



THE 2019 PRICING STRATEGY SURVEY: Law Firms Show Signs of Pricing Maturity but Much Work Remains

As many large law firms continue to enjoy relatively stronger demand and as most transactional practices continue to do well, they are now turning their focus on making further rate performance and profitability improvements. So, while this period has some echoes of the time before the Great Recession, the major challenges of client leverage, new nimble competitors, and evolving technology clearly marks this as a different era, one with a single overriding truth: Firms that don't manage proactively will likely lose ground.

Indeed, large law firms were buoyed by strong rate performance in the past year, 3 percent to 6 percent increases, that led to stronger revenue growth of 5 percent to 10 percent. However, these areas of growth have been tempered by noticeable struggles with declining realization rates on the part of many law firms. As recently as Q1 2019, Am Law 100 firms experienced a new historic low point for realization of just 79.8 percent against their standard rates. This underscores the need to continue scrutinizing pricing operations and proactively managing for improvement. Undoubtedly, pricing professionals in many firms are feeling management's eyes upon them.



Against the backdrop of this mixed economy, LawVision and Peer Monitor conducted the *2019 LawVision & Peer Monitor Pricing Survey* to explore rate and pricing performance as well as the trends associated with department structure and pricing arrangements. The report offers keen insight into the many important profit and pricing questions circulating throughout the legal industry and helps firms better understand their pricing methods within the context of firm strategy and profitability, allowing firms to sharpen those strategies now and into 2020.

Key Findings

The *2019 LawVision & Peer Monitor Pricing Survey* is a collaborative effort between LawVision and Thomson Reuters Peer Monitor. The two groups worked together to create 36 questions directed to large law firm professionals who oversee their firm's pricing function. These questions addressed strategic and functional aspects of pricing, including issues such as department structure, pricing methodology, special projects, and cash leakage. "The intent of the survey was to explore where the industry is heading on pricing strategy as the pace of change is rapidly increasing," says Mark Medice, Principal of LawVision.

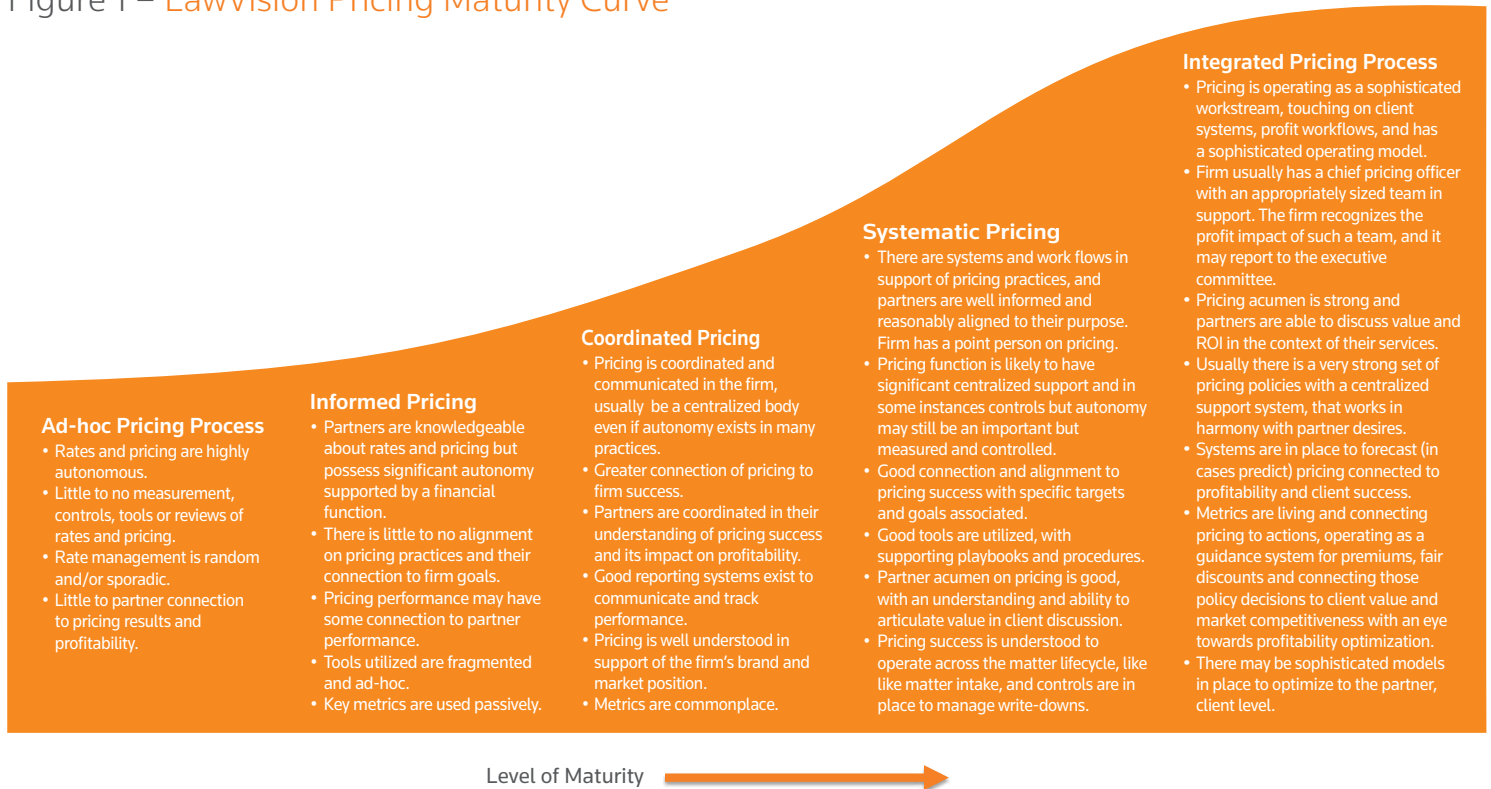
"As some key economic health indicators have improved for law firms in the past one to two years, it could be argued that rate growth was the most important of those in terms of revenue and client satisfaction," says Brent Turner, Manager of Peer Monitor at Thomson Reuters. "It was an important and exciting endeavor for us to understand the sentiment of the market and exactly what behaviors were fueling strategic pricing and rate setting initiatives."

