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Reconnecting Law Firm Pricing to Cost, Profit, and Value

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This article is the first of a two-part discussion of the emerging role, responsibilities, and rising influence of pricing directors in law firms. Part two will discuss pricing strategies and how those entering the fray might think about the practical steps to getting started. ([Read part two here.](#))

In a market in which in-house clients demand that outside firms lower costs—often by discounting rates—law firms worry about their profitability. In an increasing number of large firms, the charge for change is being led by a small group of leaders focused on bringing a sound business pricing logic to the legal profession.

(Author's note: Major hat-tip to Beveridge & Diamond, PC—a leading national environmental, land use and litigation law firm—for which I have been researching leading practices in firm pricing and fee structures; in a great show of collaborative spirit, they've authorized me to share in this article a number of the interviews and practice captures that I collected for their strategic planning process.)

Toby Brown performs a role that is the fastest-growing "new/hot job" in large law firm executive management: that of pricing director. From his work at Akin Gump, he's recognized as a leader in this emerging field and practice, which is focused on helping law firms figure out the cost, and then the best price, that lawyers should quote clients for the profitable performance of services. And then begins the hard work of delivering the service for the agreed-upon price.

Corporate pricing experts would argue that the process for determining prices to be charged by most large, sophisticated law firms is not based on sound business practices. Firms look at the rates their lawyers charged last year and the fees they realized, the number of hours worked, the hourly rates charged by other lawyers with similar years in practice at other firms they'd like to compete with—and then they add on whatever the partners want to make in increased PEP (profit per equity partner); out pops the new (increased) rate structure and billable hours targets for the coming year.

That approach is based entirely on what the firm wishes to charge, and is not at all based on what clients will pay/the market will bear, or what it costs the firm to produce the service. It's not even based on profitability of service lines. Such strategies may have worked well in a booming economy in which firms could dictate inelastic prices and clients would pay increasing costs without attrition; in many firms, that strategy's not working so well now.

In the traditional firm pricing model, profits rose when firms increased rates and hours billed; firms didn't need to understand how to control or cut costs to make work more profitable. Clients were simply informed of the next year's rate increase and either argued for a discount (which was usually contemplated in the increased rate) or went right on

paying the bills for whatever services they purchased—often with no idea of or control over the total cost of the matter until all of the monthly bills had been submitted and added up. If there were arguments over the fees, hours, or value of the work, they were over the bills submitted and did not take place during the retention process, when the price could have been rationally discussed. Scoping work prior to its start was not a regular exercise.

As Brown observes: “Times have changed: it’s no surprise that firms were able to profit in spite of their lack of focus on standard business principles—in a world where you can dictate prices and where clients are either ill-equipped to manage them or uninterested in controlling costs, firms didn’t have to base their prices on the cost of producing the service or product.” And they didn’t have to worry that their competition would undercut the market or that their client would shop for other alternatives.

Given the increasingly competitive and tight economics of legal practice today, even in (especially in) the largest and most traditionally successful firms, the market has changed. Price can no longer be disconnected from cost, just as cost can’t be disconnected from value provided.

Enter the pricing director. These emerging leaders in firms are sometimes lawyers, but at this stage in the game, most of them bring experience and disciplines developed outside of the law—where pricing products and services is not only a norm, but also one of the most critical and revered aspects of business.

While there are still relatively few pricing directors, their numbers are growing so fast that they clearly have to be considered the “hot new hire” of 2012—more than 50 have been retained in the last 12-18 months at AmLaw 200 firms, from what Brown can see. Their vitae list procurement experience, lawyering, corporate consulting, IT, financial roles in professional and financial consulting firms, knowledge management and data/systems analysis, marketing, and sales. And it will likely take the active engagement of all of these multidisciplinary talents for these emerging leaders to surmount the many challenges facing them.

