

DW Reporting Limited Pricing – how do we measure value in everyday life and legal services?

Lawrence Watkins – July 2015

‘The single most important decision in evaluating a business is pricing power. If you’ve got the power to raise prices without losing business to a competitor, you’ve got a very good business. And if you have to have a prayer session before raising the price by 10 percent, then you’ve got a terrible business’. – Warren Buffett

Much has been written recently about the ever changing market place for legal services and the role of pricing in that market.

For most customers in the wider market place, the price of a product by itself is not the key factor when a purchase is being considered. This is because most customers compare the entire offering, sometimes referred to as the “whole product” and do not simply make their purchase decision based solely on a product’s price.

In essence when a purchase situation arises price is one of several variables customers evaluate when they mentally assess a product’s overall value.

Value refers to the perception of benefits received for what someone must give up. Price often reflects an important part of what someone gives up, a customer’s perceived value of a product will be affected by a pricing decision. A clearer way to see this is to view value as a calculation:

$$\text{Value} = \frac{\text{perceived benefits received}}{\text{perceived price paid}}$$

For the buyer, the value of a product will change as perceived price paid and/or perceived benefits received change. But the price paid in a transaction is not only financial it can also involve other things that a buyer may be giving up. For example, in addition to paying money a customer may have to spend time learning to use a product, pay to have an old product removed and the opportunity cost to current operations of diverting resources to this project or incur other expenses.

Being able to place value on a product or service is not a simple matter. As mentioned earlier value is based on perception. The real cost of calling out an electrician to resolve an issue in your home may be broken down into a call out fee, labour and parts. The sum of this transaction may total £80 but value to the customer is far greater than the £80, so the tradesman may charge £120, maybe more dependent on circumstance.

Successful businesses maximise their profits by matching their pricing with the value customers put on their products or services. As a provider of the product or service the price is your financial reward for this provision.

Pricing for legal services is now more complex than ever. Clients prefer alternative fee and hybrid arrangements and they want a range of services, such as eBilling, in addition to legal advice to improve productivity and efficiency.

The net result is that law firms now need skilled pricing teams to ensure that they are competitive and still profitable. Pricing professionals need to possess excellent commercial acumen to devise pricing strategies that will resonate with clients, provide differentiation and align to the firm's competencies.

The role of the pricing team is a matrix one and they must foster key relationships throughout the business in order to operate successfully. From finance, business development, IT to risk, a pricing professional's ability to align to these business teams is key. They all have involvement in the matter lifecycle and therefore provide important input to the pricing philosophy and strategy of the firm.

Lastly, but of no less importance, pricing teams need effective matter planning and pricing products that give them access to key business data in a timely format so they correctly price, plan and manage complex matters from the initial pitch through to closure. Ensuring that matters are on track financially, pricing assumptions based on business data are still valid and that any fee, service or delivery issues can be proactively managed with clients to maintain positive working relationships is now paramount.

The client conversation of price is regularly seen as a difficult one and frequently clients are met with bills higher than expected which can create a poor perception despite the quality of the work provided. Pricing professionals need to work closely with commercial teams and partners to move the pricing discussion to earlier in the matter lifecycle and provide multiple pricing options so client can make an informed choice from the outset. This decision may be influenced by a number of other variables such as value, timeliness and choice. The value and the perception of value is key at this point, as value also includes elements such as quality of advice, relationship, approachability, willingness to engage and commitment to supporting the business.

By providing a number of pricing options the client can now place context around these choices, and the client's 'willingness to pay' can now be based on more than just the service itself.

As more and more legal firms recruit directors of pricing and teams to support them, law firms also need to invest in new pricing technologies to provide these teams with the power to provide clients with innovative and clear pricing choices.

Leveraging key business information on the performance of historically similar matters, providing clear and concise cost mapping and “What If” scenario analyses are essential to ensure prices offered to clients are accurate and robust.

Furthermore these solutions must provide firm wide visibility into these matters, how they are performing and the timely management of unforeseen variables to ensure that matters stay on track, on budget and meet client expectations.

The ability to accurately plan, manage and monitor all matters from both a financial, regulatory & client perspective are no longer nice to have law firms must have sophisticated pricing environments to ensure profitability and growth.

Lawrence Watkins is a Director and Co-Founder of DW Reporting, heading up the product team that has developed Evaluate, a next generation legal matter planning, pricing and cost management solution tailored to the requirements of fee earners and law firm management teams throughout the lifecycle of a matter.

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