The firms responding to the survey were distributed relatively evenly by size, with firms with between 100 and 249 lawyers, and firms with between 250 and 499 lawyers representing the two largest groupings of respondents. Interestingly, among individual respondents, the most common titles were concentrated in finance, with 29 percent of respondents being chief financial officers. The title of Director of Pricing is the top dedicated pricing role in the group, representing 19 percent of respondents; and only a few chiefs — such as the emergence of the Chief Client Value Officer title — were observed.

The key findings in the survey included:

- **Divided satisfaction** — About half of the respondents indicated they were very satisfied or satisfied with their rates and pricing performance;
- **Early maturity** — About half of the respondents designated themselves as in early maturity on the LawVision maturity curve;

Figure 1 – LawVision Pricing Maturity Curve



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- **Cash leakage** — Respondents cited managing and improving cash leakage — including education about the downside of discounting — and other process discipline problems, as a major challenge to their departments;
- **Education and Culture** — Leading change and education is the leading responsibility of the pricing function and indicates that the responsibility of the function is not only one requiring pricing savvy but also cultural engagement;
- **Understanding client expectations** — Respondents also said they were proactively working to better understand client value expectations and educating their attorneys about their findings; and
- **Function centralization** — Respondents reported that their pricing departments are centrally supporting the process rather than dominantly controlling it. This reinforces our earlier theories that the pricing function is still emerging and increasing its presence among firm leadership. Indeed, half of respondents said they still report their pricing responsibilities into another department, usually with ultimate C-Suite oversight.

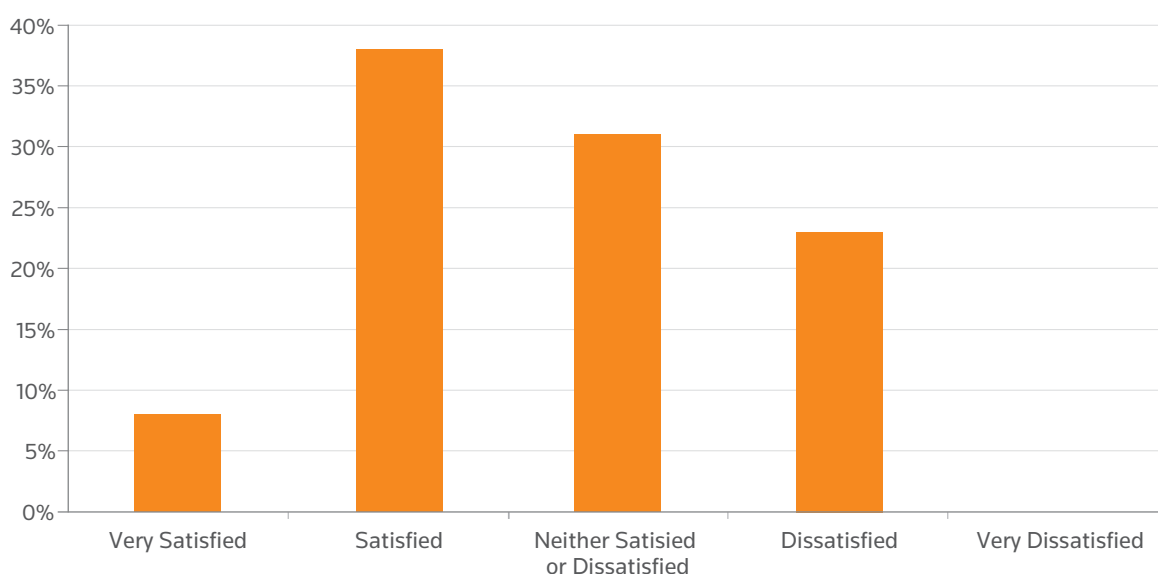
"It is a common industry phenomenon to see some pricing departments further along and satisfied with others are feeling left out," says Medice. "In many cases, this attitude has to do with strategic focus, investment in the pricing department, and the overall process. Some firms are coming to this later than others."

Dwight Floyd, the Chief Pricing & Value Officer at Eversheds Sutherland, adds that pricing functions are maturing and growing in importance throughout the legal industry as those functions move into their own distinct role within law firms. “Pricing touches a lot more areas of a firm than people realize,” Floyd says. “Now, as the pricing function grows to span and bridge more areas, law firms are making their pricing function a part of the firm’s culture, its leadership structure, and its history.”

Divided Satisfaction

Roughly 46 percent of the respondents indicated they were very satisfied or satisfied with their rates and pricing performance, according to the survey. About 31 percent said they were neither satisfied nor dissatisfied with their performance. The remaining 23 percent reported feeling dissatisfied.