Pricing directors, at their core, are those within firms who help assess which categories the work falls into; which teams and workers are best suited to each matter and purpose or task; what experience, data, systems, or talent the firm brings to the matter that are distinguishing characteristics of the firm’s value; and how much each of these kinds of services provided to clients costs, profits, and advances the firm forward. These leaders are charged with transforming data and process to drive pricing that demonstrates the firm’s value to clients. Their growing role demonstrates a new path to profitability for firms suffering from a self-made downward spiral of discounted service.

The Top 5 Attributes of a Pricing Director

While the progress a pricing director makes is necessarily dependent upon lawyers taking responsibility for thinking about the cost (and then controlling/managing the cost) of their work, Toby believes that “nothing happens to develop a pricing focus firm-wide until there’s staff in place to drive it.”

Not only do firms need a pricing lead on staff, but strong leads for other areas: finance, personnel, knowledge management, professional development, tech, marketing and business development, etc. “It’s just not feasible to try to run a sophisticated business based on the efforts of volunteers who have full-time jobs and often lack the experiential or academic backgrounds to make their efforts succeed. This job requires expertise, full-time focus and multiple hands – if the firm is asking lawyers to volunteer to do more than advisory committee-type functions, it’s likely that they’re misdirecting lawyers’ best use of time and talent, and under-using staff.”

I asked several leading pricing directors to put their heads together to pull forward shared attributes and the most important skills they need to draw from in performing their roles (even as their personal backgrounds/disciplines and firm practices/requirements vary). Here’s what they came up with:

1. Excellent Communication and Stakeholder Management Skills

Stuart Dodds, director of global pricing and project management at Baker & McKenzie, says that what a pricing director does is essentially question—and then often ask people to change—personal and longstanding behaviors. And that’s not an easy thing to do or to hear.

“My goal is to help my lawyers get comfortable with a pricing discussion, and make it less threatening. I am often asking them to do something transformational to their practice, and I’m aware of how challenging that is. We started our effort by focusing on top-level partners in leadership roles, and we’re expanding out to include all partners and associates, too. If I am not able to communicate well with all of these folks, I can’t build the trust necessary to give them the confidence necessary to change the way they work: I need to get them to talk to me, I need to be able to listen to them, and I have to get my ideas across in a clear and actionable fashion that encourages them to work with me, not in spite of me.”

Dodds notes that since most pricing directors he knows are not lawyers (he is not a lawyer either, coming out of a business consulting background), there are differences in their approach due to their non-legal background that communication must help bridge. "The natural advantage of coming from another discipline is that I can bring credibility, objectivity, and a fresh perspective to the conversation that most lawyers know they and the firm need," he says. "On the other hand, since I'm not one of the club, I have to make sure that I'm sensitive to how much about legal practice and culture I don't know. I'm listening closely."

Dodds adds, "It helps that as a business consultant in a former life I was a fee-earner, too; at least I can share the pain in practically applying all this great pricing theory to real-life clients, business generation, and ongoing client relationships and service."

2. Analytical Strength and Numeric Literacy

Many lawyers would be the first to admit that they attended law school because they were told there would be no math involved. That was a lie. Great lawyers in "the new normal" not only feel comfortable with numbers, they apply them and analytic data to their practices every day: in reading client financials, in reporting their numbers, and in assessing data that can help them drive greater value in their relationships. Multiply that by 10 for the pricing director who seeks to support them. Every pricing director with whom I spoke felt a great kinship with and team support for their in-house staff colleagues in marketing/business development and tech, but they felt that their strongest staff relationships with the nice folks in finance and accounting—what they do as pricing directors is truly a numbers game, and it is a game won or lost by its ability to impact and improve the firm's bottom line.

