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## **Aiming to become 'bullet-proof' on price**

Colin Jasper

### **Smart client-focused strategies allow some lawyers to defy pressure to reduce fees, writes Colin Jasper**

The consensus seems to be that it is a tough time for law firms. While the pressure on clients to reduce the cost of legal services has existed for some time, the global downturn intensified the needs for organisations to cut costs.

Clients are responding in a number of ways – increasing the size and capability of their in-house legal teams, utilising procurement techniques in the selection of law firms, seeking alternatives to hourly rates and more frequently treating legal services as a commodity. This has coincided with a dramatic shift in power over the past decade. In 2005, 78 per cent of the business community believed partners of large law firms carried greater influence in a business environment than general counsel. Just five years later this proportion has dropped to 30 per cent<sup>1</sup>.

Add to this the dichotomy of views regarding the profitability of law firms. A recent study showed that 58 per cent of corporate counsel surveyed believed that law firms were too profitable compared to only 21 per cent of private practice solicitors<sup>2</sup>. Given the above, many general counsel have little concern in using their newfound power to squeeze the profitability of law firms, particularly given the number one issue on many of their agendas in reducing legal costs.

### **Justifying your fees**

Yet within this apparently tough environment, some lawyers have no difficulty in justifying their fees to clients. With this group of apparently bullet-proof lawyers whose clients are enamoured with them, price objections are seldom raised.

What is it that enables these lawyers to avoid price competition? When I ask this question within law firms, the response generally points towards the greener grass. They believe it is the firms with the leading brands, the tax and M&A lawyers, or lawyers whose clients are not under as much pressure as “our clients”. Yet I have observed these bullet-proof lawyers in a variety of firms, in all types of practice areas and some serve the most price-sensitive clients in the market.

From my experience working with a broad range of lawyers in a broad range of firms, the distinguishing characteristics of the bullet-proof lawyers are that they are genuinely focused on delivering value to clients and they have a strong understanding of what this actually means. Hence the clients experience the difference and recognise that the 5, 10 or 20 per cent premium they may be paying is insignificant relative to the benefits they are deriving.

### **Rethinking the value proposition**

When law firms are asked about the value they deliver to clients they often talk about the provision of secondees, seminars or update bulletins. Under this definition apparently the core offer – the provision of legal services which clients actually pay for – is either irrelevant or a commodity. Clearly this thinking needs to be turned around. It is by providing core legal services in a manner that is superior to competitors that value is created.

The starting point is to have a genuine focus on helping clients achieve their objectives. While this may sound obvious, some lawyers struggle to balance the priorities of clients, their firm and their personal preferences. But if you want to meet the financial objectives set by the firm you must first create value for clients. Similarly, if you want to have choices in what clients to serve and what work to do, you must develop a loyal client base through a track record of delivering value.

Common signals that a lawyer is genuinely focused on helping the clients achieve their objectives include:

- recommending a strategy that will not only save the client money but also reduce the law firm's total fees
- continuing to explore, discuss and reinforce the client's objectives, in all the work undertaken for the client.

While having the right focus is a good starting point, it clearly is not sufficient. Central to a client's selection of a lawyer is legal competence. A client will not choose a lawyer who they do not believe is competent in the area. Bullet-proof lawyers know their capabilities and do not attempt to take on work they are not qualified to handle. They earn the trust of the client as much by stating where their skills end, as by delivering great results in their core areas of expertise.

As experienced lawyers know, having the competence to do the work is just the beginning. To ensure client satisfaction, the work needs to be delivered in a highly responsive manner. In competitive markets, it is no good being the best lawyer in town if the service is not up to scratch.

Unfortunately, client satisfaction does not necessarily result in loyalty. That said, loyalty is greatly enhanced where strong relationships are built. Clients value the knowledge lawyers build about them. There is a direct cost saving to clients as it minimises the briefing time. More importantly, it enables lawyers to tailor their advice to address specific client needs.

When armed with knowledge of the client and the expertise to do the role, lawyers are in a position to effectively advise clients on how to solve their problems. Many lawyers are seen to be blockers to strategy, telling clients what they cannot do. Clients recognise that those lawyers who take a step further and guide them on how to solve their problems are worth every cent.

### **Assessing the impact of price**

During these tough times some firms have fought hard to protect revenue. Some have taken the view that it is better to obtain 95 per cent of the revenue by taking a 5 per cent price cut rather than risk losing the whole 100 per cent.

However, leading firms from around the world understand the significant impact this has and are taking disciplined approaches to protect their margins. Stuart Dodds, the global head of pricing at Linklaters, talks about the 1-3-4 rule. He points out that, for most law firms, every 1 per cent loss in price equates to a 3 per cent impact on margin, which requires 4 per cent higher utilisation to deliver to the same profit. So the 5 per cent that your firm recently forfeited to retain a client may require 20 per cent higher utilisation just to break even!

The alternative to competing on price is competing on value. The challenge is to develop the skills of lawyers to clearly understand the value they add to clients and to be focused on creating it. Maybe then your clients will recognise the value you deliver and will happily pay.

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[1] Deloitte, 2010

[2] LexisNexis, 2009