Figure 2 – Pricing Satisfaction



Source: LawVision / Thomson Reuters Peer Monitor®

“Those firms that are dissatisfied with their pricing, I think, are those that have not invested significantly in resources or personnel to properly run their pricing, and instead may be leaving the responsibility for pricing to individual partners or executives who have other duties to tend to and whom may not have the right experience to defend price,” says Steven Manton, Director of Pricing and Matter Management at McDermott Will & Emery.

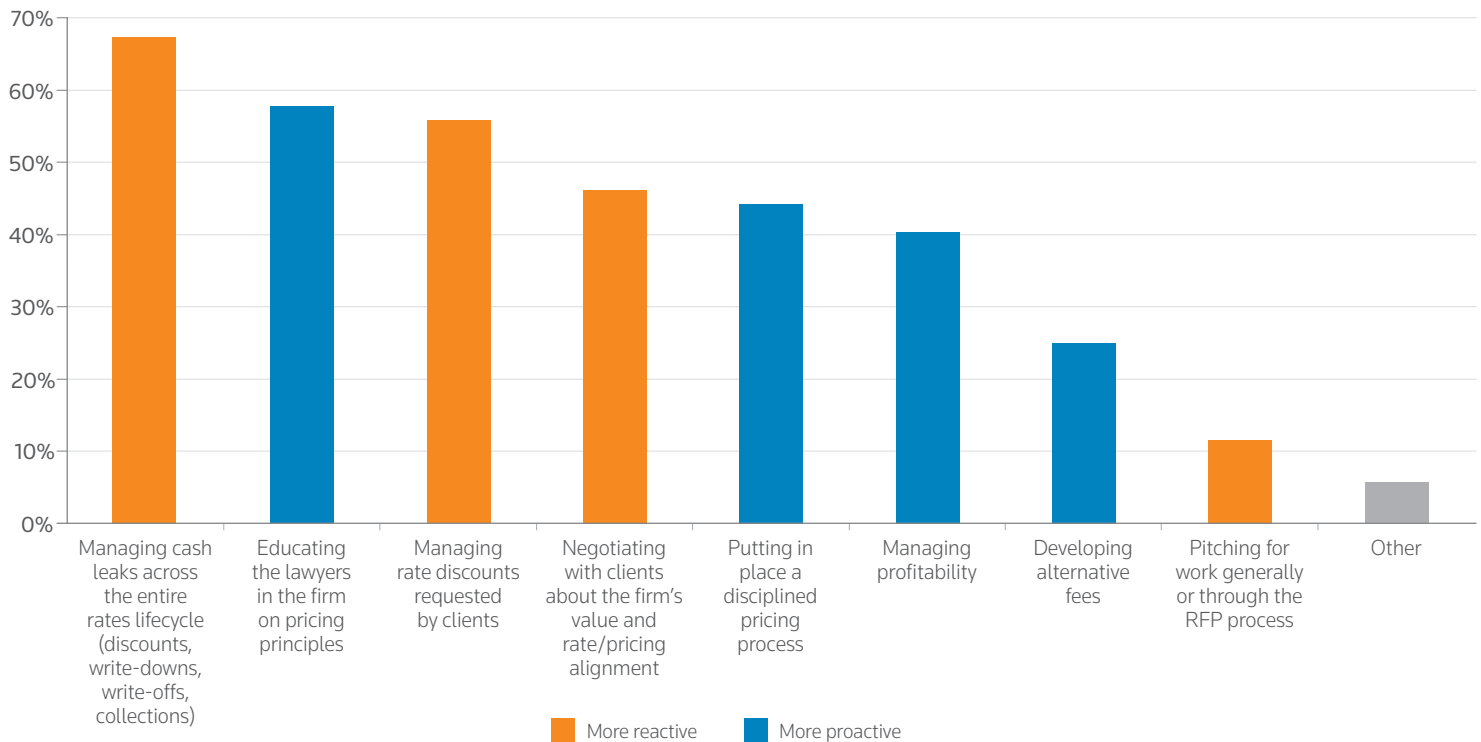
Indeed, the portion of respondents feeling either dissatisfied or neutral about their pricing function corresponds roughly to the portion of respondents that see responsibility for the firm’s pricing function controlled by C-Suite executives — though an exact correlation is not apparent in the data.

Manton adds that those firms which have invested in pricing talent have already seen the fruits of their investment, including better realization and higher client satisfaction. “The investment in the pricing function pays off ten-fold.”

When asked about what challenges they faced in pricing, many survey respondents cited those challenges that have a strong reactive quality to them, such as managing cash leakage across the pricing and rate lifecycle. These cash leakages include discounting, write-offs, write-downs, and collection attempts. Indeed, managing cash leakage was identified as the number one challenge in the pricing process, with more than two-thirds of respondents citing it as a problem.

Another more reactive challenge — those that firms may be taking a strong hand in trying to manage and improve — is negotiating with the client around the value of services, which was cited by about 45 percent of respondents as an issue. According to the survey, successfully tying pricing and the rate structure to the perceived value of legal services provided remains a strong challenge for many firms.

Figure 3 – Biggest Challenges Associated with Rates and Pricing



Source: LawVision / Thomson Reuters Peer Monitor®

Fred Esposito, Chief Operating Officer for Rivkin Radler and Senior Consultant with the Legal Lean Sigma® Institute, says that in far too many cases with law firms and their clients, the communication is lacking. "There's no real dialogue with the client, especially around value — and, of course, pricing and rate-setting is a big part of that."

This lack of communication produces a disconnect between what the firm produces and what the client expects, Esposito explains. "I think the client should be part of the 'steering committee' — basically, the group that comments about what's working and what isn't — in order to better guide the law firm to make needed changes."