Chris Emerson, director of the practice economics group at Bryan Cave, served for over a decade as a software engineer and the manager of the firm's client technology department, building the firm's financial dashboard, financial warehouse, and cost allocation system, in addition to multiple legal workflow applications. "Over the course of that work, I learned a great deal about law firm economics and the business of law," he says. "As we started to see increasing requests for alternative fees during the beginning of the recession, I was asked to participate in the financial analysis for that work. As the number and variety of requests continued to increase, the firm felt it important to pull together a group of people to focus on appropriate pricing and project management. My background, in conjunction with the strengths of the rest of my team, was a natural fit for that role."

Emerson says that he spends a significant amount of time with his lawyers and firm clients, working to foster an understanding of the underlying factors that shape the economics of an engagement or relationship. The foundation to this is coaching all parties on the need to diligently capture key data elements that support pricing, and then helping them translate numbers to practical applications that allow them to establish fee structures that better align the firm's and clients' common interests.

"It's critical to be able to see the patterns and themes in data and apply them to pricing; just as it's critical to be able to discern precedent in legal practice in order to help a client predict the likeliest outcome in litigation or the safest path to compliance," Emerson says. "For lawyers, all this new thinking may end up being easier than they thought because data, too, relies on past performance to predict future outcomes; lawyers just need help learning this new frame of reference, this new language: what data to collect, how to analyze it, and when it's best applied to varied circumstances. Even though pricing strategies require many lawyers to engage in a mind-shift, they are really good at it once given the training, tools, and insights into how it works and how to apply it."

3. Commerciality

Okay, is that even a word? If not, we're making it one since it helps define a top attribute of great pricing directors. It's not enough to be able to figure out how much a firm should charge for a certain kind of service, or how the process of service delivery could be improved to minimize cost and open up new, lower pricing options. You also have to know what drives the firm's business, what its entrepreneurial appetite is, how proposed fee structures will motivate (or demotivate) performance, what it is that clients come to the firm to purchase in terms of business value, and more. You have to understand not only cost and pricing options, but the firm's distinguishing business proposition, how it profits, and its marginal returns, too.

Akin Gump's Brown explains: "Just like anyone else in the firm who's part of the overhead cost of running the business, I need to make sure that every day and in every way, my lawyers see me as driving their ability to earn more money from more satisfied clients. I'm part of the team that drives the firm's business goals while my lawyers are out delivering the legal services that clients value. So it's my job to not only develop pricing strategies, but to be commercially savvy in driving the firm's business and profitability. Revenue from fees is great, but it's not worth much at the end of the day unless it also helps generate profit and moves our client relationships forward."

4. Intellectual Curiosity

Dodds is clear that a strong element of what makes him tick and what drives his value to Baker & McKenzie is his intellectual curiosity about everything that the firm does, why it does it that way, and how it could be done better.

"You can't just accept the status quo; you have to look at everything from as many perspectives as are relevant," he says. "This is particularly true in a firm with over 3,000 fee earners. You've got to want to know more about everything that all of those people do to make it in this job: why what's working in the U.K. or Asia may not be the right approach for U.S. lawyers or a U.S. client; why this practice group continues to work in this way, when another group works in an entirely different fashion and is pulling in two times better results."

For many pricing directors, intellectual curiosity is often propelled by their diverse (non-legal) backgrounds: they draw from their work with clients and industries outside the legal profession who think about solving problems differently, or value other kinds of outcomes; they have educational and cultural skill sets that deploy a wider variety of practice and analytical tools; they possess the ability to assess data in a fashion that combines rational number-crunching with legal relationship requirements in order to craft customized solutions that delight clients and liability risk advisers alike; and so on.

Brown is often quoted as saying that part of his job is to question everything: what lawyers do, why, how they could do it better, what are clients seeking, what motivates behaviors, what could drive a better result. He calls it "the better faster cheaper challenge." Whatever it is, it requires a focus on both management and re-engineering, and "if you aren't jazzed by the intellectual process behind these chores, it will be impossible for you to convey the necessary enthusiasm to stimulate behavioral change in your lawyers, either."

