

Pricing and Profitability for Law Firms

Michael Roch



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By Michael Roch

Contents

Executive summary	VII
About the Author	IX
Chapter 1: Pricing and profitability in context	1
The case for effective pricing management: competitive marketplace requires change in how law firms look at pricing of their services.....	1
The importance of profitability	1
Elements of profit per partner.....	2
Intellectual capital as a leading indicator of long-term profitability.....	5
Components of intellectual capital	7
The role of pricing in the context of a firm’s business recipe	9
Chapter 2: Clyde & Co: Measuring the true profitability of legal work	11
Practical considerations for finance professionals in the legal profession	11
Chapter 3: Debunking the five major myths of law firm pricing	15
The five myths which hinder firms in implementing sound pricing-management practices.....	15
Chapter 4: A holistic approach – the three levels of pricing management	19
Understanding major forces that shift supply and demand in the legal industry	19
Lessons for the law firm	20
Introducing the pricing czar	21
Chapter 5: The firm’s market – establishing value propositions as conditions precedent to pricing	23
The importance of competitive positioning	23
Mercedes-Benz or Tata?	24
A law firm’s work type can be broken down into four basic categories	25
Lessons for the well-managed firm	26
Penalising for disregard of firm’s pricing policies	27
Chapter 6: Establishing rational rate schedules and raising rates	29
The need for a rational basis	29
Gaining acceptance of rates.....	29
Process	30
Raising prices (rates)	31
Chapter 7: Combining different pricing methodologies	33
Why alternative billing is a misnomer	33

Charging by the hour: advantages and disadvantages.....	33
The blended-rate approach	36
Fixed and capped fees	36
The trouble with the capped-fee approach.....	36
Fixed fees: advantages and disadvantages.....	37
Conditional/contingent fees.....	38
Equity/assets <i>in lieu</i> of cash	40
Combining methodologies to fit clients’ needs: getting to the root of value pricing	40
Seven rules for profitable alternative fee arrangements	40
Additional lessons for the well-managed firm	42
Chapter 8: Structural prerequisites for effective price execution	45
The firm-wide mindset.....	45
Fundamental review of service delivery	45
Professional workflow management.....	45
Analysing discounts and premiums to establish baseline.....	46
Benchmarking	48
Supporting partners’ pricing decisions	49
Panel bids, beauty contests, reverse-rate auctions, and other client interventions.....	49
Chapter 9: Translating value for the client	51
Thinking about total engagement cost	51
Generic pricing tactics and their applicability to law firms	51
Solutions and packaged offerings.....	54
Structuring of payment terms.....	56
Client involvement	56
Determining price-sensitivity.....	56
The importance of client commitment.....	57
Professional development: investing in the skill to convey value	58
Chapter 10: BLP – all hands on deck.....	59
Training.....	59
Financial information	60
Appraisals and rewards	61
Friendly competition	61
Chapter 11: Pricing and leverage.....	63
An extended definition of leverage	63
The interrelationship between pricing and leverage.....	63
Managing leverage to improve profitability	64
Service-delivery models	65
Chapter 12: Pricing, capacity and utilisation	67
Capacity-management	67

Utilisation-management.....	68
The interrelationship between pricing, capacity, utilisation and demand.....	69
Chapter 13: Pricing, margin and cost management in a period of economic downturn.....	71
Expense-management, focusing on a period of economic instability	71
Profitability-analysis during adverse market conditions.....	74
Chapter 14: Changing partner behaviour to achieve better pricing decisions.....	77
Partner behaviours and pricing.....	77
What the modern law firm wants from its partners	78
The changing role of partners.....	78
Understand what motivates partners	81
Manage partner performance	84
Persistent follow-up	85
Chapter 15: Information management for better pricing decisions.....	87
Internal information management	87
Pricing decisions and external information.....	90
The issue of culture and information sharing	91
Pricing in the cash-basis firm.....	91
Some observations on the work-in-progress to cash cycle.....	93
Chapter 16: BLP's collaborative approach to financial measurement.....	97
How to measure: a technology/accounting team effort	97
The technical challenges	97
Possible solutions	98
Referral tracking at BLP	98
How the teams worked together.....	98
Beyond raw data	99
Project monitoring	99
The role of technology	99
The importance of presentation.....	100
Only the start.....	100
Index	101

Executive summary

CLIENTS HAVE grumbled for a long time about how expensive their lawyers are, and how their lawyers' pricing paradigm of charging by the hour has caused their costs to spiral out of control. Indeed, as recently as April 2008, the way in which firms price their services has come under scrutiny, with the issue commanding the front pages of the financial press. Take, for example, an article in the *Financial Times* (19 April 2008), in which London's "battle scarred executives were stunned" by the £5.2m (US\$10.4m) in fees racked up by a magic-circle law firm on a five-day trial regarding Blackberry patents.

At the same time, general counsel increasingly believe that hourly-rate fees provide very little incentive for solicitors to rein in costs, or to consider alternative fee structures. Addressing utilisation, a recent PricewaterhouseCoopers survey shows that the targets for most associates at the 10 largest UK firms increased by 4.3 per cent in the past two years, while amounts billed increased by almost 11 per cent.

Law firms have clung to the billable hour, like billing by the hour was the only way to honestly practise law as a profession. Meanwhile, however, some of the largest clients have pushed for reform and, in some cases, have successfully managed to change how their legal service providers charge, or they have taken their business elsewhere. Some have beaten their legal service providers at their own game by implementing sophisticated legal-bill auditing, taking apart, one by one, the invoices provided electronically by the law firm.

This report is a best-practice guide on pricing, providing a principles-based approach for law firms to apply in a way

that improves the pricing of their unique service-offerings. It does not advocate fixed-price or value-based billing. Yet, for now, pricing remains the least-managed profit driver in most law firms, and one around which management has not yet developed sufficient methodologies or will power to align partners, teams, practice areas, and the firm to the overall strategic objectives of the law firm. This report seeks to explain how to manage pricing in the same holistic way as most firms have successfully managed utilisation, realisation, leverage and margin for some time.

About the Author

MICHAEL P. Roch is a partner at Kerma Partners, a global consulting firm which advises professional service firms on strategic and competitive issues.

Michael helps law and other professional services firms on both sides of the Atlantic to improve their financial performance, and advises law and accounting firms on their national and international competitive positioning. Michael has written many articles and is a frequent speaker on finance and competitive issues. He is the lead author of *Financial Management in the Legal Profession*, a best-practices guide published by Ark Group, the publisher of *Managing Partner* magazine.

Based in London, Michael is a New York qualified attorney-at-law and a certified public accountant. He began his career in two of the 'Big 6' accounting firms and spent 10 years practising international corporate and capital markets law in the US and in London.

Michael holds a Juris Doctor and a Master of Accountancy from the University of Denver. He has taught at institutions in the US, Germany and Eastern Europe.

In his spare time, Michael enjoys skiing, playing golf, scuba diving and playing the saxophone.

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