

The 2008 Inter-Firm Comparison announced
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infocus

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Pricing

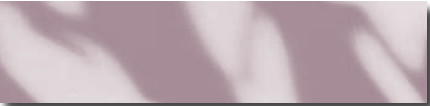
All aspects of management evolve. The way we produce our work, the way we value employees, the way we communicate with clients, the offices in which we work - even lunch - have all changed. It is likely that the next decade will see significant change in the way legal services are priced, both in method and amount.

The legal profession serves two distinct markets: a commodity market and a knowledge service market. The commodity market consists of services that all lawyers are perceived capable of delivering, risks are perceived to be minimal, required skill levels common and imitable. In stark contrast to this is the knowledge services market where a significant knowledge imbalance exists between provider and client. In this market, risks are perceived to be much higher, knowledge valuable and inimitable. Not surprisingly, commodity services attract a fixed value in the market and knowledge services attract a less transparent but higher value. Discussions about price must recognise this distinction.

FMRC surveys do not indicate a discernable correlation between firm profitability and market served. Many high profit practices provide commodity

services exclusively, others are exclusively knowledge service providers and some serve both markets. Business success is a complex recipe involving both short and long range drivers but one fundamental tenant is, and will always remain, price must exceed cost of production.

It sounds simple, doesn't it? Despite this, we regularly see firms selling their services at "market price" regardless of the cost of production. Very few firms, it seems, have bothered to calculate cost, instead taking comfort from the fact that legal fees appear expensive and firms usually make a profit. As one partner put it on learning about his third consecutive year of loss making, "That can't be right! I work too hard and I am too tired to be making a loss!" Sad but true.



Some basics to bear in mind:

- Cost of production attaches to an individual not an activity. Consider a partner (worth a salary of say \$200,000) sharing a secretary (paid \$65,000) performing at average (1,200 chargeable hours). It is usual for a firm to pay non salary overheads of about \$50,000 per person. Our partner, therefore, has a cost of \$200,000 plus \$32,500 plus \$75,000, this totals \$307,500. She only has 1,200 hours to recover this cost so the cost per hour is \$256. An employed solicitor paid \$100,000 working in the same firm with the same support has a cost of \$172 per hour. Although the partner may have a higher charge out rate, this is not necessarily the case in a commodity market.

Legal profession serving two distinct markets

Commodity market services attract a fixed value in the market

- All lawyers perceived capable of delivering
- Risks perceived to be minimal
- Skill levels common and imitable

Knowledge service market attracts a higher value

- Limited number of lawyers
- Risks perceived to be much higher
- Knowledge valuable and inimitable

- You don't have to do everything yourself. There are widely acknowledged returns to both specialisation and delegation. Indeed, good clients now expect it.
- Attracting volume by discounting does not usually produce a better result. It may produce an even greater loss. There are very few economies to scale in a law firm. Practitioners rarely charge more than 1200 hours per year. If any of these hours are sold below the cost of production, the cost of every other hour goes up.
- If you intend to be expensive you must be good. Being good goes way beyond being accurate. It involves timeline, affability and the management of uncertainty through excellent communication.

I now return to my opening comment, firms evolve so do pricing structures. Commodity work lends itself to fixed fees. Knowledge services are less straight forward. We see firms trading successfully with fixed fees, scale fees time based fees, annual retainers and some with a combination of methodologies. Regardless of pricing structure, practitioners should examine cost and profit margin, structuring their workload and that of those they supervise accordingly. It may be quite possible to do less and earn more!

FMRC would like to assist your firm with pricing methodology, contact us on (02) 9262 3377 or visit www.fmrc.com.au.

Pricing strategy is, of course, another matter all together...



Neil Oakes



Neil has been working almost exclusively as a management consultant with the legal profession for 20 years. He undertakes consulting assignments for law firms throughout Australia and New Zealand, specialising in strategic advantage, profit growth strategies, contemporary leadership and change management. Each year he is involved with some 110 law firms of various sizes and specialty areas of practice.

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2008 Inter-firm Comparison Performance benchmark survey for law firms

The Profit and Performance Improvement Guide gives your firm practical solutions for profit improvement – quickly.

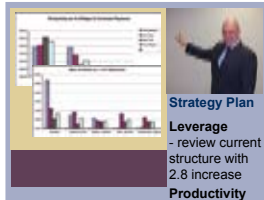
Last year we identified an average profit improvement of \$1.4m per firm.

Outline of survey

1. The Profit and Performance Improvement Guide

Your firm's financial performance is compared to other firms, including high profit firms, by size, type and location. Your confidential survey report has specific recommendations presented as a transparent profit improvement map. Your report highlights what you need to know to improve the firm. This annual business survey of the legal profession has allowed FMRC to be the trusted advisers in practice performance, measurement and improvement for 30 years.

Within two weeks of submitting your data, you receive a comprehensive report with an easy to understand summary allowing partners to gain an overview of the firm's performance. You will also have access to a live web meeting for one hour for your partners and management team.



Results discussed at a live web meeting with your partners.



Loading your data is now easier:

A Personnel Worksheet makes it easy to compile your salary and production data plus a live online seminar plus phone and email support.

2. Salary Survey



This survey report will allow you to make informed salary decisions during your budget cycle. This is the only Australian survey that connects a person's production to the salaries of lawyers.

This survey reports relevant average salaries, charge rates, budgets, work done and compensation packages for all staff. It is released in December this year.

Your Investment

\$2,200 (inc GST) to participate in the survey for which you will receive the Inter-firm Comparison Report; meeting with adviser to review the results and plan action; and Salary Survey.

Guarantee

We believe that these reports will enable your firm to implement profit improvement strategies which will recoup the cost by a factor greater than ten. If we cannot identify improvement opportunities of this magnitude we will return the registration fee to your firm.

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