5. Recognize the Value of Technology and How to Use it to Drive Your Goals

An affinity for and belief in both the power and necessity of technological systems is not a surprising consensus attribute for this lot, given how many of these leaders come from a tech background—either in knowledge management or systems analysis, or even as CTOs or CIOs for firms or other businesses. The sentiment expressed repeatedly by pricing leaders I spoke to was not that every lawyer in the firm needed to be a technologist in order for them to succeed, but that neither lawyers nor pricing directors could afford to be tech illiterate or leery of the value of technologies in making their fee structures or pricing proposals work. All agreed that the pricing director had to be both an ambassador and a promoter of technological options to drive success. And that one of the pricing director's best friends in the firm needs to be the CTO and/or CIO.

"Just as I don't demand that every lawyer I work with become an MBA, I don't demand that every lawyer should aspire to become a tech geek," says Emerson. "But the attributes of a successful pricing director include the ability to embrace whatever tech tools are necessary to mine data, to analyze work patterns and pricing options, to help train lawyers to manage their work and costs, and to apply systems that drive better work product. If the tools do not exist, we still need to envision them and work with IT or vendors to get them built. The last mile is to transfer a belief in the value of all that tech goodness to the lawyers we work with."

Emerson continues: "One approach that we find frequently aids pricing across practice areas and jurisdictions is an experience database. Of course, the database is only as good as the information it contains, but we have been working towards systematically capturing the types of granular information about each matter that are required for accurately pricing the next similar matter. Ultimately, a good experience database enables a pricing group to quickly find comparable matters. Frequently, the next step is to go through the narratives of the comparable matters and regroup the time entries based upon tasks and phases to support creation of a budget. This is a laborious task, and many of us are working on implementing better technology solutions to support the capture of time to tasks actually performed."

There wasn't a single leader with whom I spoke who felt that current commercially available technology options were up to the challenges of facilitating their roles . . . yet. Everyone felt that there were likely 10 or so good products out there that could each enhance an important piece of the work, but that part of the job of the pricing director is to work with the tech staff to figure out how to put the tech pieces together to better support the work. All liked the idea of customizing their own products from general products available in the market, since few were enamored with the idea that they would have the luxury of spending the time to build their own systems at this point—especially since the game is still evolving.

So, as Brown says: "Early adapters will just have to do pricing first, and build the infrastructure to validate and support it later." If you're waiting for the tech to come available that will make this a turnkey effort, you'll be waiting a long time . . . because the train will have already left the station.

Susan Hackett is the CEO and CLO of Legal Executive Leadership, LLC, a consulting practice in the Washington D.C. metro area. She is the former senior vice president and general counsel of the Association of Corporate Counsel (ACC), where she served for more than two decades as the "voice of the in-house bar" and built a loyal network of thousands of in-house and outside legal executives, as well as a reputation for innovation, excellence, and success.

A note to CorpCounsel.com readers: Toby Brown (Akin Gump), Chris Emerson (Bryan Cave), Stuart Dodds (Baker & McKenzie), and several of their long-time colleagues, including a group of similarly interested in-house department executive leaders, are organizing a group of peers in big firms and large department practices so that they can develop resources, network, and collaborate as they tackle the challenges of their new roles—and help move the professional development of their emerging practice area forward. If you would like more information about the group, please email Brown at BrownT@AkinGump.com.



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6 Critical Strategies Used By Law Firm Pricing Directors

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This is the second of a two-part series examining the emerging role of pricing directors in law firms. In part one, five critical attributes that define a great pricing director were discussed, and top leaders in the movement were interviewed for their perspectives. In this segment, Susan Hackett talks to pricing directors about practical implementation of a law firm pricing strategy: professional skill building, collaborative leadership teams, promoting behavioral change, client involvement, and more.

"I'd like to tell you that I've got it all down, but every day, I'm making it up as I go. For larger law firms and their executive leadership, this is new territory." So says [Toby Brown](#), director of strategic pricing and analytics at Akin Gump, and the designated leader of an emerging group of law firm professional staff whose practices focus on creating pricing strategies that drive greater (and more businesslike) alignment between firm profitability and client value.

