MICRO-ECONOMICS FOR LAWYERS

Microeconomics is a branch of economics that studies the behaviour of firms and individuals in making decisions about the allocation of resources.

INCENTIVES

Incentives are a financial benefit that help a law firm achieve a specific goal. For example, charging based on hourly rates can create a perverse incentive against efficiency because the longer it takes to do the task the more the client is charged, therefore time-charging can encourage inefficiency.

ADVERTISING

As a law firm, advertising can increase accessibility to the public and help inform consumers about the availability and costs of legal services. Today, advertising typically means having a marketing strategy that focuses on both face-to - face interaction and a social media strategy.

SUBSTITUIO N

A substitute is a product or service that can easily be replaced with another, providing alternatives for consumers while also creating competition. Substitution in legal services refers to substitutes in the form of technology, such as document automation platforms. As more substitutes enter the market, supply increases and demand remains constant which results in a decline in the price of legal services.

COMMODISATION

This concept refers to where a client views the work product as a commodity, that is they believe that most law firms and most lawyers can perform the same task equally well. As a consequence, the client may care less about who they are obtaining services from and more about the price of the service, resulting in a downward pressure on price.

PRICING MODELS

There are two main types of pricing: 1) input based pricing (i.e. charging based on the number of hours worked) and 2) outcomes based pricing (charging a fixed amount for a specific outcome). The traditional form of pricing is input based pricing based on hourly rates, however it has been proven that fixed rates are more profitable and preferred by clients.

MEASUREMENT

It's imperative that information is measured and contextualised. A balanced scorecard can measure metrics such as money, clients, talent and innovation. If you are charging or contemplating fixed fees, examining financial measures such as cash flow, debtor days, gross margins can help you assess profitability. In addition, client and employee satisfaction can also be measured to identify areas of improvement.

HTLP.COM.AU