Among proactive challenges mentioned, firms cited improving education of lawyers around pricing issues, with about 58 percent of respondents citing that as a challenge. Establishing a disciplined pricing process (43 percent) and creating attractive alternative fee structures (25 percent) were also areas of note.

Pricing Maturity Curve

As an overall part of its strategic consulting methodology, LawVision has created a pricing maturity curve to help firms not only understand the characteristics associated with their current position, but to have visibility on the steps required to advance. “Too frequently firms do not have roadmap about how to move ahead,” says LawVision’s Medice. “The maturity curve offers that.”

In the survey, respondents were asked to self-report where they placed on the curve; therefore, it was not surprising to see a positively skewed distribution curve, where the bulk of the firms are clustered in earlier stages. As the industry moves toward more standardized pricing processes, data-driven decision making, and advances in creative fee structures, the industry will move up the curve, Medice explains. “But the question is how fast — we expected the industry to be further along 10 years out from the Great Recession.”

More specifically, about half of the respondents designated themselves as “Early Maturity” on the maturity curve. And among the half of respondents which identified their pricing function as in “Early Maturity”, the largest portion of survey respondents, 41 percent, reported that their pricing operations fall into the second level of Early Maturity, called “Informed Pricing”, which is marked by partners that are knowledgeable about rates and pricing but possess significant autonomy on how their discretion is used. Further, this category also is characterized by *i)* little to no alignment between pricing practices and firm goals; *ii)* pricing tools that are used in a fragmented and ad-hoc manner; and *iii)* key metrics that are used passively.

Another large segment of respondents (25 percent) placed themselves in the next most mature category of “Coordinated Pricing” that is identified by the pricing process being better coordinated and communicated within the firm, usually by a centralized body. In this category, partners are coordinated in their understanding of pricing success and its impact on firm profitability. Other secondary characteristics of this category include *i)* greater connection of pricing to firm success; *ii)* good reporting systems to communicate and track performance; and *iii)* the use of high-quality metrics.

Cash Leakage

Clearly, throughout the survey and among a variety of questions and solicited responses, many pricing professionals cited the challenges of managing and improving cash leakage as one of the major factors in a law firm’s pricing success.

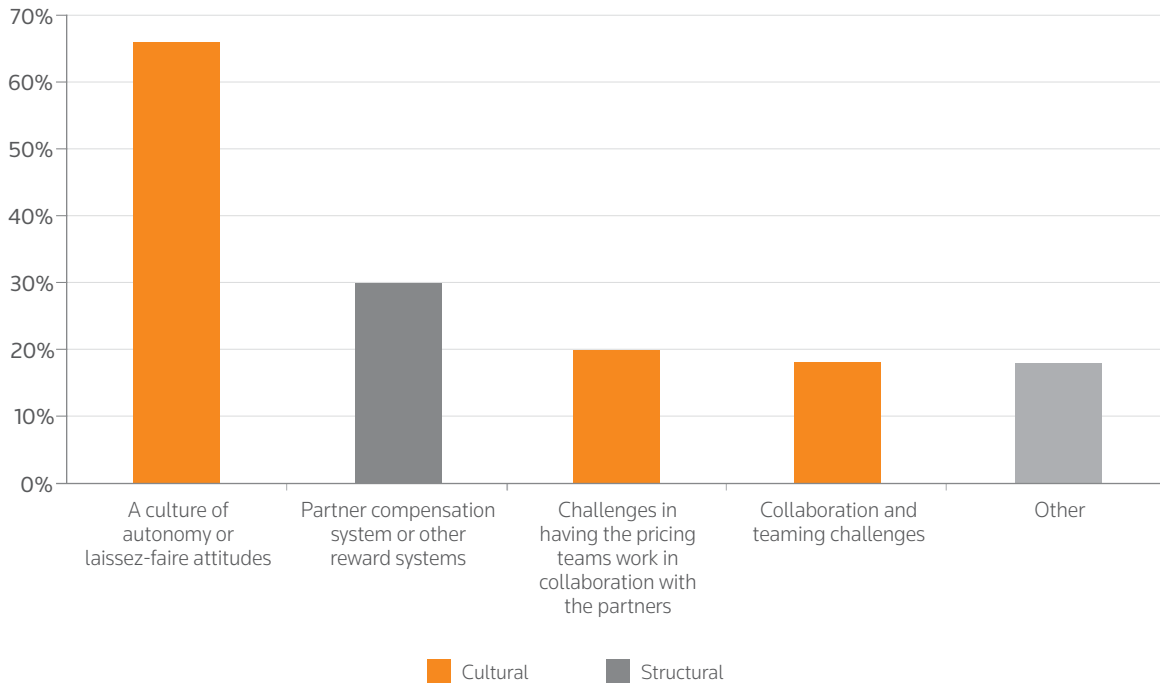
These concerns ran the spectrum from educating firm lawyers about the downside of discounting to identifying and dealing with process discipline problems.

Not surprisingly, when respondents identified several major projects or initiatives planned for the coming year that would help them move up the maturity curve, proposals that addressed rate performance (55 percent of survey respondents) and cash leakage (51 percent) were the top projects planned by law firms for 2019. Other initiatives included improving the client’s perception of the firm’s value (49 percent) and better coordinating rate management (35 percent).

“Cash leakage is a major challenge for many law firms,” says Eversheds Sutherland’s Floyd. “And it’s really two-fold — first the negotiated discounts, then the additional leakage from agreed-upon rates due to write-downs.” These after-agreement losses — much of which is under law firms’ control — can be really damaging, Floyd explains. “Write-downs and write-offs are really an index of a firm’s inefficiency, mismanagement, and mistakes. That situation is now pushing law firms to eliminate waste in order to reduce that leakage.”

