

8

ESSENTIAL FEATURES
OF LAW FIRM
PRICING MODELS

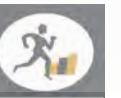
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IMPORTANT FEATURES OF A PRICING MODEL

1. **An estimated hours distribution** (by timekeeper type for a typical case);
2. **A frequency component** that allows the testing of several assumptions;
3. **Historical data** (for comparison to assumptions);
4. **Volume assumptions;**
5. **Capacity analysis;**
6. **Payroll and overhead cost per hour;**
7. **Contributions to overhead and profit;** and
8. **Before and after rate comparisons** including a rate uplift feature.



BUILDING A NON HOURLY BILLING PROPOSAL

1. ESTIMATED HOURS DISTRIBUTION



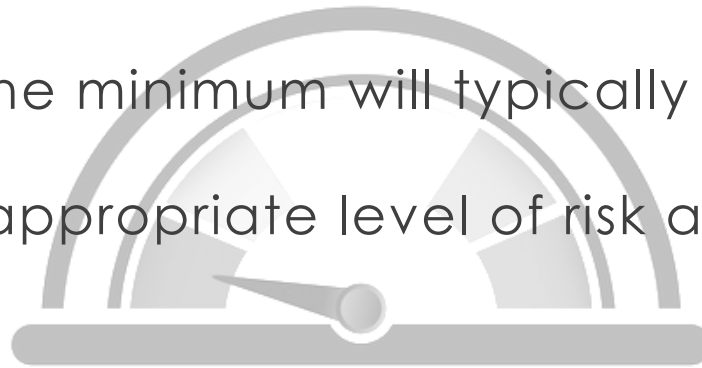
TASKS, HOURS ASSUMPTIONS AND FREQUENCY									
	Partner	Associate	LA PL	Total	Occurrence %	Partner	Associate	LA PL	Total
Tasks	Hours					Hours			
				-	100%	-	-	-	-
				-	75%	-	-	-	-
				-	70%	-	-	-	-
				-	60%	-	-	-	-
				-	75%	-	-	-	-
				-	100%	-	-	-	-
				-	80%	-	-	-	-
				-	35%	-	-	-	-
				-	30%	-	-	-	-
				-	25%	-	-	-	-
				-	25%	-	-	-	-

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2. FREQUENCY COMPONENT

Factoring risk into the pricing model

- ▶ Estimate of how often an event is likely to occur
- ▶ Attempts to factor risk into the pricing model
- ▶ Setting prices to maximum exposure will typically result in a non competitive offer
- ▶ Setting prices to the minimum will typically result in profit losses
- ▶ Goal is assess an appropriate level of risk and price in that range



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3. HISTORICAL DATA

Using real case data to test assumptions

- ▶ Experienced firms have an advantage
- ▶ Clients can provide data (is typically limited)
- ▶ Non competitor peers and colleagues can provide data
- ▶ Simulated or assumed data is the least reliable



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4. VOLUME ASSUMPTIONS

- ▶ **Developing a profitable pricing strategy requires a true comprehension of the impact of volume at an indicated price point.**
 - Volume can temporarily reduce cost per hour
 - Continued volume increases can lead to rising costs and declining profits
 - Too little volume can lead to increased costs per hour and decreased profits.



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5. CAPACITY ANALYSIS

Available capacity and pricing

- ▶ Excess capacity and pricing
 - ▶ May trigger more aggressive higher risk pricing
- ▶ Limited capacity and pricing
 - ▶ May trigger less aggressive lower risk pricing



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5. SAMPLE CAPACITY ANALYSIS



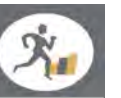
SIMPLE CAPACITY ANALYSIS				
Partners	Planned	Committed	AVAILABLE CAPACITY	
			Available	Monthly
Partner 1	1,600	1,500	100	8
Partner 2	1,750	1,400	350	29
Sub-total	3,350	2,900	450	38
Associates				
Associate 1	2,000	1,800	200	17
Associate 2	2,000	1,900	100	8
Associate 3	2,000	1,700	300	25
Associate 4	2,000	1,600	400	33
Sub-total	8,000	5,400	600	50
Legal Assistant PL				
LA 1	1,600	1,600	-	-
LA 2	1,600	750	850	71
Sub-total	3,200	2,350	850	71
Report Total	14,550	10,650	1,900	158

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6. PAYROLL AND OVERHEAD COST PER HOUR

Payroll and cost per hour considerations

- ▶ Test the impact of assumed volumes on payroll and overhead CPH
- ▶ Recognize the burden of efficiency falls on the firm
- ▶ Smart clients will compare the ultimate cost of hourly and non hourly pricing
- ▶ Bid too high and you may still win initially and lose it all later
- ▶ Firms with efficient cost structures are better suited to non hourly pricing



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7. CONTRIBUTIONS TO OVERHEAD AND PROFIT

Identify the direct costs separately

- ▶ Calculate the threshold contribution to overhead and profit
- ▶ Only covering direct costs leads to disaster
- ▶ Overhead allocation is essential and not optional
- ▶ Tying available capacity with unprofitable work can transform a practice for the worse



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8. BEFORE AND AFTER RATE COMPARISON AND RATE UPLIFT

- ▶ Pricing models should include a rate uplift feature
- ▶ Helps reverse engineer a process to achieve targeted revenue
 - ▶ For example, setting a target rate or using a market rate to determine profitability at certain levels
- ▶ Using revenue constraints to find cost efficiencies



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SAMPLE PRICING MODEL – BASIC

- ▶ Capacity Analysis
- ▶ Frequency Analysis
- ▶ Cost and Profit



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TAKEAWAYS

1. Important to pricing process: Accounting, Finance, Economics, Marketing, and Seasoned Judgment
2. A well-built pricing model can provide opportunities to secure work.
3. Create a pricing template for your firm. Hire help if needed.
4. ***Close enough* may work in a game of horseshoes. Missing the mark by 5% – 10% in a pricing decision can cause your firm to lose out on bids. Or worse, it can win the bid, along with a big loss for your firm.**