Getting It Done

So how do you get it done? Lacking turn-key tech applications and facing a bunch of smart lawyers who've always done things differently, just where do you begin as a pricing director to garner some important first successes and then build steam? The pricing directors with whom I spoke offered these six strategies for those who are working their way through the maze of moving from pricing based on revenues generated through rates and hours toward pricing based on client value and firm profitability.

1. One Size Fits One

[Doug Woods](#) is a former forensic accountant who is now the pricing and data analysis manager for Ogletree Deakins.

Woods was fresh to law firms and legal pricing about a year ago—his background is as a CPA and an accounting-firm marketing director. To prepare for the challenges facing him with his shift to law firms, he's been reading as much and as fast as he can to garner new ideas and perspectives. Woods says the core of his focus is on helping lawyers understand that non-hourly pricing isn't evil—in fact, it can be a competitive advantage. Value-based pricing is what he wants his lawyers to think about, since it requires up-front analysis, and advance conversations with clients that focus both the client and the firm on defining value and setting expectations before work begins.

Woods believes that in setting a strategy and course, it's important to remember that firms considering pricing strategies in today's market may see different approaches and set different goals based on their brand, niche practices, and position in the national legal market: firms with a national or international practice may wish to drive different practices than firms with a strong regional presence; firms offering a wide array of services may wish to distinguish themselves differently than firms with a strong reputation in only one practice specialty. Woods' focus is on helping his firm consider how to price and structure fees and service that will attract clients shopping for services in his firm's leading practice specialty—employment law.

As Woods puts it:

We work in a crowded field of employment lawyers and competition for clients and work is tight. We didn't want to become the "How low can we go?" lawyers, so we began looking at alternate pricing structures so that we could offer clients more value. We believe that clients aren't necessarily looking for cheap: they just want value for their spend—efficiency, results, and predictable costs. That's what I'm here to help drive.

When Chris Emerson of Bryan Cave describes his early efforts as a pricing director, he notes that there was no model to follow and a strong need to customize whatever approach he took to his firm's lawyers, their brand, and a variety of practice needs. "When we were asked to create and institutionalize an approach to pricing and project management in the firm, we regarded it in many ways as a startup. I think many of the same skills and understandings apply. It is important to look for opportunities wherever they present themselves—rather than wait for lawyers to beat a path to you (hopefully, that will come later!)."

Emerson continues: "It is also important to anticipate and embrace the fact that there will be a great deal of work to handle as the demand for the group's service goes up and the group is increasingly successful. But no matter how busy we got, we kept it a priority to be constantly vigilant about improving our own capabilities within our group." His approach was to customize everything he did: from building the firm's own technical applications, to working face to face with lawyers and practice group leaders to determine how he could best serve each.

2. Before You Can Advance, You Have to Retreat

Akin Gump's Brown suggests that for many pricing directors, a first step forward is to look back or look around the current environment: find out what kind of non-hourly billing structures are already in play and how they're working. The director has to analyze and model their profitability data so that they can be compared to hourly billing proposals and returns, as well as for projects going forward.

The pricing director thus becomes the central source for trapping information and standardizing non-hourly models (for study, improvement and replication) with the knowledge he gleans. Emerson adds that this means that a related first step is assessing what data the firm has, how and where it's collected, and what it's purporting to measure. Sometimes that data needs to be redirected and its capture re-engineered to support pricing purposes. There are also some sources of data outside the firm that could be considered and mined: data from vendors and data that clients keep.