Interestingly, you would think that with respondents so united in identifying the common challenges they face in pricing function success, there would be few barriers to their efforts to address and improve these issues. However, respondents noted a handful of barriers to achieving success, with three of them being deeply imbedded cultural hurdles that may be difficult to overcome.

Figure 4 – Barriers to Rates and Pricing Success



Source: LawVision / Thomson Reuters Peer Monitor®

More than two-thirds of respondents cited “a culture of autonomy or laissez-faire attitudes” that greatly hindered coordinated pricing efforts and implementation of a disciplined pricing process. The other two “cultural challenges” both had to do with the lack of collaboration among partners and among pricing teams and other legal teams

Understanding Client Expectations

Twinned with the idea of stanching cash leakage was the concept of client perception of value. Survey respondents said they sought to improve their understanding of what clients were expecting from the firm’s value proposition around pricing and how to better communicate that value to clients.

Respondents further said their firms were intent on educating their attorneys about their findings to foster even more communication with clients around pricing and how it underscores the firm’s commitment to value.

Indeed, much of this desire to understand the clients’ perception of value is based on the evolutionary changes the legal industry itself has seen over the past 20 years or so. The survey shows that in the early-2000s law firms could ride by on their substantive legal knowledge alone, knowing that clients were not versed as well in the legal realm nor as agile in terms of navigating contracts, courts, and lawsuits. Clients then argued less about the legal bills they had to pay since much of the scope of their legal mandates were beyond them. By the 2010s, however, that began to change as the financial crisis helped spark the desire of clients to keep more legal work in-house.

Soon, clients’ in-house teams began to grow in size, knowledge, and ability, leaving law firms to make the value case for themselves based on their business acumen and efficiency, which early on, was still superior to that found in many in-house legal departments.

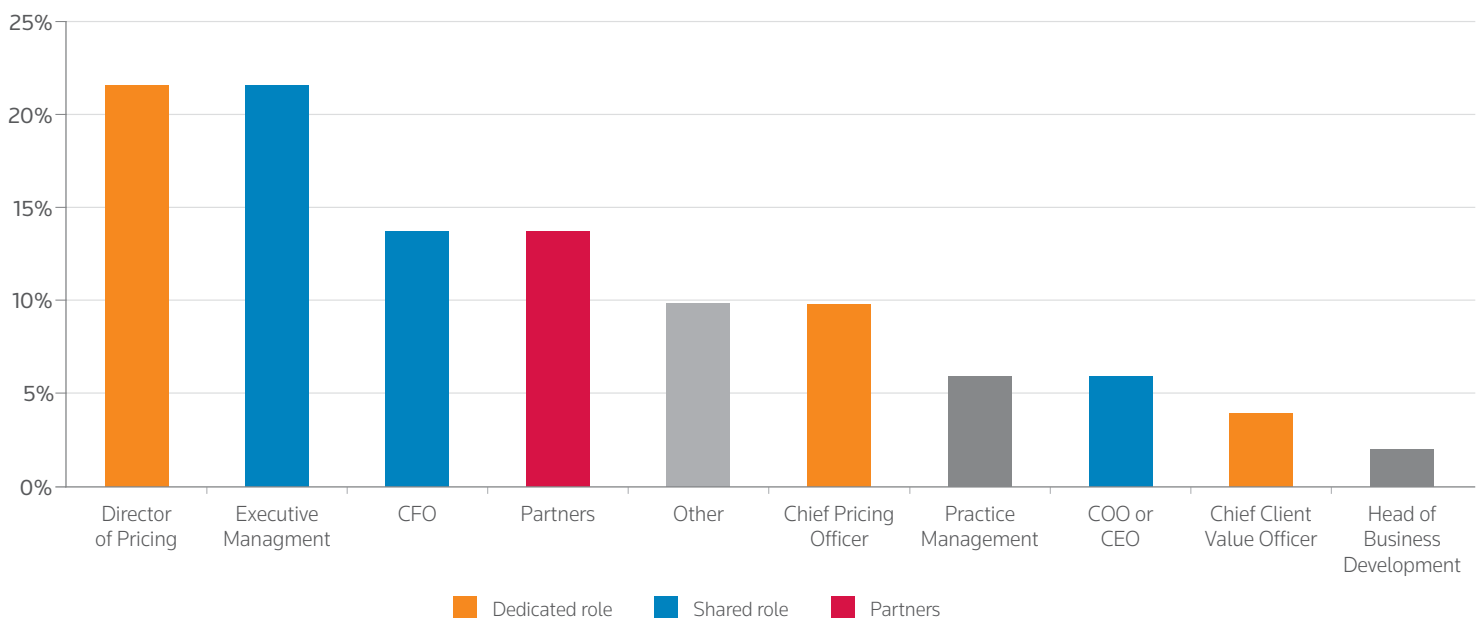
Today, that is much less the case as in-house departments have made great strides in improving their overall efficacy. These departments have also taken even greater advantage of their ability to outsource legal work to a wide variety of alternative legal service providers and legal tech disrupters — nimble organizations that often can work at a level of quality that rivals many law firms, only quicker and cheaper. That leaves law firms having to again look inward to find a new value proposition that they can impress on clients now and in the future.

