

WHY SOME FIRMS FLY

Part 1 in a management series from Beaton Consulting



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PRICING YOUR SERVICES

A proactive approach lifts profits to new levels

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Pricing of legal services impacts directly on the sustainable profitability of every law firm. Yet, perhaps surprisingly, it rarely commands the attention of top management in the same way that staff issues, client issues or productivity issues do. Consequently, pricing opportunities often go unrecognised and unrealised – and those opportunities can be significant. Recent analysis for one firm – let's call them Firm X – showed that simply realising a 5% increase in price would boost profit per partner by more than \$50,000 per annum.

In my experience, many law firms take no proactive steps in relation to pricing other than establishing

'Poor pricing may mean high-quality work is not converted into profit'

hourly rates and agreeing discounts on these rates for key clients. For these firms, any other pricing activity is initiated by clients.

Many firms base pricing on simplistic methods such as cost multiples or market rates. The lack of rigour behind these pricing strategies can mean that high-quality work is not rewarded by conversion into profit. A more comprehensive approach to pricing would take into account costs, competitors *and* client value. However, where this information does exist, it is rarely integrated during the development of pricing strategies.

Communicating price and value is another key aspect of pricing that is overlooked surprisingly often, in my view. Many lawyers provide fantastic value to their clients but fail to communicate this value – and hence fail to capture all they can.

Practical starting points in the quest for better pricing outcomes include:

- Identifying specific **pricing improvement initiatives** such as areas where price can be increased, areas where decreasing prices could significantly increase volume, or changes to pricing structures to increase realised profit.
- Developing **pricing guidelines** that crystallise strategies and tactics to bring consistency to the firm's pricing. This should include an assessment by client segment and service portfolio to understand and manage pricing at the level of individual matters.
- Reassessing pricing roles, inputs and controls to bring greater discipline to the firm's **pricing practices**.
- Training lawyers to **communicate** more effectively about the value they are creating and delivering for their clients. This can have a significant impact on both revenue and margin.

Pricing is the single biggest lever of any law firm's profitability. 'Firms that fly' have replaced simplistic pricing models and 'gut feel' with information-based processes that bring a sharper focus to the role of individuals in improving pricing outcomes.

I suggest that, as Firm X did, you calculate the price-profit numbers for your firm – then decide whether pricing deserves more attention on your management agenda.

