

PETER SCOTT CONSULTING

Briefing Note October 2022

Value Pricing – to increase your profitability

The objective of a business should be to make profit. However currently, maintaining profitability is becoming a challenge for many law firms in today's competitive environment where there is increasing pressure from clients to reduce prices, and to move away from hourly rates to fixed prices and other alternative pricing models.

Pricing competitively is not the same as price discounting, and should be about pricing and managing work to achieve higher profitability, and to gain a competitive advantage over rivals, by providing clients with what want at prices clients will regard as **'value for money'**.

Achieving value for money in the mind of a client, needs to find **the right balance** between the client's perceptions of how the law firm is adding value on the one hand, and the cost to the client on the other.

Several years ago I carried out a client perception survey for a law firm and this was what one client said about the firm, which describes the idea of value for money quite well:

"They always try to sell to us on price – but what we really want is to have a good job done at a reasonable price"

Value pricing in this sense means that a law firm, if it is to become a **value-based firm**, will need to:

- Better understand how its clients view **value** which they (the clients) care about; and
- Position itself to provide **value for money** by finding the right balance between clients' perceptions of what is valuable to them, and the cost to the clients.

Looking at each of these propositions in turn:

1. What is value which clients care about?

I saw the following statement on the website of a UK law firm which sets out very well what clients are seeking from their lawyers

"We understand that our clients require both value for money and price certainty from their lawyers. We also understand that clients buy outcomes and solutions (not hours) and expect efficient and cost-effective delivery of those outcomes."

It is a **client's perception of value** which matters, not the lawyer's and the quote below by Bruce Christensen expresses this very clearly:

“Lawyers must understand that client perceptions of value may have nothing to do with the hours it takes to do the work”

This approach was reinforced by research published in April 2017 by LexisNexis in conjunction with the **Judge Business School, University of Cambridge** which revealed evidence of a serious disconnect between what clients expect from their law firms and what they get:

- Law firms saw the disconnect as primarily a ‘challenge of improving service delivery’
- whereas clients were looking for **solutions to business problems** and saw it as a **‘need to better understand the client’s perceptions of value’**

<https://www.realwire.com/releases/LexisNexis-report-Amplifying-the-voice-of-the-client>

How can lawyers find out what their clients need? **Ask them!**

Value is personal and so to provide value in a way which clients **care** about, a lawyer needs to identify and recognise the **needs** of the client and then evaluate and agree the client’s expectations as to performance – i.e. **What will success look like to the client?**

Each client’s needs will be different and only after having identified those needs and expectations will it be possible to add value in a way which will drive satisfaction for the client.

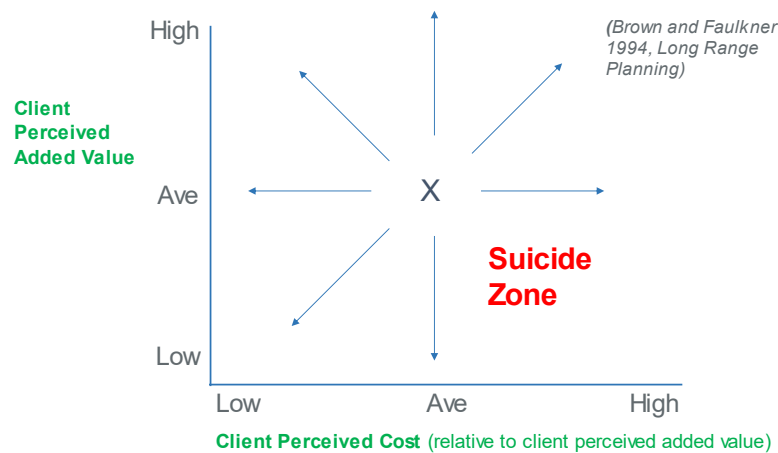
2. Value for money - finding the right balance between clients’ perceptions of what is valuable to them, and the cost to clients.

Lawyers need to understand not only what clients want from them, but they also need to ensure that clients **appreciate the value to them** of what their lawyers are doing for them. As David Maister has said:

“There is no secret to value billing. Just figure out ways to be more valuable. If you do, you will be paid more”

The graph below illustrates this balance between **the client’s perceptions** on the one hand **that expectations have been met, relative to cost to the client** on the other, and this graph can be used to help you to competitively position your firm by adding value in a way which your clients care about, and at a cost which is, **in their minds**, value for money .

How are you adding value to your clients?



How valuable do you think you are to your clients?

This is really about self-esteem and knowing your **'worth'** to your clients. The greater your self-esteem, and the better you understand your 'worth' to your clients, then the more robust you are likely to be with your pricing.

For example, if you have clients who come back to you time and time again and who always agree and pay their bills without quibbling, then that indicates that you have a 'worth' to them and you should aim to recognise that 'worth' (your value) to them in your pricing.

Accordingly, when you next have a pricing discussion with a client, if you do not do this already, consider emphasising in particular **how you will be adding value to them**.

This can be illustrated by how a conveyancing partner in a law firm in Surrey convinces her clients that she is great value for money to them.

- She chose as her market, clients owning the more expensive properties locally on the basis that they are likely to pay the highest fees and make fewer complaints.
- She deliberately prices her work higher than any of the other local firms and as a result she has attracted (mainly by word of mouth) a loyal following of clients who are happy to pay her fees. (How many clients would want their friends to think they instruct a 'cheap' solicitor?)
- Then at the outset of the matter, she explains to clients in detail all the costs involved in the following way:
 - On a purchase by comparing the stamp duty payable to the Government with her (in comparison) **value for money** fees; and

- On a sale by comparing the estate agent's charges with her (in comparison) **value for money** fees.

Using this technique she says, never fails to convince her clients that she is good value for money. It also shows that **value for money is all in the mind of the client.**

If you are getting no 'pushback' from your clients in relation to your pricing, then perhaps you are under-pricing yourself!

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