Definitely Mabey

Pricing: too critical to be left to the accountants

Last November I was fortunate enough to share a panel at a Legal Marketing Association luncheon with a couple of colleagues who are truly knowledgeable in their field. During the free-flowing discussion I made a couple of comments I didn't have time to expand upon then but will over the next couple of columns.

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The first was that pricing was simply too strategic to be left to the accountants so it behooved marketing departments to get engaged in their firm's pricing process. It also presented the ideal opportunity to reinvent themselves, increasingly important given the perceived direction marketing of law firms is headed in.

The second was firms will be more driven by business development efforts than historical marketing ones, which will have an impact on legal directories, publications, marketing staffing levels, advertisements, and ancillary expenditures. The focus will be on a back to a “people-to-people” approach with business development research one of the fastest growing expenses in firms.

The latter comment is a topic for a future column and the former I will address now.

Before I hear from whatever quasi accounting organizations are left and brothers and sisters of the green eyeshade fraternity, there is clearly a role for accountants in pricing decisions! It is just not a lead one but rather a functional one.

In the October 2013 Definitely Mabey column, I touched on the topic of **breakeven analysis**. In its purest form it will help firms understand the relationship between Cost - Volume - Profits. From a pricing of legal services perspective it will enable firms to understand whether the rates or fees quoted are making a positive or negative contribution to the firm's profits. This is a critical functional step in the pricing of legal services.

The column gave an example of how breakeven analysis could be used for such pricing challenges as:

1. What is the number of hours required to be billed to breakeven?

2. What is the breakeven fee for a matter estimated to take 250 hours?

3. If my fees drop two per cent how many more billable hours do I have to bill to breakeven?

4. If my fees increase two per cent how many fewer billable hours do I have to work to breakeven?

But in the final analysis, pricing and the manner in which your firm handles it (i.e. strategy) defines the relationship between you and your clients. And that is what is too important to leave to the accountants!

"...pricing and the manner in which your firm handles it (i.e. strategy) defines the relationship between you and your clients."

A pricing strategy is complex and simple: Complex to the firm in weighing all the variables and considerations and simple or transparent to the client. It needs to be both or it is not effective!

Factors firms need to consider in developing pricing schemes to ensure longevity of the firm's relationship with the client and in turn its financial health could include:

- industry expertise
- maturity of market
- applicable knowledge of client's business
- client's service value
- nature of client's position in marketplace and industry sector
- agreed-upon conditions in RFP response
- legal services platform provided by client
- markets/industries targeted by firm
- conflicts - potential and real
- future workload of lawyers in the firm
- effectiveness of current legal services delivery model

The main objectives of your firm's pricing strategy should be to:

1. Engage, not disengage, clients by focusing them on the non-pricing parts of the client service value;

2. Consider the long-term prospective of client retention over short-term profits;

3. Add to, not subtract from, the credibility of the firm's service proposition; and

4. Create opportunities for growth and development for the firm's lawyers.

Unfortunately in most firms — or certainly before the advent of the designated pricing folks who now inhabit firms — pricing has been left up to the individual lawyer and their individual or self-driven strategy.

"Unfortunately in most firms...pricing has been left up to the individual lawyer..."

Since it is not my first rodeo, I am not calling for another layer of bureaucracy (most firm's overheads would not handle it), or total loss of partner autonomy and use of their judgment. What I would suggest is the leadership of the firm develops a simple pricing philosophy, meet with the partners to consider it, and after discussion and likely amendment, reach agreement on what the firm's pricing philosophy will be and obtain real buy-in that all partners will adhere to when rendering their accounts.

To avoid backsliding (I know, something that only happens in those other firms) I would incorporate some type of oversight function that, perhaps even in reaction to client-raised concerns on an account, lets firm management understand how the account in question adheres to the firm's pricing philosophy.

Tom Clay of Altman Weil Inc., whose musings are always on my must-read list, has developed a webinar on pricing titled "**Pricing Strategies that Lock in Clients.**" Held earlier this month (and still available on demand), he spoke to the need of firms to think more strategic in their pricing of legal services.

Your firm's long-term financial health is dependent on your partners stopping the short-term practice of simply billing whatever is in the computer, down to the nearest penny!

Until the next column, as Katharine Paine, founder and CEO of The Delahaye Group, so aptly pointed out:

"The moment you make a mistake in pricing, you're eating into your reputation or your profits."

Comments or Questions?

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