Increasingly, that value proposition is likely to be centred on innovation and data-driven legal solutions as clients seek new ways to tap their internal data resources, gain competitive foothold, and manage their risk profile. Indeed, the law firms that will win that business will have to be far more client-centric, data-driven, and forward-focused than the firms of even just 20 years ago.

Function Centralization

One of the most interesting trends identified in the survey, of course, is how the pricing function has evolved within a law firm, from who manages it to how its value is conveyed to clients. A large portion of respondents reported that their pricing departments do not control the process yet, but instead serve as a central support for it. Just slightly more than 40 percent of respondents say the primary responsibility for the pricing function at their firms falls to executives in the C-suite level, such as CFOs, COOs, or CEOs.

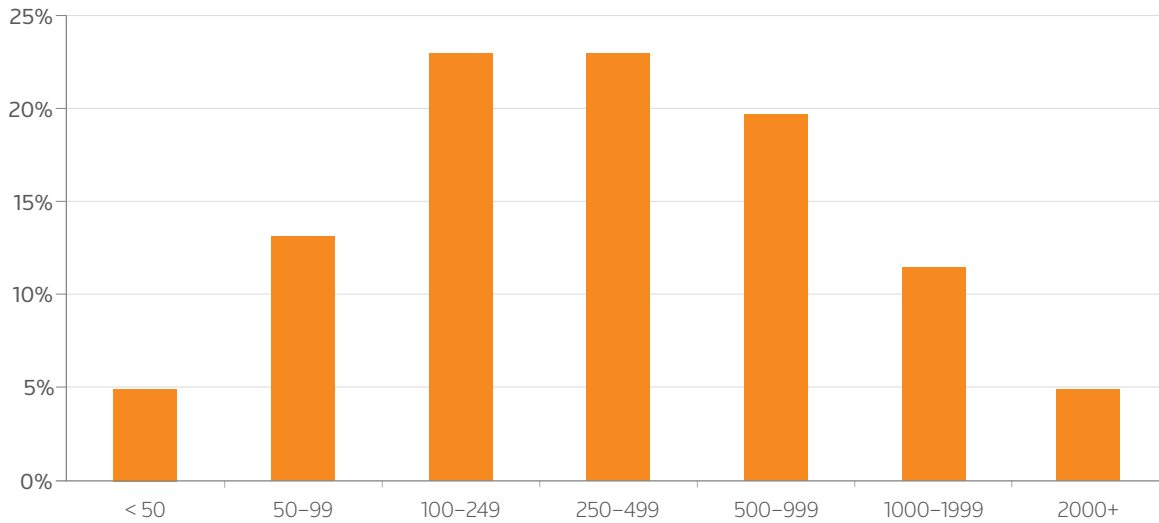
Figure 5 – Who is Responsible for Pricing at the Firm?



Source: LawVision / Thomson Reuters Peer Monitor®

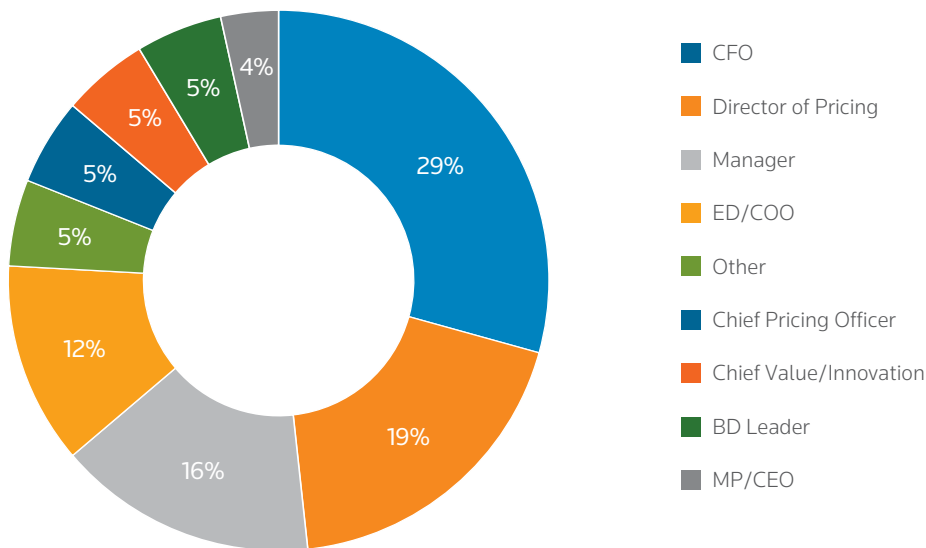
As far as dedicated pricing roles, the title of Director of Pricing is the most common, with 19 percent of respondents citing that as their role. Overall, just less than one-third of respondents held dedicated pricing roles, including Chief Pricing Officer (CPO) or Chief Client Value Officer (CCVO); however, dedicated pricing roles are on the increase.

Figure 6 – Even Distribution of Participants by Firm Size



Source: LawVision / Thomson Reuters Peer Monitor®

Figure 7 – Title of Participants



Source: LawVision / Thomson Reuters Peer Monitor®

"I think firms' elevation of dedicated roles in pricing is growing rapidly," says McDermott's Manton. "It's been quite a solid progression from even just a few years ago when the number of firms with these roles were much less common."

In fact, 29 percent of respondents said their pricing team was still a single individual, while 42 percent said their pricing teams had between 2 to 3 members.

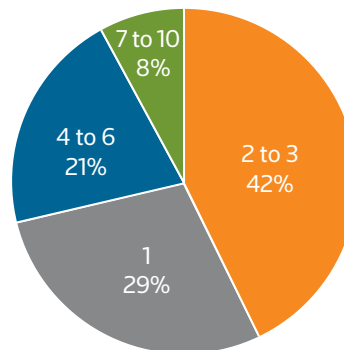
Figure 8 – Pricing Function

Do you have a dedicated pricing function?

