

Pricing an under-utilised weapon by law firms LexisNexis®

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Deriving 'value' from legal service providers continues to be the mantra for general counsel (GC) in 2015. Recently, Royal Dutch Shell appointed a global sourcing officer to manage its pricing arrangements with external counsel in a bid to control costs and ensure greater value from panel firms. Many firms are analysing legal spend not simply to find cost savings, but also to optimise their budgets to meet business needs. Consequently, law firm pricing structures are being questioned, transparency is demanded and often competition is being used as leverage to reduce law firm fees. In reality, GCs are looking for price certainty and specific, measurable deliverables for the fees they pay out.

Pricing challenge

So why then is pricing perplexing law firms? Profitable pricing underscores any commercial enterprise, regardless of business type or industry sector. Perhaps a fundamental mistake that many firms make is to assume that pricing is the primary consideration for legal departments. With this defensive mindset, firms fail to meet client expectations around price transparency, price certainty and price/value correlation. To allay client concerns, firms then resort to offering discounts or writing-off fees in an attempt to assuage client apprehensions and resolve issues. But, all they end up doing is conceding profit margin – the client concerns still remain unsettled. These aren't sustainable business strategies.

Aligning pricing strategy with business objectives

Typically, buyers of products associate price with quality, which is true for purchasers of legal services too. This perception is frequently based on nebulous things such as brand and reputation; a delicate balance, but firms must develop their pricing strategy, aligning it to their larger business goals. So,

in practical terms, this means that firms must have a clear idea of where and how they want to be positioned and perceived in the market – and then determine a price for their services that is credible and palatable for their clients.

Firms need to take a strategic, commercially-orientated approach to pricing their services. Rather than going on gut instinct, making informed decisions based on 'real' data is vital. This requires business insight – things like what a profitable client looks like, how much time does a certain kind of matter typically take, what level of staffing does it require, what aspects of the execution can safely be outsourced, what is an acceptable cost/profitability ratio and so on.

Disjointed business environment an inhibitor

But access to such information isn't available to many firms. Their business environment is disjointed. Firms use multiple systems which, despite great effort to integrate and streamline, remain disparate due to the multitude of proprietary technologies they are based on. As a result, the various business functions continue as siloed operations, making it difficult to get a single view of the business, projects and matters. Furthermore, inconsistencies and inaccuracies creep in across systems, making the available data unreliable.

Enterprise resource planning approach

To a large extent, firms can overcome the pricing challenge by adopting widely-prevailing approaches to business practices and technology. In fact, these are already used by their client organisations – and potentially may also be a cause for frustration on their part – solutions exist, but law firms display a reluctance to embrace them.

An enterprise resource planning approach to business provides a single working platform that ties in all the facets of business, delivering

not only tremendous business intelligence to facilitate confident and informed decision making on pricing, but also covers all of the other aspects of business.

Consider this scenario: A client asks for a quote for a new employment-related matter. The partner goes into the ERP system and selects 'new matter quotation'. Within the quotation form, the partner creates a 'work breakdown structure' which enables him to subdivide the matter down into a number of phases and tasks, such as planning, discovery, preparation for trial, and such.

For each task, the partner identifies the individuals with the right skill set (which is available in the system) and the period of time the task is likely to take. Then, for each task, the partner defines the estimate of various costs and revenue detailing the matter category along with worker record. The sale and cost price of the worker automatically displays. Instantly, the partner can ascertain the profitability of the matter.

If the client signs off, with a click of the mouse, the system automatically converts the matter quotation into an estimate held on the matter. The estimate may then be converted into a budget. Once the matter commences, again with a single click, the partner can generate a report for client perusal on 'actual' versus 'budget', tracking the estimate for each task in real-time – for example, communication, research, trial preparation, etc.

This sophisticated approach to pricing will be hard to fault by clients. In addition to ensuring matter profitability, clients, too, will be assured that the firm is offering realistic pricing, and know exactly where the firm's value-add is.

Clients generally are willing to pay a premium price for premium quality and true value-added service. Astute pricing offers firms the opportunity to differentiate themselves in a marketplace where supply exceeds demand. It can be a valuable weapon, if approached in the right way.