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## How sophisticated is your pricing? Answer these 10 questions to find out

**Errors with pricing for legal work are inevitable, but providing clarity around fees and the value proposition that your firm delivers will go a long way to keeping clients happy while boosting your bottom line, writes Colin Jasper.**

*All law firms are under-charging!*

That may be a bold assertion, but I believe it to be true. None of the work you are currently doing for clients is over-charged. If the price was too high, you would not have been awarded the work. Some of the work you are currently doing is under-charged. That is, if you had asked for 5 per cent, 10 per cent or 20 per cent more, you still would have been awarded the work.

The more sophisticated you are at pricing, the more you can minimise the money left on the table and the more you are able to justify why the price is fair to the client.

### **Profit driver**

No lever has a greater impact on the profitability of a firm than pricing. A 5 per cent price increase generally increases firm profitability by about 15 per cent. By comparison, a 5 per cent decline in overhead costs (i.e. non-staff costs) generally increases profitability by about 3.5 per cent. And yet most firms put significantly more energy into cost containment than price optimisation.

The only lever that has the same impact on profitability as price is utilisation. You either work 5 per cent harder, or you get 5 per cent better at pricing. When you look at that over the next decade, you can only push utilisation so far.

While this might sound self-serving, ensuring the financial health of the firm is important to enable you to:

- invest in training staff;

- invest more time in pro bono efforts;
- balance billable hours with non-billable hours; and
- ensure an appropriate work-life balance.

When firms are unprofitable, they look at where they can cut costs. When firms are profitable, they look at where they can invest.

### **What clients want**

Much of the under-charging that takes place in law firms is driven by fear, which in turn is driven by a lack of knowledge of what's most important to clients.

Clients voice their concern about the price which is interpreted by lawyers as an indication that their price is too high. In reality – on most occasions – it is simply a desire to obtain a lower price if possible. There is nothing wrong with the price. The price would be accepted. The client would simply prefer to pay less.

What's more notable is that a focus on the amount (the price-point) distracts from focusing on other elements of pricing that are generally more important to clients. Specifically:

- clients want to know that the price is appropriate given the value of the matter. Poor practitioners leave this to the client to assess. Good lawyers help the client understand the investment in the context of the benefits;
- clients don't like surprises. This is why many clients prefer fixed fees to hourly rates, or at the very least the provision of accurate estimates; and
- clients want to know that you are aware of their need to contain costs and that you have consciously considered how the matter can be delivered as efficiently as possible.

If you can give clients clarity around what it's going to cost, help them see that the price is appropriate given what's at stake, and show them you have thought of ways to contain the costs, they will generally be less concerned by the actual amount. If you don't do these things, don't be surprised if the client challenges your price.

### **Assessing your pricing**

To assess how sophisticated your pricing is, consider the following 10 questions:

1. Are you comfortable with how much you are being paid for each matter and each client? Alternatively, do you resent some clients for how little they pay? It's the client's role to fight for a price that is fair for them. It's our role to ensure we are fairly rewarded for the contribution we make.

2. Are you scared of losing work based on price? It's appropriate to lose some work based on price. In fact, if you never lose work based on price your pricing strategy is flawed.
3. Do you use pricing as a rationing tool? You should be spending most of your time where you add the greatest value. Which clients and which matters justify the highest price? Target this work, and price yourself out of less-valued areas.
4. Do you set rates based on how much your competitors charge? If so, you are behaving like a commodity. Rather than asking what competitors are charging, a better question is what impact competitors' pricing is having on your ability to win work?
5. Are you able to define a clear scope and create accurate estimates upon commencement of new matters? Or do you avoid providing estimates or pluck a number out of the air?
6. Are you confident at justifying why you should be chosen, even if you are more expensive? Do you compete on superior value, or do you choose to compete on price?
7. Are you able to identify variations when they occur and communicate the price variations in a manner that clients appreciate?
8. Do you use client pricing conversations to strengthen relationships and build trust? Too often pricing conversations damage relationships – a clear indicator that something is wrong.
9. Are you confident in dealing with push-back from clients regarding your price? It's their role to test the price. We shouldn't be surprised when we are challenged.
10. Do you understand the value you add to your clients? Are you able to clearly demonstrate this value and communicate it effectively at various stages of the matter?

### **Value proposition**

The contemporary definition of pricing is that it is the process of determining how much we receive in exchange for the services provided. In this regard, pricing should not be viewed as a one-off event but rather a longer-term process whereby we are aiming to get closer to the right price more often.

The best firms at pricing still make mistakes, but they learn from their mistakes, and they get closer to the right price more often.

More importantly, the best firms at pricing have a strong focus on value-creation and value-capture. They help clients see the legal services as an investment to be optimised, rather than an expense to be minimised.

How sophisticated is your pricing and where are the opportunities to improve?

***Colin Jasper is the principal of Positive Pricing, a consultancy which is dedicated to helping professional services firms create greater value for their clients and capture a fair share of that value for themselves. Colin has consulted to professional services firms for over 20 years. In this time, he has had the opportunity to work with many of the leading firms in the US, the UK and throughout Asia.***

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