

8 Steps to Pricing Transformation

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Step #1 - Establish a Sense of Urgency

Most of us are familiar with the cliché about it being hard to achieve engagement and a sense of urgency if there is no ‘burning platform’. There is a lot of truth in this. However, from time to time there are tectonic events that abruptly end the complacency of even the most sanguine operators. Covid-19 is such an inflection point. Many aspects of the way we operate as a profession have changed for good.

If you are one of those leaders/visionaries who sensed the need for pricing change a long time ago but struggled to gain momentum, now is the moment to ask the question: **will our approach to pricing and profitability be fit for purpose as we emerge from lockdown?**

Early indications from client behaviour suggests that **firms that don’t adapt will be ruthlessly culled**. We are already hearing that **some clients have been dismayed at the ‘tone-deafness’ of some of their firms**. They’ve made no secret of the fact that those firms will in due course pay a very heavy price for their hubris and lack of emotional intelligence.

So, time and circumstance have conspired to undermine complacency and present law firm leaders and change agents with a window of opportunity – carpe diem! Here’s how:

- (a) **Share the state of the firm’s finances openly**, even to an audience that would not normally be included. Publicise bids and tenders you lose, to all partners, not just those directly affected. Red ink and failure get people’s attention like nothing else.
- (b) **Set KPIs** that can’t be reached by a business-as-usual approach.
- (c) **Share data about client satisfaction and net promoter scores to a wide audience in the firm**, especially if it compares unfavourably with competitors.
- (d) **Make any disturbing trends highly visible: deteriorating realisation rates, net profit margin and write-offs**.
- (e) Balance the above with **external validation of what others are doing**, what impact it is having, what a pricing and profitability improvement roadmap might look like, and a ‘can do’ message.

There will be a view amongst some that now is not the time to be making major changes to something as fundamental as the firm’s approach to pricing. While the diffidence is understandable, adherents to the “*something will turn up*” school of law firm management are unhelpful in good times and positively dangerous in a crisis. **Now is the time for boldness. Tinkering with hourly rates just won’t cut it.**



Step #2 – Create a Guiding Coalition

Regardless of firm size, any major transformation like pricing improvement requires an optimal team to make it happen. It requires **high-level energy, visible senior leadership sponsorship** and endorsement, and **time and budget commitment**.

Irrespective of the size of the firm, **speed and nimbleness is key**, so avoid a bloated group solely because of a perception that every single constituency in the firm must be represented. Four key characteristics are essential to creating an effective guiding coalition:

- 1) **POSITION POWER**: aside from the project needing to appeal to a very broad audience, **practical implementation of pricing improvement initiatives must be devolved to practice group level**. Involve senior people from the firm's major practice groups, particularly if those individuals tick a number of other boxes.
- 2) **EXPERTISE**: identify **a mix of people with financial literacy, commerciality and business development skills**, adept at original and unconventional thinking. They don't have to come from traditional homes within the firm - for example when considering financial literacy, do not assume this can only be done by the firm's FD. Many partners are highly financially literate, commercial and entrepreneurial, and plenty of people in managerial roles possess real leadership qualities.
- 3) **CREDIBILITY**: **will the group be taken seriously?** Are these people that others look up to? Are they respected and do they have personal and professional gravitas?
- 4) **LEADERSHIP**: there is simply no substitute for the involvement of some high-level heavy artillery. The more seriously you want people to take the project, the more senior the visible sponsorship must be.

Find the right people

- with strong position power, broad expertise and high credibility
- with leadership and management skills, especially the former

Create trust

- through careful planning, and
- continuous communication

Develop a common goal

- sensible to the head
- appealing to the heart



Step #3 - Develop a Vision & Strategy

Most firms understand the need to have a vision of where they are going. The vision will usually underpin the firm's strategic plan. **All too often there is little, if any, specific mention of pricing in the strategic plan.** This is a serious omission, because pricing forms a critical role in helping to achieve the firm's strategic objectives and its vision of how it wants to see itself in the marketplace.

There is no point having a vision if there is a widespread belief that accomplishing it will be through a lengthy process of incremental change, something that the legal profession has made an art form of. **Pushing the firm and individuals out of their comfort zone towards something aspirational requires something more.** Implementation efforts generally fall into three categories:

- 1) Authoritarian decree** - this often works poorly even in simple situations. Moreover, the culture of most firms and the personality of most lawyers means that this approach is almost always doomed to failure.
- 2) Micromanagement** - because the creation and communication of detailed plans is slow, change produced this way tends to be slow and incremental, the complete antithesis of what is required.
- 3) Vision** - although it is hard to accomplish, **creation and communication of a compelling and aspirational vision** is most likely to galvanise commitment and effort, where everyone in the firm can envisage a successful outcome and conceive the benefits that will accrue to all.

