

Law Firm Practice Management 2.0
Reengineering Practice Management for Profitability
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Pricing Strategy at the Business Unit (i.e. Practice Group Level)

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Why is Pricing So Important?

- Effect on Profit:
 - 1% change in price results in a 3% change in profit
 - No other profit lever has this impact
- Effect on Brand
- Effect on Service Offerings

Why is Pricing For Professional Services So Hard?

- Variability of the cost and value of inputs/outputs
- Intangible – invisibility of costs to client
- High ratio of fixed costs
- Price must be fair to the client and fair to the firm
- Increasing/changing pressures:
 - Competition, globalization, technology, segmentation, unbundling, etc.
- Evolution to commoditization (Susskind):
 - Bespoke -> Standardized -> Systemized -> Packaged -> Commoditized
- Interdependencies . . .

Why is Pricing For Professional Services So Hard?



How are You Doing?

- Do you know your costs?
- Do you know the value of your offerings?
- Do you know how you are differentiated?
- Do you propose different service offerings by client segments and buyer needs?
- Are you capturing value?
- Can you estimate accurately?
- Can you manage to estimates?
- Does your pricing fit within the firm's strategy?
- Do you have a process that is:
 - Repeatable? Visible? Scalable? Accountable? Standardized?

How is Your Firm Doing?

Five Levels of World-Class Pricing

- | | |
|------------------------------------|---|
| 1. Baseline process is efficient | <ul style="list-style-type: none"> ▪ Political gamesmanship and "turf" wars impede sound pricing decision-making ▪ Pricing decisions tend to be reactive, and based on gut instinct rather than facts. ▪ Firms are constantly under pressure to lower prices. |
| 2. Internal process is in place | <ul style="list-style-type: none"> ▪ Have instituted tighter control on the pricing process. ▪ Have clearly defined roles and responsibilities and use facts and analysis in the process. ▪ "We can execute pricing really efficiently, but are they the right prices?" |
| 3. Value processes in place | <ul style="list-style-type: none"> ▪ Consistent/repeatable processes for looking externally to quantify their value . ▪ Assess value by client segment, and translate knowledge into pricing decisions. ▪ Client value information is used to make decisions about price structure/level. ▪ Can professional service firms go beyond this level? |
| 4. Optimization processes in place | <ul style="list-style-type: none"> ▪ Benefits from dynamic data-driven approach. ▪ Have the analytical precision to optimize profits by segment. ▪ Views its robust pricing process as a strategic capability, and regularly tracks how much money price optimization is contributing to its profit performance. |
| 5. Excellence in execution | <ul style="list-style-type: none"> ▪ Have addressed all gaps in sub-processes that prevent optimal performance. ▪ Usually has outstanding profit performance, well above industry peers. ▪ It is often outsiders who recognize the strategic capability of your pricing process. |

Adapted from The Five Levels of World Class Pricing, Pricing Solutions, Ltd.

