

**Fixed and Value Pricing**

# **LESSON 3**

**Pricing!**

# WELCOME TO WEEK 3!

**This week it's all about pricing. There are so many parts to coming up with the right price and I suspect that this week will be a challenge as the joy of time based billing means that you never really have to worry about price once you have sent your hourly rate.**

This course is encouraging you to flip all of that knowledge on its head and move to fixed or value pricing methods. As such, you are almost starting from scratch which you could see as an incredible opportunity to play with your pricing.

There are a number of different ways that you could come up with the price for your product or service and here are a few suggestions to get you started.

## 1.

**The first is to consider a cost based pricing method - when using this method,** you would calculate the actual cost to your business in undertaking a particular piece of work including in the salary or wages for the individuals involved in the particular production of the work piece. This will still relate back in part to the time taken to complete the task, but rather than that time simply being multiplied out by an arbitrary hourly rate, you would be doing a mathematical equation to look at the actual costs to the business, of the people involved in the project, the time they've spent on it, the overheads involved along the way and any actual costs incurred in delivering the particular service.

Cost based pricing methods are particularly helpful if you are developing products that are not necessarily reliant upon the time to produce them. For example, we recently produced a product in our business called a Break Up Box. In essence, this is a gift box filled with fun things, designed to help anyone experiencing separation or divorce. Aside from the time that was initially taken to collate and put together the Box, there is little time now involved in ultimately producing and selling it, other than packing a box and posting it off. There is however cost involved in sourcing and paying for the individual products that go into it, postage and the like. Therefore when pricing the Break Up Box we simply looked at the cost of the items within it, added a level of an overhead cost to ultimately come to our initial test pricing. We are about to formally launch this product into the market and will ultimately then reset and test the pricing based on market feedback.

## 2.

**The second common way that business approaches pricing is through a value based method. Rather than looking at the cost to you in producing the particular product or service, you would instead look to the value to the client in you delivering that product or service.** This can be particularly helpful in certain areas of law where the particular service that you're offering has a direct financial benefit to the client involved. For example, a particular piece of advice or a way of approaching a particular matter may have a commercial outcome whereby the client is able to save a significant outlay or themselves receive a direct financial benefit. In those sorts of situations, it can be easy to calculate the benefit achieved by the client and therefore price something using a method that in essence means that you receive a share of the direct value received by the client.

For most people participating in this course doing work in areas of say family law, criminal law, employment law and other human areas of law, it is much more difficult to directly correlate the financial benefit that your client may receive from your pieces of work than it would be say in a commercial or business sense.

Therefore when it comes to looking at value based pricing, it's not necessarily the financial value that your client is receiving that you are considering when coming up with your price, but the value to them in terms of other aspects of the benefit of your service. This might be emotional value, time and other intangible measures of the benefits of the service that you provide. Being able to articulate that value when it comes to pricing is incredibly powerful, particularly if you are looking at building a service offering that is bespoke and offers a higher price tag than perhaps the market might be used to.

To offer value based pricing structures, you will need to be clear on the value that you are providing and the drivers of that value.

## 3.

**A third way to approach pricing is to look at the market around you considering what your competitors might charge for different services and products and making a decision to either charge less, charge the same or charge more.** In this circumstance, your pricing decision is based largely on what the market is currently comfortable with paying. When it comes to market pricing, I would encourage you to not be charging less than the market rate. There's a beautiful quote from Seth Godin that I think sums up the challenge with this style of pricing where he says "The problem with the race to the bottom is that you might win. Even worse you might come in second." Deliberately lowering your pricing is a technique that I would encourage you to think carefully about before embarking upon. If you are going to use the market as a test of your pricing measures, I would encourage you to think more deeply around how you can offer something unique, different or special in terms of the service offering, to enable you to either meet the market at its price but deliver it in an exceptional way, or even offer what I like to call the Louis Vuitton option that enables you to charge a higher price and deliver at the same time an exceptional service.

These are three ideas that can be used when it comes to contemplating pricing and the data that you have already gathered in this course will also assist you as you work through this week's activities. So let's get started!

# SETTING THE PRICE

Where do we begin when it comes to price? Well I think a good place to start is to grab that data from Week 1 and look at what your pricing has been to date! If you haven't already done an analysis of your files from the past few years, now is the time. You will take some comfort from having a sense of 'this is what it usually costs' when it comes to putting a price to the first scope you do.

