

## Gaining a competitive advantage through pricing strategies and methods

20/05/2019

**Practice Compliance analysis: Consultant Peter Scott, head of Peter Scott Consulting and former managing partner at Eversheds London and Europe, urges all firms to carefully consider how they can gain a competitive advantage through their pricing strategies and methods.**

### Is competitive pricing something all law firms should be concerned about ensuring?

In so far as 'gaining competitive advantage' over rivals needs to be seen as a necessity if a law firm is determined to be successful in winning and retaining clients and building profitability, then 'competitive pricing' (as part of the process of gaining that competitive edge) is something all law firms should be concerned to manage. Otherwise, once a law firm ceases to be competitive in that sense, it risks falling by the wayside. However, this begs the question 'what is competitive pricing?'

For some firms it mistakenly means 'discounting' which can lead to a race to the bottom. Take a look at how many law firms in the conveyancing market (as well as others in so-called 'consumer-led' legal markets, eg wills) price their work. Lawyers are selling difficult work at prices which can make them little, if any, profit.

In reality, competitive pricing needs to be seen through the eyes of clients and what they want from their lawyers. Not every client wants the lowest price possible, indeed many consciously shy away from those offering the lowest prices. 'Cheap' is not a word which should appear in the vocabulary of a lawyer. Instead, client feedback indicates that most clients want 'value for money' legal services, which means law firms should not try to sell on price alone, but on the value the client will obtain from the law firm relative to the price paid. In the mind of the client there needs to be the right 'balance' between the value received, ie a result, and the price paid.

It is all in the mind of the client. A client of a law firm recently said to me 'the firm always tries to sell to us on price but what we really want is a good job done at a reasonable price'.

If clients think they are getting value for money, then they are, irrespective of the actual price paid.

### In your experience, what pricing strategies tend to be most successful?

Following from what I have said above, pricing strategies which ensure that clients believe they are getting value for money so they are likely to come back for more and be retained as clients for the long term.

Furthermore, a firm and its people are encouraged to manage work efficiently within the parameters of its pricing policies, so that the firm achieves its desired profit margins on that work are likely to be the most successful in the sense that they will help win and retain clients and mean the firm is profitable for the long term, which will in turn provide a firm with the financial resource to further develop.

### What trends are you seeing in the pricing strategies being implemented in law firms? Do the trends differ between different sized law firms?

There seems to be a worrying trend for some law firms, particularly smaller ones at the 'consumer' end of the market, to act like sheep and believe they will lose work if they do not 'out-discount' their rivals. That is a recipe for disaster.

On the other hand, I know many firms in those consumer markets (such as conveyancing) which have taken the opposite view. They know their client base and the markets in which they operate very well, understand what their clients want from them and know their clients are prepared to pay a 'value for money' price for a good job done. They price accordingly, and as a result there are many so-called 'high street' firms which have very profitable practices in residential property and private client work. That approach can work irrespective of the type of law firm and whether large or small.

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Indeed, size is not necessarily a determining factor in the ability of a law firm to price competitively. Many niche firms have in their particular areas of work become market leaders and are able to charge prices for their services equivalent to what magic circle and similar firms may charge for work. Scarcity of suppliers with the requisite expertise in any particular legal market will inevitably push up prices.

Pricing considerations can therefore be seen to have a strong input into wider strategic issues, including:

- what kind of work should we be doing?
- what kind of clients should we be advising?

A focus on client types and work types is therefore central to a law firm's competitiveness.

## **In a 'more for less' marketplace, how can a law firm ensure it remains competitive yet profitable?**

Pressure on pricing from clients should be a wake-up call to any law firm to look at ways it can do the work more efficiently and cost effectively to maintain its desired profit margin on that work. This will mean not only using technology more, better and differently, but also persuading and training its people to work differently and 'smarter'. In some markets this will require law firms to have very deep pockets to make heavy investment in IT and processes as they attempt to extract more and more 'value' out of that work for clients who demand ever lower prices and, at the same time, maintain their profit margins.

Achieving this will however involve change, and as many law firms know to their cost, implementing change management programmes can be difficult because many lawyers simply do not want to change. However, they must if they wish to survive. The sage words of Jack Welch (of GE fame) should be heeded—'change before you have to'.

Law firms in markets such as legally-aided criminal work, defendant insurance work and claimant personal injury are all currently struggling with these issues as their clients demand more and more for less and less. Ultimately, something has to give in such circumstances. A firm may take the view (as many criminal legal aid firms have already done) that it cannot or does not wish to continue in that 'more for less' legal market and instead drop that work to focus on more profitable work. Hence the reason for the emergence of 'legal aid deserts' in parts of the UK.

## **If a law firm is looking to review and potentially implement a new pricing strategy, what sort of things should they be considering? Have you got any top tips?**

The advice I would first and foremost give to a law firm is that it should listen to its clients as to what they want from the firm and what they require in terms of 'added value'. That will then lead on directly to a discussion on pricing, which should be an opportunity to sell the firm's pricing strategy to the client as a positive benefit.

The idea of value for money does need to be 'sold' to clients otherwise they are likely to believe that a lawyer's services consist merely of products and processes, with no added value.

Training and coaching in relation to pricing negotiations is something many law firms would benefit from. Before discussing pricing with a client a law firm needs to be very well prepared. It will need to know precisely what work it can do for any given price. Skills such as scoping and costing work and managing work to a price are the new project management skills and knowledge which lawyers must learn. And ultimately, a law firm must know at which point in the discussions it needs to walk away.

Pricing in a law firm also requires a degree of self-esteem, ie the way we believe others see us. The greater a lawyer's self-esteem, then the more he or she will be prepared to be robust in pricing discussions with clients and clients will respect their lawyers who know how to discuss price robustly. As a highly successful private client lawyer recently said to me when discussing his pricing (very high!)—'I know my worth'.

Those partners in law firms who have truly become 'trusted advisers' to their clients really know their clients and their businesses and are able to take the most robust line on pricing because they know their clients value them—they have a 'worth' to their clients.

## What impact have the SRA transparency rules had on pricing strategies? How should law firms make the most of these regulatory requirements?

It is early days since the [price transparency rules](#) came into effect on 6 December 2018 in relation to certain types of work, and it is therefore difficult to say whether they have had any meaningful effect on pricing strategies, other than perhaps forcing firms to think more about their pricing and how pricing is presented.

However, from speaking to law firms about how they are approaching price transparency on their websites, many seem to strongly dislike the idea of being open about how they charge for work instead of regarding this as a virtue which can be used to show their prospective clients how good they are at providing value for money services. For example, some firms have hidden their pricing in very small print in 'legal notices' or similar at the end of their websites. Not only is that likely not to be compliant, but they are missing a huge trick to sell their competitive pricing to their markets.

Unfortunately, price transparency is still widely regarded just as a 'regulatory hurdle' and not something which can be used to benefit a law firm.

*Interviewed by Diana Bentley.*

*The views expressed by our Legal Analysis interviewees are not necessarily those of the proprietor.*

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