

Projecting value, growing profitability – how to communicate value rather than focus only on reducing costs

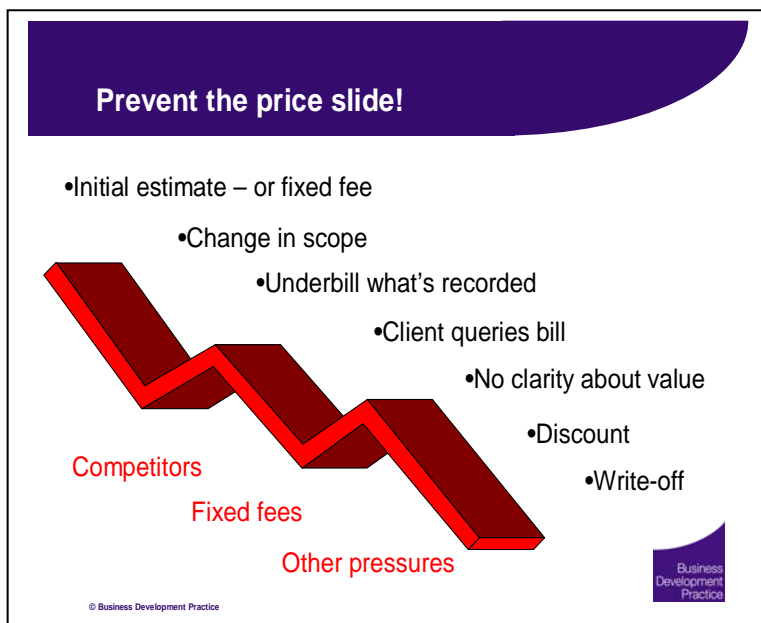
By Rosemarie Ghazaros and Peter Ramage of The Business Development Practice

Is the profitability of your firm lower than you would like it to be?

During the last downturn, one large professional firm thought of a new way of improving their profits. They cut out offering biscuits in meeting rooms! This is not an idea we would recommend. The result was uproar amongst partners and staff, and the biscuits were quickly re-instated.

Lots of management committee and finance department energy goes quite rightly into looking at utilisation, leverage and cost control. However, many partners may be eroding margins through poor fee negotiation skills and failing to communicate the value they deliver to clients.

Evidence? At a conference one delegate told us this story at the coffee break. (She was from a well-respected City law firm, who were not clients of ours before the conference.) Her banking team had just finished a transaction with £500k on the clock, but the matter partner had said it was too much to bill, and they should invoice only £350k!



Had they only delivered £350k of value? Unlikely. They had probably worked extremely hard on the client's behalf, delivered high quality legal advice, involving tight deadlines, long hours, and some changes of scope. Indeed, she confirmed the value delivered was at or close to £500k.

If you adapt the figures to your size of firm – how often do you think your partners may do something similar? Most professionals are very bright people, so why does this happen? It's the result of three uncomfortable facts:

- Many are uneasy talking about fees; and they generally feel much less comfortable talking about fees than their clients do (lawyers are particularly prone to this)
- Some find it difficult to clarify and communicate the value of their work to clients
- Many find billing an irritating distraction from fee earning.

Here are three key points that might help to reduce under-billing and write-offs:

1. Avoid surprises with fee notes

"I was shocked when the bill came in... there was just no warning it would be so high..."

Our client satisfaction interviews show that even in successful relationships, the big irritants are often about billing "surprises". It should be obvious that clients want to know what will be billed and when. As well as honesty and transparency, they want predictability. The most successful partners have techniques for avoiding surprises: a quick call or email before the bill goes out; an interim billing schedule agreed in advance; payments submitted against previously agreed milestones or deliverables.

Changes in scope and therefore cost need to be articulated clearly, and as early as possible. Best practice for avoiding surprises includes:

- Regular communication with the client
- Flagging up when a request is outside the agreed scope
- Keeping the client informed on what is building up on the clock
- Negotiating on variances as soon as possible.

2. Ensure clients perceive the value of what they have received

"What on earth did they do to justify that bill?" Or as another client said: *"The last thing they want is for me to pay a bill reluctantly, and then be so annoyed I don't go back to them".*

But why should the client be so annoyed? Is it possible to make the cost seem more acceptable without reducing the bill? Do you really know which aspects of your service are valued by each client, and which are not?

We notice that many professionals find it hard to articulate the benefits and value of their service. The outputs (for example, the successful transaction, the opinion, the contract) often don't project the complexity of the work undertaken, or the many interventions required. Even a list of outputs and interventions won't convey the full value and possible opportunity costs, or the problems and risks successfully avoided.

Of course it's important to match fee structures to the reality of the situation. So the value of an hour of work done on routine enquiries will be lower than an hour on a critical M&A situation, a meeting with the Board, or a tax appeal. Whatever happens avoid providing a Rolls Royce service when the client wants a Mini; or the 30 page report when 3 succinct pages are really wanted. Using interim billing, where possible, and discussing the final bill can also avoid queries or bad feeling later.

We find many professionals surprisingly modest about the value of their work. As a result, when we are training partners to clarify and/or negotiate the value of their advice, we spend a lot of time on questioning, listening and probing skills. Astute questioning can uncover each client's concerns, needs and priorities in relation to the work. This should in turn enable the partner to relate the value gained and potential problems overcome to the estimated fee or the final bill.

Each client perceives value in different ways – so be sure to recognise their preferences. In-depth client feedback can also help to uncover your clients' value preferences and start to create a better framework for value based billing.

3. Train partners (and senior associates) in fee negotiation skills

“Now I'm clear about the time and the value you delivered, I'm prepared to sign off the fee note for £25,000 rather than the £15,000 I was expecting”.

Lawyers are trained early in their careers in negotiation skills, but this seems to focus mainly on negotiating points of law. Accountants and consultants often get some training in negotiating fees, but less in thinking about how clients perceive value.

Many managing partners and COO's have found that simply urging partners to negotiate better, bill faster, not to give away large discounts or write-offs, does not work. For successful fee negotiations professionals need clarity, confidence and courage. You cannot get these from encouraging them to read an article like this one, nor from a pep talk from the managing partner.

What does seem to work is using very carefully tailored client situations that are realistic for your partners. Then they need a chance to try out different approaches, supported by skilled facilitation and coaching. Confidence can be built with practice and developmental feedback.

Good fee negotiation skills are no longer a “nice to have”, they are becoming “mission critical”. These skills don't come easily, even to the most commercial of partners – but if you can embed them in your firm you could end up with a more profitable practice **and** more satisfied clients.

Contact us

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