But the real key with value pricing is that you have the chance to really consider the value that your skills, knowledge and experience provide to your client. This is also a chance for you to re-jig your business, to really think about your service offering, work out what you can automate and productise and consider if there are parts of your practice you really want to focus on.

## So Pricing... Where do you begin?

Well first let's have a closer look at 'the old way'! Use the worksheet below to group your types of work into categories, and write down the estimates of your fees for those types of work over the past few years. So for my family law practice it would look a bit like this—

Type of Work	Type of client/ matter	Number of hours	Average \$ the old way!
Negotiating and drafting Property Settlement Consent Orders	Simple Asset Pool and organised client	8.5	\$3,500
	Complex Asset Pool, simple negotiation and organised client	16	\$6,500
	Simple Asset Pool, Complex clients	13	\$5,500

As you can see, the more you can drill down on the types of client, the factors that make for complexity the more you are going to be able to really get confident on your data.

# OLD WAY

TYPE OF WORK



TYPE OF  
CLIENT/ MATTER



# OF HOURS



AVERAGE \$  
OLD WAY



# THE NEW WAY

**When it comes to moving to the new way of pricing, on one hand you have a clean slate to work with which is exciting and terrifying all at the same time.**

One way I have approached pricing in the past was to ask this question- If I wanted to build a \$5,000 product that solved my client's problem of negotiating, resolving and documenting their parenting arrangement, what would that product look like? And what if that same product needed to be delivered at \$500? What would I do then?

So what if? Why not have a go at grabbing those post it notes and your scoping plan from last week and see if you can't create a brand new product that solves your ideal client's key problems and then play with a price!

**Now a few other things to think about...**

## The cost of work...

When it comes to pricing, it is important to ensure that the price you set is covering the costs of producing that work. So many law firms operate on the old 'rule of thirds' sense of costs- 1/3 fixed overheads, 1/3 salaries and 1/3 profit for firm owners. While that might work in some practices, it really is no real measure of the cost to you of creating your work.

In the first week I encouraged you to really look at the cost of opening and running your practice. You can really pull this data down to look at the actual cost of individual team members- considering their salaries and assigning some amount of your office costs to them also.

I prefer to run with a simple average- just looking at the overall cost of my business and bringing that down to a day or hour rate. If you do it this way, you can look at the number of hours in your sheet above and use your cost/ hour to get some sense of the 'cost' of your work.

## **The Customer Experience- the WOW factor**

If you genuinely want to charge a higher price you will have to deliver a truly valuable customer experience. Lawyers have not been great at seeing things from the client perspective, but when you do, you will find that clients will pay a premium.

In the mind map below brain dump at least 10 things you can do differently to 'wow' your customers and in doing so build value beyond your competitors to support your price.

## THE VALUE TO YOUR CLIENT

**We have spoken about this in our workshops to date- what is the true value to your client in the work you are doing?** Let's take my work in divorce- the ability to help my clients find a solution that keeps them outside of Court has incredible value for their emotional wellbeing, financial wellbeing and how they will move into their new future. You can (and I do) put a price on that.

Think about your client- what are you saving them from? What are you solving? What pain are you taking away? Is pace important to them? These are the things your client will value and if you can build a solution that genuinely solves these challenges in a meaningful way your pricing can reflect that solution.

## DON'T OVERLOOK THE IMPORTANCE OF A BRAND

There is a reason luxury brands have the ability to charge a luxury price- they get all of the above and then they build a brand- a reputation that comes to life. To really value price, to move away from competing on price, you need to stand for something, be something, and be known as a brand in your part of our industry. Once you have brand you have that X factor that the right client will pay a premium for.

How do you build brand- well that is a workshop for another day but this week I will share a few things that can get you started. Being clear on who you are, what you offer and why you are different to the lawyer down the road who works in the same practice area is a big start!

# THE NEW WAY

TYPE OF WORK



TYPE OF  
CLIENT/ MATTER



# OF HOURS



AVERAGE \$  
OLD WAY



## SO PRICING...

**This week you just need to have a go- look at the data you have gathered already, grab your scope from last week and put a price to it!**

And then see what would happen if you wanted to charge double?

What additional value could you offer to make that price enticing?

And what if you were to charge half? What could you automate, create and remove to make that work too?

**Have some pricing fun!**

**And we're done!**

**Submit your  
workbook to  
[clarissa@bflc.com.au](mailto:clarissa@bflc.com.au)  
each week to go into  
this week's  
PRIZE DRAW!**