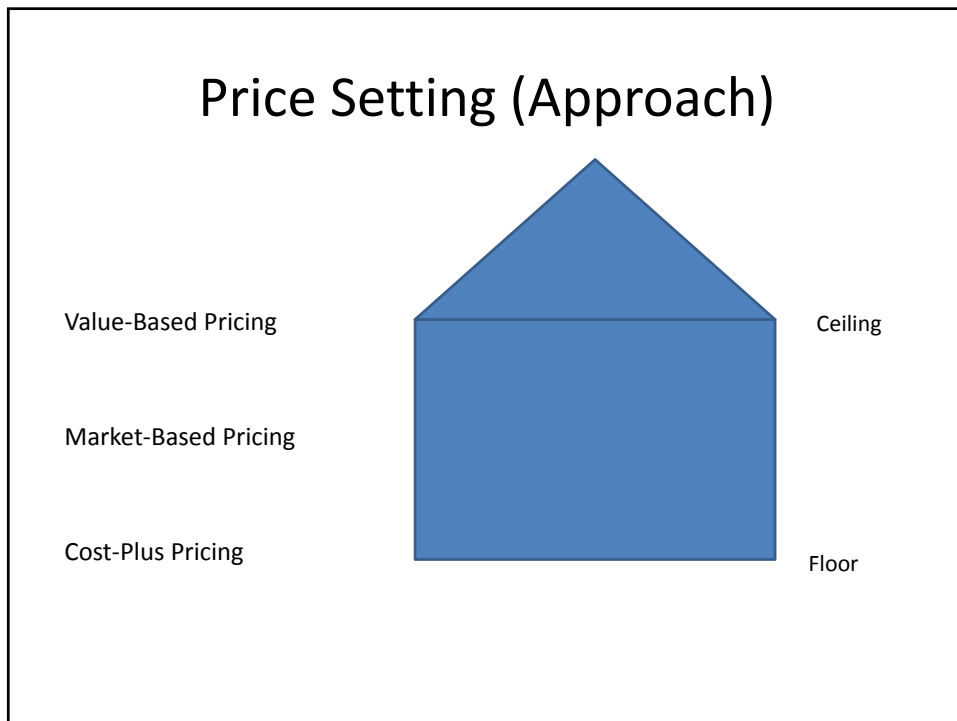
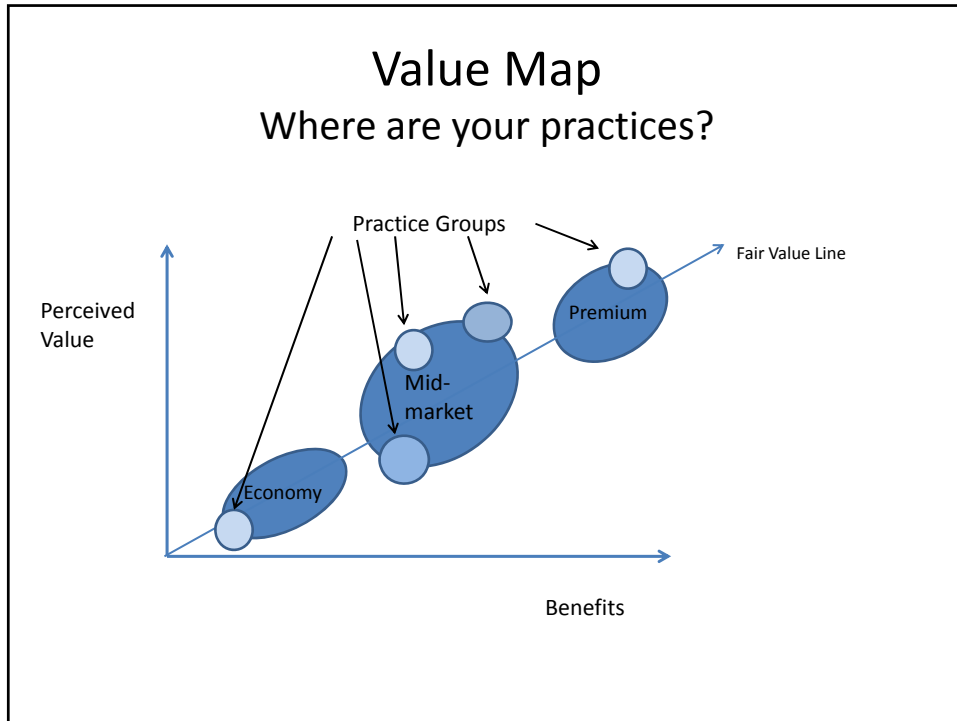
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Pricing Basics for Practice Groups

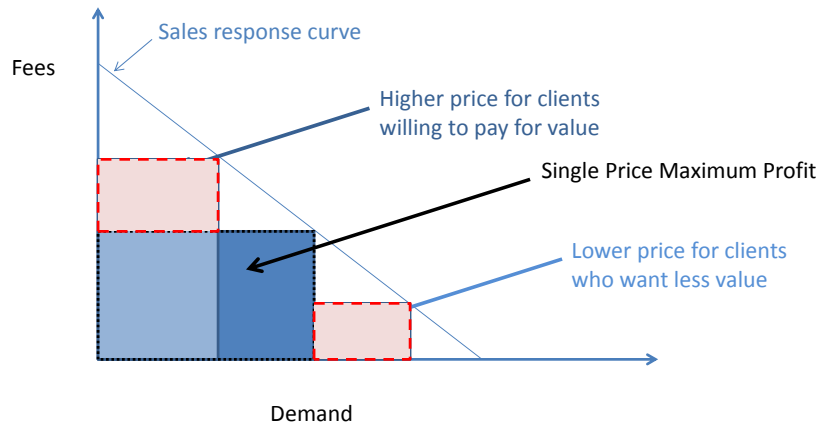
- Pricing Theory – Macroeconomics, NBA, WTP
- Value Map, Value Propositions
- Price Setting: Cost+, Market, Value-Based
- Price Customization: The Profit Rectangle
- Firm/PG Differentiation, Client Segmentation and service offering Versioning
- Pricing Structures
- Negotiation

Pricing Theory

- Macroeconomics
 - Exchange, Demand, Positioning/Purchase/Profits
- Next-Best Alternative (NBA)
 - Reference; Competition, In-House, Status Quo
- Willingness-to-Pay (WTP)
 - Buyer Psychology; Trade-off; Antiques; More/Less
 - Qualitative and Quantitative
 - “Value is what buyers are willing to pay.” Porter