[Note from the author: as a person who's worked with in-house law departments for decades, let me assure those of you out there new to this conversation that while some departments do not focus on or maintain a treasure trove of data, you'd be surprised—perhaps amazed—by what many departments know about their law firms' performance that even the firms don't know (in part because they never bothered to look). It can be an unsettling experience for a firm to realize that clients have better analytics about them than the firm has about itself, but not asking about it doesn't change what they know, does it? And for a short while longer, while we're all experimenting with re-engineering the relationship, asking these questions is okay. In a few years, asking these questions for the first time will be a sign of unutterable cluelessness. If you're a firm, lean into the data—after all, it's just the facts, right?]

3. Staffing and Leadership

Another common practice as pricing directors are starting out is to assess and assemble the teams necessary to getting the work done: both on staff and within the firm's leadership. While many agree that the best approach is not to "committee" pricing practices or try to apply hard infrastructure to the process, firm leadership involvement and staff ownership is critical.

Asked to describe their approach to staffing, most of the pricing directors with whom I spoke responded somewhere on the spectrum between "never enough" and "a highly diverse and nimble team." Pricing directors tend to have multiple people they supervise and a number of leaders (some on staff, some in executive partnership roles) to whom they report. Their teams define collaboration in a law firm context, since none of their functions would be possible without the input of others, and increasingly, everything that the firm does (or does not do) seems related to something that comes out of a pricing conversation.

A good pricing staff will drive a lot of two-way engagement. Emerson discussed his experiential database in the first installment of this article: it doesn't work if no one contributes to it. And while Brown's been doing pricing work for several years with several firms, he's only recently joined Akin Gump—one of his first formal outreach efforts will be to his new firm's tech and information services team to engage in conversations about what he's trying to do, get a better understanding of what they are already providing and planning, understand what they see as challenges and opportunities in working to develop the pricing function, and decide how he can pull from their expertise and ability to execute throughout the firm. Stuart Dodds, the director of global pricing and legal project management at Baker & McKenzie, relates that as his function is housed within the firm's marketing/business development/client relationship team, he sees his role as inextricably linked to the development and delivery of winning proposals and business relationships with firm clients. Woods is working closely with Ogletree's professional development staff on training and educational initiatives that will help develop skills and appetite for the pricing framework he's pushing forward. Everyone values the input and engagement of other experts on the firm's business and legal teams, because all of their work either rises or sinks based on their ability to tie their functions together in an effective manner.

But everyone also agreed that there is one group that is the fairest of them all: pricing directors' first and last stop will always be with the firm's executive financial and lawyer management teams, including relevant practice group leaders—and it is with these leaders that their work is joined. They are the institutionalized advisory working groups who help the pricing director get his or her daily work done by lending that work the necessary authority, credence, validation, and drive.

Brown relays that one of the most successful leadership groups he ever had included a small and perfectly positioned team of four partners from different offices and groups: corporate, tax, regulatory, and complex litigation. He also notes that the composition can be effective with any mix of participants so long as the group creates a sense of centralized leadership, which he views as critical to assuring consistency, access to data and knowledge across the firm, and accountability. The group must also facilitate tracking and evaluation of pricing efforts in follow up and deliver their work in a timely fashion.

The role of such a group is not to opine in general on policy, but to help make fast, reliable, executive-level decisions, delivered in a timely fashion as lawyers and clients are in the process of proposal negotiation.

4. Moving from Leadership Concept to Operation

None of the pricing directors I talked to were in favor of creating a singular, overarching pricing policy. Most prefer to avoid proclaiming pricing rules or requirements that are one-size-fits-all. Dodds's work at Baker & McKenzie makes him perhaps the most experienced in this: as a director working in a firm with thousands of lawyers in hundreds of jurisdictions and pretty much every known form of legal practice, he notes:

My focus is to push forward ideas like connecting pricing to project management training, rather than suggesting that a certain form of pricing must be used in certain defined matters. With so much variation in skill, law, culture, and client base in our offices and amongst our lawyers, I'd have to be crazy to mandate preset fee rules, although we have found implementing guidelines extremely helpful.

