

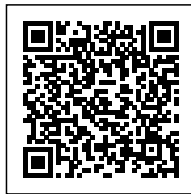
"FIRMS INCREASING FEES DESPITE MARKET CHANGE"

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Lawyers say they are likely to pass on increasing practice costs to clients

A pesar de las incertidumbres del mercado y de la economía, la mayoría de los abogados, representativos de los despachos líderes de la Península Ibérica y miembros del Grupo de Expertos de Iberian Lawyer, afirman en una encuesta realizada que prevén aplicar el aumento anual habitual de sus honorarios. Muchos matizan que la subida es inevitable debido al incremento previsible de costes internos, particularmente aquellos vinculados a sueldos de socio de cuota, sobre los cuales se predice que crezcan en el próximo año.

Despite continuing business uncertainty many Iberian law firms who responded to Iberian Lawyer's first Group of Experts survey of 2008 believe that they will apply the usual annual increase in hourly rates they charge to clients.

Many respondents said that an increase is inevitable given that internal costs are increasing, particularly those related to fee earner salaries, which are expected to continue growing throughout

the year.

José María Balañá, managing partner of Lovells Madrid office sums the situation up: 'Prices in the global economy continue to increase and so they will in the legal market. I therefore guess law firms will have to update their hourly rate scales as they have in prior years.'

Others say that they will, at the very least, increase prices by the rate of inflation. If the increasing costs of providing a professional service are not passed on to clients, this means an obvious reduction in profitability. In the partnership model that most Iberian law firms follow, good profitability is essential in order to retain the best partners.

'To fail to reflect actual cost increases in a firm's externally quoted rates would be a recognition that the firm is expecting to reduce its margin, presumably because the work it expects to perform is of less value to the clients or competition is requiring it to lower prices in order to sell its services,' says Charles Coward, managing partner of Uría Menéndez's Barcelona office.

The survey suggests a growing divide between those firms who believe that the services they provide are cost sensitive and those that do not. The argument is symbolised by the debate as to whether charging clients by the hour is appropriate or not. 'I would rather prefer more alternative billing structures and I hope that in the future things will go in that direction,' says José Miguel Jídice, a founding partner of PLMJ.

His sentiment is echoed by Coward: "The value of creative, innovative work bears little relationship to the "internal cost of associates or partner hours worked" just as hours that are dedicated in an unproductive or inefficient fashion do not reflect value for the client 'we are determined to concentrate not on the number of hours worked but rather on the quality of those hours and particularly on the quality and nature of the matters worked on and the services performed.'

Nevertheless, time recording and hourly rates will stay important, notably for internal accounting purposes and profitability control.

Linklaters head of corporate in Lisbon, Jorge Bleck, reports an increasing use of fixed fees instead of hourly rates, although this poses a management challenge: 'A fixed fee policy, to be properly managed, will require a comprehensive on-line database showing time spent on previous similar matters and which can be accessed in a user-friendly and effective way. Otherwise one will not be able to determine adequately the fixed fee for a specific transaction, with the attendant risk of a very low recovery.'

The consensus among respondents, however, is that the billable hour will continue to be the main accounting unit for law firms. Quoting Winston Churchill's views on democracy, Gonçalo da Cunha, corporate partner at FCB&A in Lisbon, reflects the opinions of many on this issue: 'No one pretends that democracy is perfect or all-wise. Indeed, it has been said that democracy is the worst form of government except all those other forms that have been tried from time to time.'

Within the current market turmoil are law firms less likely to introduce their usual annual fee increase?

'Prices in the global economy increase and will also do so in the legal market. I therefore guess law firms will update their hourly rate scales as they have in prior years. The question will remain (as always) what percentage of such updated rates firms are able to recover.' José María Balañá, Lovells

'More than the economic environment, it is the competition within the market for legal services that has led fees to be maintained for the last 3 years. That does not mean, quite the contrary, that in the face of an increase in litigation, complexity and specialization of the work, the fees might not be raised, especially if we take into consideration the elements on how fees are determined.' Rogério

Fernandes Ferreira, PLMJ

'Yes. The current economic environment (which has not changed that much in Portugal for the last three years) may have an impact on a case by case basis when negotiating with clients.' Joao de Macedo Vitorino, Macedo Vitorino

'Yes, law firms are less likely to introduce their usual annual fee increase.' Manuel Castelo Branco, GPCB

✘ 'Certain adjustments often prove necessary (more levels of lawyer involved or type of work provided) but an outright fee increase is unlikely to be made.' Gonçalo da Cunha, FCB&A

'The increase in structural costs (e.g. facilities, supporting staff and equipments) and expectations on career advancement together with the 'dragging on' of the economic environment do not allow firms to keep the same fees, but may advise moderation namely for increases to be more in line with the inflation rate together with a stronger emphasis on cost control and payments management.'

Nuno de Brito Lopes, PLMJ

'No. Obviously the increase will not support the actual increase in life and law firms will support a part of that increase but we will have to upgrade our rates, as salaries will have to increase as well.'

Francisco Guijarro, Hammonds

'I do not think so. There will be annual increases, although they might be lower than usual.' Iñigo Igartua Arregui, Gómez-Acebo & Pombo

Despite the ongoing debate regarding alternative billing structures, will the billable hour remain the main accounting unit for law firms?

✘ 'Due to the nature of legal work the billable hour will remain as the main accounting unit for law firms.' Lupicinio Rodriguez, Lupicinio Eversheds

'Our view is that our fees arrangement should be aimed to bill according to value added to clients and not time invested. In fact, time invested and hourly rates have their rationale as a benchmark on costs to be covered while our model has revenues and not cost as the main line for profitability.'

Javier F. Samaniego, Bird and Bird

'| the billable hour will remain the main accounting unit for law firms and clients will request more and more detailed invoices not only in what concerns the time effectively spent but also the reference to the lawyer involved in the case (partner, associate, etc), the specification of the hourly rates and other items which may allow them to better estimate the ratio cost / quality of service.'

César Bessa Monteiro, ABBC

'The hourly rate will remain for the moment the predominant billing measure but this is changing and lawyer's will need to be more flexible and creative in their billing structures to retain clients and meet their needs.' Jorge Santiago Neves, Barrocas

✘ 'The value of creative, innovative work bears little relationship to the 'internal cost of associates or partners hours worked' just as hours that are dedicated in an unproductive or inefficient fashion do not reflect value for the client.' Charles Coward, Uría Menéndez

✘ 'We, as lawyers, may work with clients with alternative billing structures, but it will be very difficult to ignore billable hours when presenting our budget, evaluating professionals or planning the work load of certain departments of the firm.' Joan Roca Sagarra, Roca Junyent

'Despite the very interesting debate on the announced 'death of the time billing system' (based on the fact that it is the ultimate and most flagrant conflict of interests a lawyer deals with in every single client it works for)'| the 'announced death' has proven to be quite an exaggeration.' Pedro