YES
50%

NO
50%

Number of people on the pricing team

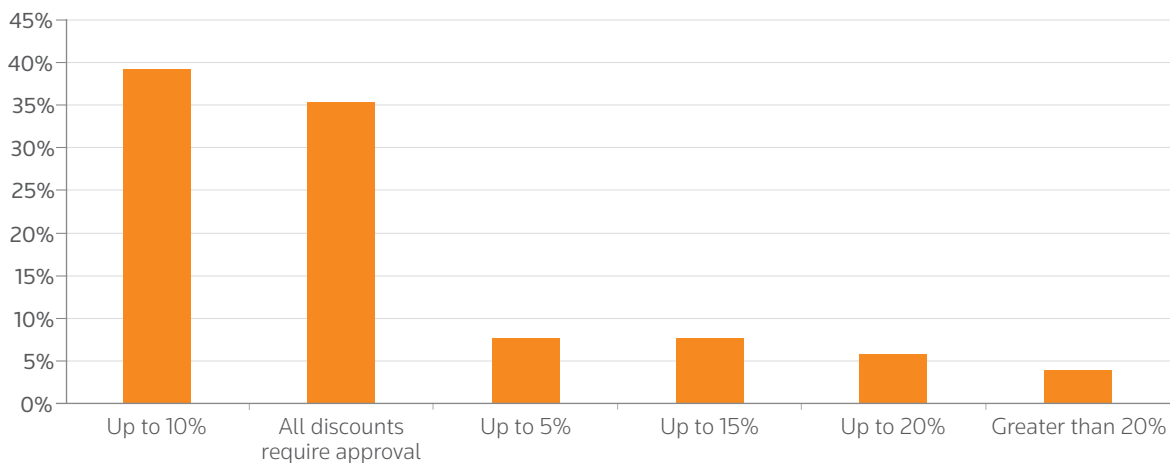


Source: LawVision / Thomson Reuters Peer Monitor®

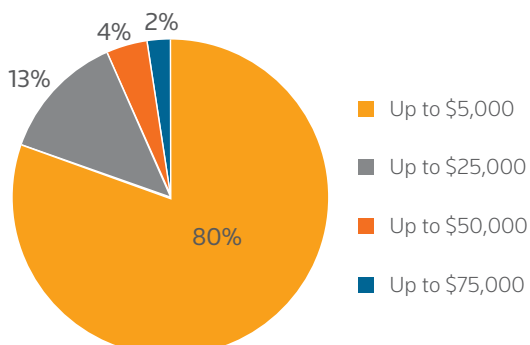
Looking deeper into the survey, we see some interesting trends around issues like discounting and what pricing professionals identify as their primary responsibilities. Around discounting, for example, when asked to what level partners can offer clients a discount without approval of management, 39 percent of the survey said up to a 10 percent discount could be offered, while just slightly less, 35 percent, said *all discounts* had to be approved by management.

Figure 9 – Autonomy for Discounting, Writing Down Fees, and Losing WIP

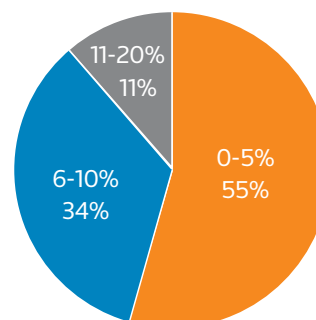
Level partners can discount without approval



