

law practice management

newsletter

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DEVELOPMENT COUNSEL

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Right pricing your legal services

Far too many lawyers shy away from pricing, a useful component of their business development and competition arsenal.

Clients are not so shy. Our research is clear: clients think price matters. They have an understandable concern about what things cost — including legal services. Only occasionally is price the issue on which the choice of lawyer hinges. But acceptable prices and, just as importantly, price structures are also key to gaining and growing satisfying and strategically sound clients.

Clients say 'give us':

- predictable fees;
- controllable fees;
- a clear understanding of the basis for legal charges;
- a relationship between legal fees and our commercial outcomes;
- real disbursements only at realistic costs;
- accountability; and
- improved value over the last time round.

Competitive pricing

Competing on price is sometimes the black sheep of the marketing family. Don't mistake competitive pricing for just plain 'cheap'. It's mostly a whole lot more complex than that.

Understand your costs

Making sensible pricing decisions starts with understanding your costs, which are fixed costs, variable costs and opportunity costs.

Pricing need not necessarily correlate with your production cost, but must mesh with your business strategy.

Beware 'loss leaders'

'Loss leaders' are where you reduce your price to a low level, even lower than your real cost of production, to win business.

Reducing price to 'loss leader' level to retain or obtain a client can be dangerous because:

- it's easy to be deluded; and
 - it rarely works as intended.
- So:
- consider alternatives;
 - learn to re-cut certain work to fit within a price; and

- consider co-production.
Do you:
- understand your cost of production;
- listen to how your clients see price;
- take time to distinguish between clients' concerns about the structure of your pricing and fee quantum;
- remain open to new pricing ideas;
- think and talk about pricing;
- frame price in terms of value;
- articulate the value or benefits delivered in return for the fees charged;
- experiment with models linking prices to client perceptions of value; and
- show a willingness to innovate and accommodate client concerns?

Price — one size doesn't fit all

Price sensitivity depends on market conditions:

- oversupply;
- supply/demand in balance;
- small undersupply; and
- severe shortage.

Many lawyers delude themselves about a rarity of skills or scarcity of service alternatives — and then wonder why clients go elsewhere.

Price sensitive work tends to be:

- high volume;
- focused on mass markets;
- poorly differentiated or struggling to create brand distribution; or
- a huge profit opportunity for the firm that gets it right!

Price insensitive work tends to be:

- unique or highly differentiated;
- specialist;
- innovative;
- with high commercial impact or business risk;
- brand or reputation dependent;
- low volume; and
- again, a huge profit opportunity.

Scarcity of services and high business impact and risk characterise work which is right for premium pricing.

Setting your price

Be strategic in pricing your services. To get the price right for any given client, be rigorous and disciplined in working through the factors at work.

Analyse your client by finding out:

- their perceptions and characterisations of you;

- their needs;
- their measures of value;
- why they chose you;
- their price sensitivity; and
- their propensity to innovate.

Analyse your competitors by understanding their:

- identity;
- location;
- profile;
- strengths; and
- brand value.

Analyse your client's alternatives by knowing:

- other sources of expert advice — not just lawyers, but accountants, investment bankers, management consultants and patent attorneys; and
- the alternative of doing nothing at all.

Analyse your practice positioning by understanding your:

- capabilities;
- strengths;
- efficiency;
- costs of production; and
- brand value.

Assess your bargaining power by asking:

- can your clients get what they want and need elsewhere;
- how easily; and
- how conveniently?

Evidence of successful pricing strategies

These include:

- your pricing does not present the client with any impediment to using you;
- the client is not paying for anything which is unnecessary; and
- you value at a price point — the clients get value for what they pay.

Remember, it's perfectly respectable for good clients to care about price. ●



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