

Using a Matter Pricing Policy to Improve your Client Relationships

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We are seeing more and more law firms, of all shapes and sizes, raise the hot topic of matter pricing at the highest level of management within their organisations. Managing Partners and Finance Heads have a desire to change the culture of pricing within their firms and adopt a more commercially savvy and granular approach to the profitability of their potential work. In part, this is in response to market demands for more transparency in how work is priced so that clients can compare with other firms in the marketplace, but also as a result of demand for alternative and more inventive methods of obtaining and paying for their legal advice.

Law firms who have routinely adopted a “finger in the air” approach to pricing new work, are unsurprisingly finding that this method is unsustainable - frequently due to them either over pricing and not winning the work in the first place, or even worse, under pricing, winning the work and then losing money because they end up with a negative margin on the outcome once the matter is completed. Why would a firm want to commit to a fixed fee for some new work, only to find that eighteen months down the line once the work has been completed that they have lost a significant amount of money on the transaction due to write downs or inaccurate budgeting? - unless of course it was a tactical decision to do so.

But how do you start adopting new pricing methods when the old methods are so ingrained in the firms’ culture? It has to start with senior management, you have to have senior sponsorship of an initiative to adopt more accurate pricing policies within a firm. The most successful projects we have seen in changing a firms pricing culture, have involved them enforcing new policies from the top down, and adopting a “carrot and stick” approach. These firms have provided tools in order for individual fee earners to accurately record and apportion the work effort for existing matters in progress, down to individual phase, task and activity level within the matter - but also to budget on this same basis for new work. Once the matter has been completed, this data can then be analysed to review how successful it was in comparison to firm metrics on profitability, leverage, gross margin, net margin etc. But at the same time the firm has also given fee earners individual profitability targets, and in some extreme cases they have got their HR departments involved and written profitability performance figures into a fee earners contract of employment - making it a contractual obligation for them to meet or exceed net profitability targets over a specific timescale.

A useful starting point for changing a firms pricing policy from “finger in the air” can be to initiate a more detailed budgeting requirement for a matter during the initial inception process, if that matter is likely to be over a specific value. For example, if the total bill for the new matter is likely to be over £5,000, then the fee earner is automatically required to review the cost of that work at a more granular level, perhaps by reviewing other similar matters as analysed previously, and provide a more detailed assessment of the work effort before entering a final estimated amount in the budget field.

Once this initial process has been completed, and assuming the work has been won, the client can then be sent a copy of the detailed budget for the new matter for transparency. As the matter progresses, it needs to be rigorously monitored against budget to make sure it is on track. Sending the client ongoing monthly/quarterly analysis of actual v budget performance is a very useful practice, so that they have visibility on how their work is progressing from a financial perspective. Once any deviation is identified - which could be for totally legitimate reasons or it could be the client pushing the boundaries (such as going out of scope to get more for a fixed fee), then this information needs to be shared and reviewed with the client at the earliest opportunity. Some firms are even offering real-time online access to this analysis, giving the client a more informed view of how things are progressing as and when they require it.



Clients typically accept that there will be twists and turns in the progress of a matter, if these changes affect the final cost of the matter, then they need to be identified as early as possible in the matters lifecycle, but more importantly communicated to the client as soon as possible - “get the bad news out of the way early” is a mantra that we have often heard. This may lead to a new budget being prepared for the matter due to a change in scope, or part of the work being revised or re-allocated to more accurately meet the demands and expectations of the client. Either way, improving your matter pricing policy can act as a significant catalyst to a more informed and positive ongoing relationship with your client.

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