Amount partners can write-down without approval



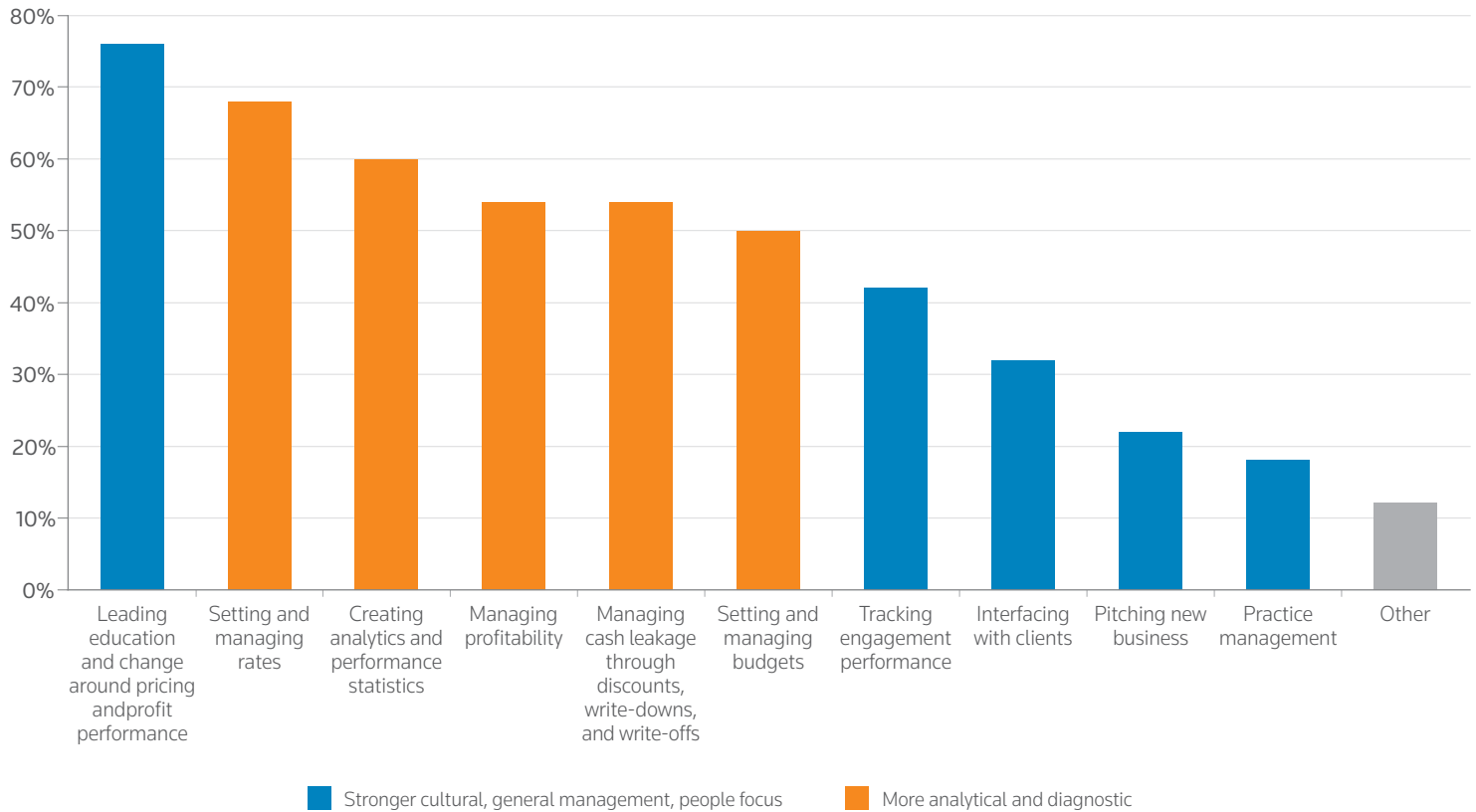
Percentage of fees lost due to time worked, but not recorded (invisible)



Source: LawVision / Thomson Reuters Peer Monitor®

When respondents were asked to name the primary responsibilities of the firm's pricing function (where they could name several), more than three-quarters of respondents said it was their primary responsibility to lead the education around pricing change and performance. Other strong responses included setting and managing rates (68 percent), and creating analytics and performance statistics (60 percent).

Figure 10 – Primary Responsibilities of Pricing Function



Source: LawVision / Thomson Reuters Peer Monitor®

These findings seem to underscore our earlier theories that the pricing function is still emerging as a strong presence among firm leadership, and is gaining much more of the trappings (analytics, more oversight responsibility, dedicated pricing roles) of a serious component of a law firm's strategy to address profitability and sustainability. Indeed, we believe these changing perspectives may continue to be reflected in surveys such as this, based on whether the respondent is in a dedicated pricing role or reports to the C-Suite on pricing.

Conclusions

Given the depth and breadth of the *2019 LawVision & Peer Monitor Pricing Survey*, several conclusions could be deduced from its responses. “We are clearly an industry that is in the midst of change, and our findings show that innovations and strategic thought around the pricing function is accelerating,” explains Peer Monitor’s Turner. “As evidenced by the results around education, the appetite for a sophisticated understanding is growing throughout firms, and rarely limited to those solely in a pricing or finance role.”

These conclusions identify not only the significant challenges that law firms may be encountering in their pricing functions, but also some solutions that could put them on the best path to profitability and success, including:

Addressing Change and Internal Satisfaction — Over the past several years, law firms have been driven to improve the structure and the method of their pricing approach. Many have done so, experiencing a mix of market stress and financial success.

When we look at the survey’s results on firm satisfaction with the pricing function, however, we see that half of the firms surveyed were satisfied, but half were either neutral or dissatisfied. Clearly there is still more work to be done here.

We anticipate that many law firm leaders are already looking at the next level of change within the industry, and see that it will be driven, as we have noted, by innovation and data. This realization will prompt an open-eyed receptiveness to modernization in many areas of the typical law firm, with the pricing function being chief among them.

Preparing a Mindset for the Future — As the survey demonstrates, the environment is changing around how law firms price their legal services for clients. Notably, the law firms that embrace this new reality and place a strong emphasis on creating a culture that demonstrates an awareness of the importance of the pricing function and the people who support and manage it, will be much better poised for increasing profitability going forward.

Gone are the days where a few law partners handled firm pricing with a laissez-faire attitude of discounts, write-offs, and informal client agreements.

Those firms looking to better position their pricing function to the benefit of the firm and its clients will be the ones fully grasping the impact that wide internal support, data analytics, and value demonstration will have on the pricing function and the firm’s prospects for profit and success.

Addressing Department Structure — As we identified earlier in the report, many law firms see themselves as still in the early phases of pricing function maturity as exemplified by how they approach their pricing process, structure, oversight, and challenges. Dedicated pricing teams are in the early phases, as we’ve seen, and the role of the CCVO is emerging as a likely strong presence among firm leadership in the future. Further, pricing itself as a dedicated function is emerging as a strong initiative, and these dedicated roles are helping to focus the firm’s pricing strategy on the client and on profitability.

We think that the firms that dedicate attention and resources to these functions and roles will help move pricing — especially around how it is perceived and processed within the firm — into a more success-oriented, forward-looking proactive posture. Conversely, those firms that stick with pricing as a discounting-to-success proposition will increasingly be at the mercy of the market, of clients, and of their competition.

LAWVISION

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