all bad, he says, it can quite often lead to discounting to please the client and win the work.

"It's much harder to communicate the benefits and sell the value. It's a lot easier just to take off 5% or 10% or whatever it is on the price," he says.

Secondly, lawyers don't like straying into unknown territory and pricing discussions are often gray and ambiguous. This means lawyers can come off as second-best when negotiating with someone who is an experienced buyer of services.

Finally, when lawyers price a job for a client, they tend to look at the inputs—what it would cost the firm in terms of hourly rates, rather than the value they're providing to the client.

"If you're not a commodity, you should ideally set price relative to the problem you're solving. The point of reference for the price should be relative to how much money you're saving the client, how much time you're saving the client, how much risk you're reducing," Barolsky says.

Barolsky's Price High or Low app isn't the only pricing app on the market. Costing and pricing models are sold as add-ons to practice management systems, including Intapp Pricing and BigHand Pricing and Profitability. For the most part, apps like these tend to focus more on the firm's resourcing and costs and the pricing of previous rather than the value to clients and other factors relating to clients.

Some practice management tools such as Aderant, Clio and MyCase also provide data to help lawyers make a pricing decision, but stop short of recommending prices for matters.

Understandably, lawyers feel some anxiety when clients ask them to provide a fixed price for a service, Barolsky says. Quote too high and they risk losing the work; quote too low and they leave money on the table.

His app attempts to ease that anxiety by first asking lawyers to input their ballpark price for a matter and then asking them to rate six criteria that will be used to determine the final price, including the risk that the matter will overrun or have to be written off; the importance of the project to the client; and how sensitive the client is to price.

Lawyers also are asked to gauge how much spare capacity their legal team has when estimating pricing. Airlines charge more when they're busy and have lower capacity, for example. But lawyers don't tend to price bullishly even if they're very busy, Barolsky says.

The relative strength of competition of the firm in the market—whether other firms are competing for a matter and whether the firm has particular expertise—is another criterion.

The final consideration, Barolsky says, is whether the client is easy or difficult to work with.

The app can be customized to add additional criteria, including the cost of winning the business; the risk of slow or non-payment; and how urgent the job is.

“In a perverse way with hourly rates, if you do something quickly and urgently, you tend to charge people less. There is value if you’re saving the client time by doing something in an expedited way and you have to drop all your other matters to jump the queue and there should be a premium for that,” Barolsky says.

The app also helps lawyers explain the firm’s pricing to clients, as the pricing has been determined objectively and systematically.

When he developed the app, Barolsky expected that law firm pricing managers would download it and use it almost as a coaching tool to help lawyers price matters. But instead of pricing managers, the app is being used by individual practitioners at large and small firms who price on a regular basis. It’s also been adopted by practitioners at large firms who don’t want to go to the pricing manager or find their firm’s pricing methodology too complex, he said.

To be sure, the billable hour is still widely used by law firms and Barolsky says the app isn’t appropriate for large and complex matters where the scope of the work isn’t clear. In those cases, hourly rates are better, he says.

“It really is where there is more than day-to-day pricing, project pricing on slightly smaller matters where those decisions are being made quite informally without much support, and where there’s potential to do a lot better,” he says.

“If you accumulate 10% on all those small matters, the return is significant.”