Most of the directors would rather have lawyers bring their requests for variations from regular rates/hours to the pricing committee. Wood's committee at Ogletree, for instance, has a policy of requiring lawyers to bring their proposals forward any time they include an offer of something greater than a 10 percent discount from regular hourly rates or any non-hourly arrangement. Lawyers have to bring more than innovative fee proposals to the committee; by requiring them to include large discounts on hourly rates, too, they are requiring lawyers to demonstrate that they have thought through service delivery from a profitability standpoint, regardless of fee structure. This reminds his lawyers that it's not so much the mode of fee, but the decision to vary pricing from "norms" that requires the committee's attention.

He often encourages his lawyers to put skin in the game by offering clients holdback arrangements in lieu of straight discounts. Under such an arrangement, the client holds back a percentage of each invoice (typically 10 to 20 percent). At the end of the matter or term, the client pays all, some, or none of the held-back fees based on overall satisfaction and/or the achievement of agreed-upon success factors.

Using the holdback approach, the firm is able to set pricing consistent with their regular fees, but also has the opportunity to generate more revenue than would be possible under a straight discount—so long as they are creating value for the client. From the client's perspective, they feel better knowing the lawyers are incented to perform to the client's fullest satisfaction, rather than to a perverse goal of accumulating a larger stack of billable hours. Accordingly, they are willing to pay "a little extra" because their overall value has been increased.

Many pricing directors create standardized forms for lawyers to complete as they bring forward a request. This can both smooth the process of consideration and make sure that the lawyers have engaged in some disciplined and demonstrated thinking in bringing a proposal forward. As Akin Gump's Brown suggests, requiring lawyers to propose pricing structures before they talk to clients requires enough background thinking that lawyers often "correct" their proposals' own shortcomings before submission or engaging in client conversations they can't later retract.

Lawyers should see the pricing director's process as rational, quick, and fair once the standardized request form is completed (the committee shouldn't require perfection); further, it should be geared to produce a high "pass" rate. When that happens, lawyers see the ease and logic of the system and will voluntarily involve the pricing expert to help fill in any holes, assist them with harder assignments, and assure that requests will not only be timely completed but accepted quickly.

Akin Gump's standardized form requires lawyers to describe the outcome the retention is driving toward, and to estimate what the staffing of the successful outcome would cost the firm to provide (along with out-of-pocket expenses). This allows the pricing director and lawyers proposing the fee structure have a sense of whether the predicted outcome in the matter would lead to a profitable return for the firm. While most initial pricing proposals will be for arrangements that fall outside of normal billable hours practices, the long-term goal is for all work to be priced based on cost of service, the worth of the work in a competitive market, and the firm's necessary profit margins.

Brown says it's also important for new pricing directors to understand that their work only really begins once the proposal is approved—then it's their continuing mission to check in and see that lawyers are following the plan, to assure the setup of the teams and processes necessary to success, and to deliver to the client the pricing they promised (while holding to the costs that the matter must not exceed if it's to remain profitable).

5. Pricing as a Part of Professional Development

At Baker & McKenzie, Dodds is engaged in a significant program of educating lawyers in the fundamentals of both value-based pricing and value-based service delivery. Working with the marketing and professional development staff, Dodds and his team are hosting conversations at the partnership, office, and practice group levels; providing access to online resources that can help train and deliver concepts and practical guidance, as well as best practice examples; and conducting webinars and events at which training is offered. "What our tools demonstrate is that we have a common framework, many tools to work with, and a flexible approach that can be customized by anyone in the firm to meet their or their clients' needs," he says.

A successful pricing initiative also requires mechanisms for making the firm's lawyers accountable for pricing decisions: it must incent and reward lawyers for working with the firm's leadership to price work in a more businesslike fashion (rather than just slapping on discounts) and to analyze their own process for delivering service and the cost of their service.