This is a change process, in which vision serves three important purposes:

- 1) Clarifying the general direction of change.
- 2) Motivating people to take action, even if it means some short-term pain.
- 3) It helps coordinate the actions of different people in a comparatively fast and efficient way.

Pricing must be woven into the fabric of everything the firm does, including its broader vision. Until it is, efforts to improve the firm's approach to pricing are likely to result only in short-term gains, if any.



Step #4 – Communicate the Vision

Frustratingly for many firms, despite having executed the previous three steps to a high standard, any pricing initiative disappears into the abyss at the communication stage. The real power of a vision is only unleashed when the majority of those involved have a common understanding of its goals and direction. The shared sense of a desirable future helps motivate and coordinate the actions that create transformation.

According to Professor Kotter of Harvard Business School, these 6 principles are closely associated with the communication stage of a successful transformation:

Simplicity & brevity: Technobabble and management-speak must be eliminated from the vision. It creates confusion, ambiguity and suspicion (think *'stakeholders'*, *'granularity'*, *'going forward'*, *'broad consensus'* and other grating clichés).

Multiple communication channels: (virtual) departmental, team and sub-team briefings, newsletters, intranet, formal and informal interaction are all required.

Repetition: Even the most carefully crafted messages rarely sink deeply into the consciousness after only one airing. Any communication is fighting hundreds of others for attention. In addition, a single airing won't address every question.

Leadership by example: The most powerful way to communicate a new direction is through behaviour. When you see senior and respected partners acting out the vision, troublesome questions about credibility and motive tend to evaporate.

Explanation of inconsistencies: Unaddressed irregularities undermine the credibility of all communication. Take a focus on gross profit margin versus billable hours targets. Ensuring all work delivers a minimum gross profit margin inevitably results in comparatively unprofitable work/clients being turned away. How do you reconcile that with the clear message for individuals to meet their billable hours targets? Reconciliation or at least explanation of these inconsistencies is critical.

Give-and-take: Because the communication of a vision is often so difficult, it can turn into a one-way broadcast in which valuable feedback is ignored and challenging views are inadvertently made to feel unimportant. In highly successful change efforts, communication is treated as a two-way endeavour.

Step #5 – Empowering Your People for Action

Major internal transformation rarely happens unless the majority take action. Yet people generally won't or can't help if they feel powerless. Hence the relevance of empowerment. In most firms, empowering people is not so much about doing or adding things, it is about removing blockages and simplifying things.

Remove structural barriers

Generally, the larger the firm, the more layers there are. Getting the implementation structures aligned is critical. This means just two layers; one to set the principles and direction of travel and the other to effect implementation.

Implementation of pricing strategy should occur at a practice-group level.

If this is not how things operate within the firm currently, strip away any layer of decision-making, consultation, approval or other impediment that is not absolutely critical to the process. It should be as lean as possible.

Provide Skills Training

Pricing is a skill, science and discipline. No longer is legal pricing just an administrative function consisting of recording time and multiplying rates times hours.

Partners often make comments like, *'clients will only pay what they will pay'*, *'the market sets the price'*, *'too many lawyers and not enough work'*, *'clients see everything as commoditised'*...While these defeatist sentiments are understandable, they are driven by the fact that when it comes to pricing, most law firm partners don't know what they don't know. **In the modern law firm, every partner and senior associate should have a working understanding of key pricing principles.**

Deal with the Naysayers

Although perhaps overly simplistic, your senior people will fall into three groups:

- the highly enthusiastic, almost evangelical about a pricing improvement initiative
- the majority who are cautiously enthusiastic and optimistic, but perhaps yet to be fully convinced
- a small number of reactionary deadweights

You can work with the first two groups, but the third needs to be considered and managed carefully. To make matters more challenging, those negative views may be held by people who are senior and influential. If they are allowed to do what they normally do, they will poison the well. There is no option but to tell these people that they are either part of the solution or part of the problem. It is a binary perspective.



Step #6 - Generating Short Term Wins

Major change takes time, and a pricing improvement project in a law firm is no exception. Disciples of the initiative will usually stay the course no matter what happens. The majority, especially the non-believers, will want to see evidence that all the effort is paying off. Short-term wins are vitally important and beneficial in at least six ways:

They provide **evidence that sacrifices are worth it**; which greatly helps justify the short-term costs involved

They **reward change agents** with a pat on the back; after a lot of hard work, positive feedback builds morale and motivation

They help **fine-tune the vision and strategy**; short-term wins give the guiding coalition concrete data on the impact of their ideas

They **undermine cynics**; clear improvements in performance make it difficult for people to block change

They **keep leaders on board** with evidence that the transformation is on track

They **build momentum**; turning neutrals into supporters

There are many metrics that can form the basis of short-term wins. It is generally easier to stick to the most common ones that are already well understood and which, if the project is being rolled out successfully, will move in the right direction. These are the KPIs to which partners and management often attach considerable importance. The usual suspects are:

- a **reduction in write-offs**
- an **improvement in the gross profit margin**
- an **improvement in average realisation rate**

Get these numbers moving in the right direction, start shouting about it and you'll quickly build unstoppable momentum.