Price Customization: The Profit Triangle



Differentiation, Segmentation and Versioning

- Firm/PG Differentiation
 - Geography
 - Industry
 - People / Expertise
 - Judge / Jurisdiction expertise
 - Matter experience
 - Pricing: Rates / AFA's
 - Brand

Differentiation, Segmentation and Versioning

- Client Segmentation
 - Competitive intelligence research – who are people using?
 - Client feedback surveys – what are clients saying?
- Service Offering Versioning
 - Good, better, best
 - Buyer Purchasing: middle effect, anchoring

Pricing Structures

Hourly rates (time-based)

- Variants include:
 - Discounted hourly rates
 - Blended hourly rates
 - Volume discounts

Fixed fees

- Variants include:
 - Fixed fee by matter
 - Fixed fee by phase
 - Fixed fee by event

Monthly retainer

Value billing

- Variants include:
 - Success fees
 - Contingency fees
 - Performance-based billing
 - Percentage of project

Hybrid structure

- Variants include:
 - Caps
 - Collars

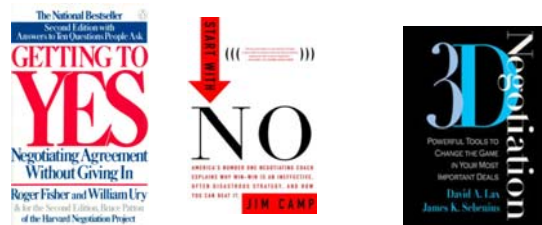
Provide options !

Negotiation Tips

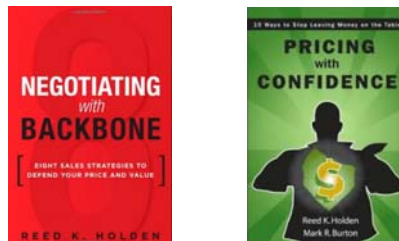
1. Five conversations to “set the table”
2. You had me at “Hello”
3. It’s a dance – it’s not personal
4. From general to specific
5. Keep several parts moving
6. If they want a discount . . .
7. Manage desperation
8. Constantly communicate value, efficiency
9. Manage the client’s frame of reference
10. You will always hear complaints about price
11. Dangers of discounting
12. Give Guarantees
13. 3 P’s – Prepare, Probe, Propose (Ron Shapiro Negotiating Institute)

Negotiation – Further Reading

The Classics:

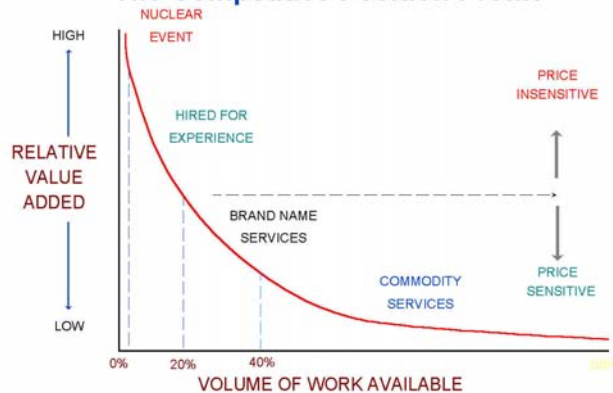


Recent – geared towards defending price and value



How (and where) Does Pricing and Firm Strategy Intersect?

The Cobb Value Curve The Competitive Position Profile



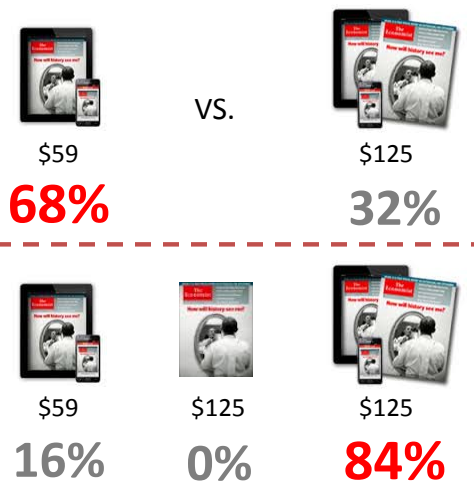
How (and where) Does Pricing and Firm Strategy Intersect?

VALUE

- Competitive Advantage
 - $V=B-C$, Profitability, NBA
- Differentiation
 - Competitive Intelligence, Branding, NBA
- Value Proposition
 - Resonate, Substantiate, Differentiate

How (and where) Does Pricing and Firm Strategy Intersect?

- *The Economist* Subscription Test



Predictably Irrational, Dan Ariely

Takeaways: Accountability

- Accurate Estimates: analyzing prior matters
- Pricing Structures: best by matter type /client
- Project Management: Service delivery must incorporate best practices in LPM and PI
- Communication with Clients
- From hours/revenue to revenue/profit
- Establish/support *firm* value proposition(s)