While all of the pricing directors I spoke with agreed that pricing strategies and process should be connected to most every aspect of the firm's business operations, it is especially important to consider the connection between pricing policies and compensation—lawyers must begin to understand that what they're being paid more dollars to provide is not a larger stack of hours, but a larger profit margin or a more cost-effective service delivery mechanism, or improved client satisfaction and repeating business.

Firms will continue to move along whatever path clients wish them to walk—as more and more clients wish to push their firms to bill based on value, rather than hours, it will become critical for firms to have the flexibility to offer them pricing and staffing arrangements that meet their expectations and still deliver strong profitability to the firm. Thus, the change in focus from rates to costs, and from costs to profits.

6. Evolving From Firm-Facing to Client-Facing Pricing

The pricing director's consulting role for lawyers in the firm should grow over time into to a consulting role that directly involves clients, as well.

Dodds, for instance, has a huge constituency of lawyers to work with before he can join his lawyers in more client pitches and relationship meetings, but he and his leadership see that that's the direction that he will go as his work continues to unfold.

The movement from serving only partners to serving partners with their clients more directly (and transparently) is likely over time to be the pricing director's ultimate and highest use. The director will be helping clients define what they wish to pay for and what's required; then demonstrating the firm's knowledge of its own costs, capacities, and processes in meeting those defined needs; and finally, helping clients to fully understand the value of what the firm's proposing to provide and assuring that the firm delivers what it promises.

And so we go back to the beginning: while the firm may have the right idea for the best service and may have the right calculations to support the best fee to provide it, none of that matters if the client hasn't yet defined what value is to them in any particular matter, what the result should be, and what success should look like. And as always, the firm they're talking to needs to instill in the client the confidence that they are the right provider to deliver all that.

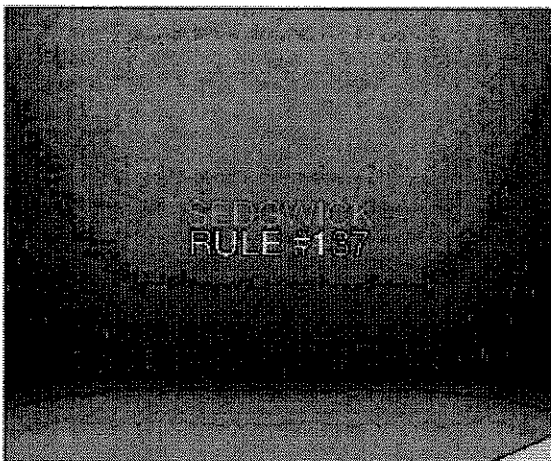
For firms representing clients who have thought through what the value of service is to them, the rewards will be great. And the folks who make that all possible are the new standard-bearers of aligned value in law firm service models: the guys and gals who can help their partners and firm clients know that "The Price Is Right."

All of this is perhaps best summed up in Brown's parting advice: "Change your firm's conversation from hours and revenue, to revenue and profit. If you succeed in doing that, then everything else follows."

Susan Hackett is the CEO and CLO of Legal Executive Leadership, LLC, a consulting practice in the Washington D.C. metro area. She is the former senior vice president and general counsel of the Association of Corporate Counsel (ACC), where she served for more than two decades as the "voice of the in-house bar" and built a loyal network of thousands of in-house and outside legal executives, as well as a reputation for innovation, excellence, and success.

A note to CorpCounsel.com readers: Toby Brown (Akin Gump), Chris Emerson (Bryan Cave), Stuart Dodds (Baker & McKenzie), and several of their long-time colleagues, including a group of similarly interested in-house department executive leaders, are organizing a group of peers in big firms and large department practices so that they can develop resources, network, and collaborate as they tackle the challenges of their new roles—and help move the professional development of their emerging practice area forward. If you would like more information about the group, please email Brown at BrownT@AkinGump.com.

See also: "[Reconnecting Law Firm Pricing to Cost, Profit, and Value](#)," *CorpCounsel*, September 2012.



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