Step #7 – Consolidating Gains

Perhaps the greatest risk to successful pricing initiatives is the reassertion of irrational and political resistance to change, which had never fully dissipated, merely gone into hibernation. Sometimes you just can't win over the partner who can't fathom why you would spend so much time on innovative pricing rather than just getting the work done, or the one who thinks that development of pricing skills is a waste of billable time. Within change management/transformation, there seems to be one truism – **don't take your foot off the gas until the job is complete.**

Within a law firm there are multiple constituencies that have an interest in pricing. Whilst they might share that commonality, their perspectives and priorities are quite different. You have equity partners, fee earners who are not equity partners, professionals involved in finance, pricing directors, business development and bids and tenders' specialists, and learning and development specialists. They are all interdependent. The end result is that you can't change one aspect without it having a knock-on effect. Dependencies mean that certain things may have to occur in one part of the firm, or within one of the constituent groups above, before change can be made elsewhere.

Because internal interconnections make change so difficult, people begin to raise questions about the need for all the interdependence. Why do we need to get their approval first? Purging of unnecessary interconnections can ultimately make a transformation much easier.

A firm's busy leadership team can take their eye off the ball, thinking that once they have provided the impetus to get the project off the ground, that is the end of their responsibility and they can leave it to other senior managers to make the rest happen. That approach exacerbates and hastens the loss of momentum. Provide clear ongoing direction from the leadership and keep urgency levels up. Bring in additional people in, promote and develop where necessary to help with all the changes.



Step #8 - Anchoring new approaches in the firm's culture

In recent years, law firm leadership has recognised the importance of directing and influencing culture, and most people in the firm have a good sense of what the norms of behaviour and shared values are. What does this have to do with pricing? In our view, two things; attitude towards money and the firm's meritocracy structures.

Attitudes towards money:

A firm can have a culture that actively encourages open and transparent communication with clients, yet when it comes to pricing, many partners do their utmost to avoid a frank and forthright conversation on the topic, let alone initiate it or re-engage in a timely manner when necessary. Why? Because there is a cultural discomfort with talking about money.

Meritocracy structures:

The second major cultural challenge is how the firm acknowledges, rewards, holds accountable, promotes and otherwise links a person's remuneration and upward trajectory within the firm with their performance expectations. Firms are riddled with anomalies and conflicting messages. Two examples specifically relating to pricing illustrate the point:

1) **Firms have an unhealthy preoccupation with revenue as opposed to profitability.** At the end of the day, law firms are just another form of commercial enterprise and exist to trade profitably. So one would imagine most of the emphasis would be on measuring and surfacing **profitability**: by practice area, office, team, sector, fee earner, client and matter. However, it remains far too common for partners to have little, if any, idea of the gross profit margin on an individual piece of work, no matter the size of the fee. The end result is that partners are frequently rewarded based on gross fee levels. Remember, what gets measured gets done. **Why isn't there a much greater emphasis on profitability?**

2) Most fee earners and law firms are assigned billable hours targets. But how do you reconcile that with incentivising people to optimise gross profit margin, or encourage them to avoid huge write-offs because they have thrashed their timesheets to death (a particular peril on fixed fee work)? It is not the fee earner's fault. On the one hand, they are determined to hit their billable hours target to obtain their supervisor's approval and possibly even a bonus, but on the other they have little or no understanding of whether the work they are doing is profitable, and they are certainly not incentivised to hit certain profit margin levels.

Imagine a world where remuneration is closely tied to profitability. Suddenly, all the work would be done as efficiently and effectively as possible, processes would be streamlined, work would probably be turned around faster, there would be less duplication and wastage, fewer write-offs etc. In contrast, incentivise and measure billable hours and no one should be surprised when you get just that - mountains of billable hours and an average write-off rate of 15% of all billable time.

Culture is not something you can easily manipulate. It changes only **after** you have successfully got people to **act differently**, after their **new behaviour produces collective benefit** over a period of time, and people can clearly **see the connection between the new actions and the performance improvement**. As a result, most cultural change happens in the final stage of the process, not at the outset.