

# Law Firm Pricing: Strategies, Roles, and Responsibilities

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# Chapter 1: Why a pricing role?

MUCH HAS been written about the changing market for legal services. The thrust of this dialog deals with a basic, structural change in the market. In the past, prior to the mid 2000 recession, demand for legal services grew and firms were able to consistently raise billing rates. This led to a great run of growing profitability. However, the perfect storm then hit lawyers. The recession was only the final, yet quite large, straw. Prior to this, as the market became over-saturated with supply (lawyers), clients had already begun pushing for greater discounts. Adding fuel to the fire was the technology revolution which altered expectations for everything to become better, faster, and cheaper, almost daily.

What these forces meant for law firms was that their pricing strategies would need to change – dramatically. Prior to 2007, most firms would raise rates each year in the range of 6 to 10 per cent. In recent years, firms have been doing well with 3.5 per cent increases. However, even with those price increases, a firm's actual realization of price increases can be flat or negative, since realization against these rates has dropped from 95 per cent to about 85 per cent in the same period. Finally, with utilization of lawyers dropping, the cost per hour to deliver services is rising. These factors put firms in a tough position. They either need to adapt and embrace new pricing approaches, or sit back and watch their bottom lines drop.

These challenging times have led many law firms to create pricing roles. Given the

pressures on partners to bring in business, these roles quickly became important within firms and have high value to firm leadership. The titles for these positions can vary, but generally they evolve into some form of a 'pricing director'. The director level acknowledges the impact on the business of law and the need for high-level skills for the position.

Pricing directors (and their equivalents) have been thrust into the position of helping their firms to understand and ultimately to adapt to this changing legal market. To function in this role, one needs a breadth of skills which include: financial, practice management, technology, marketing, business development, and knowledge management. Another challenge for the role is its unique nature. It does not necessarily fit neatly into one existing department within a law firm. Some pricing directors serve in the finance department, while others serve in marketing, knowledge management, or even general administration. Needless to say, whatever the role starts as, and whichever department it starts in, it invariably evolves out of necessity. The evolution is driven by internal firm pressures, typically based on the practice groups most in need of help. Plus, it is driven by external forces, typically the types of clients exerting the greatest pricing pressures. For simplicity, the majority of this report will refer to the specific title of 'pricing director' but law firms and readers can assume the theory can be applied to the variations on this title. The report will

also refer to a 'pricing team', and the final chapter will provide detailed advice on building this team.

From a high level, pricing roles cover the following ground:

- Interacting directly with clients to determine fee goals;
- Interacting with law firm partners to set strategy;
- Proposing pricing structures that align client and firm needs;
- Modeling fee arrangements for profitability; and
- Monitoring fee arrangements once the work has been secured.

Some pricing roles cover this entire spectrum (and more), while others focus on specific components. Whatever the range of duties involved, pricing roles are focused on helping law firms to adapt to change and to maintain a healthy bottom line through market transition.

With this broad range of possible functions, firms pursuing such a role should think beyond the numbers. A seemingly safe first step to establish this role is as some type of analyst function within the finance department. Although the financial analysis aspect is a key one, it can serve as an anchor, holding the position in a back office role. Here the role has value for a firm, but that value is quite limited. It is recommended that whatever mix of responsibilities this role takes on at a firm; it should always be client-facing. Without this aspect, the role will operate in a vacuum, merely responding to basic requests, and unable to give the right kind of feedback and counsel that partners will need. The role really needs to have an eye on the market and on the factors driving client fee concerns. By reading through this report it will become very apparent that

the key to successful pricing hinges on an understanding of the clients' motivations and ultimate goals.

This report is intended to help both the firms who are embracing a pricing role and the people who take on this challenge. The report will go into detail as to the functions, the approaches, the challenges, and the skills needed to survive and thrive in such a pricing role. The authors give many examples and share their experiences from years in similar roles. The report provides ideas for best practices and will point out pitfalls to avoid.

From the authors' experiences, the pricing director role has been very challenging, but quite rewarding. It exists at the vanguard of change for an industry in desperate need of it. Finally, as will be seen from the experiences in this report, individuals are still learning and growing in these roles. The last word on legal pricing is that is a roller coaster ride and nobody is sure yet exactly how it will end. As they like to say at the amusement parks: 'Keep your arms and legs inside the car at all times' – and have fun.