There is probably more thought given to — and more anxious worry about — the concept of properly pricing legal services than any other aspect of the client relationship. Literally, how the work is priced and paid for can make or break a relationship, and ultimately, a law firm as well.

Eric Ruud, managing director at Thomson Reuters Legal Enterprise Solutions, sat down recently with Rob Burger, COO at Sterne, Kessler, Goldstein & Fox, to discuss new pricing and legal project management strategies that can help a law firm meet client demands while not breaking their own bank.

**ERIC RUUD:** Rob, could you talk about the overall approach to strategic pricing and some of the initiatives that are in place at Sterne Kessler?

**ROB BURGER:** Pricing of legal services is a hot topic in 2018 — and one that is very tricky. These days, clients are paying close attention and also hiring legal operations professionals, procurement managers, data mining and billing specialists. Those folks are all working with their general counsel (GC) and stepping things up by putting in place formal budget processes, success metrics, electronic billing, outside counsel panels and guidelines, and strategic vendor partnerships.

It’s a similar transition to what law firms went through about 20 years ago when they hired professional business managers like myself to run a law firm as a business. Most corporate legal departments are now going through or have already gone through this similar transition. And we’re clearly seeing a trend where the GCs are now being held to extremely tight budgets, and the in-house teams are even seeing their bonuses tied to the various success factors, including adherence to their legal spend budget.

So, it’s very important in the buyer’s mind that outside counsel not only meet specific legal objectives, but that both the result and process of getting there also “feels” good. Everyone wants to feel as though they are being treated fairly. Historically, fees and budgets were topics that folks dreaded to talk about, and lawyers — both outside and in-house counsel — weren’t inclined to be confrontational over these issues.

It’s funny. Lawyers will talk about the toughest legal issues together, but they would rather stick their heads in the sand than talk about billing and pricing issues proactively.

In the end, the actual pricing of legal services is just part of the issue — the real issue we need to talk about is overall value. It’s all of the results that a law firm brings to the situation in relation to what they charge for their services. It’s about the business goals and the particular objectives in each situation — it’s not just the price. As I said, it’s also a perception of how the client feels they are being treated. In this regard, customer service has never been more important.

**RUUD:** Are there some specific metrics that your firm looks at very closely to track this value equation?

**BURGER:** Metrics are also really important — and for those who know me, I’m all about metrics. I just love to measure, quantify and track success.

At Sterne Kessler, we have data and metrics that are available to all of our practitioners and clients on a real-time basis, including metrics around specific goals. We are completely transparent with our clients on our success metrics. Internally, we track all of the standard stuff — billable hours, goals and realization. We also track client origination and, like many firms, we typically look closely at realization. One of the unique things we are tracking and using in performance management is...
RUUD: Is billing under the control of partners as to when and how the clients are billed?

BURGER: While our partners have a lot of say in the billing process, we have found that our clients have been dictating how they want to be billed and now, in fact, are essentially running the process and have moved us more toward electronic billing. We just don’t have a choice in the matter anymore.

That said, partners are heavily involved in the management of our billing process because we believe it would be a mistake to divorce the partners from meeting the unique needs of clients. Our partners are required to stay on top of this each month, and oftentimes each week.

RUUD: How does Sterne Kessler measure profitability? Does the firm use cost data and profit data to better manage operations?

BURGER: We do look at profitability of clients and matters, of course, and there are various ways to measure profitability.

The billable hour continues to be important at Sterne Kessler, primarily because it’s a financial measure everyone understands. Likewise, realization is still a language we speak at my firm, and in many situations, we can use it as a proxy for profitability.

We do look at all of the various measures, including cost accounting, of course, but calculating overhead is always a contentious issue wherever you go. We certainly don’t want to foster an environment where we are trying to work together as a team, but then have folks argue that they are only using a secretary 10% of the time, or not using any of the IT or marketing department. Those conversations can get silly and unproductive.

We prefer to focus on a contribution-to-profit metric that takes overhead out of the conversation and focuses us on what the legal team can control – for example, having the right people at the right rates, the right amount of time for tasks, the right leverage and so forth. We have found that cutting expenses or a sole focus on expense management is not generally a great strategy or the key to long-term profitability. Expense management, combined with a quality revenue focus, is the key.

One great advantage we have over our competitors is that since we are not that large of a law firm, we can slice and dice things in a granular way, which allows us to look at things in various perspectives. However, we do always try to get behind the numbers and internally reward the best behavior. Too many firms are just rewarding individual behavior, and not what is in the firm’s or clients’ best interest.

RUUD: It sounds as though you have a good amount of transparency, both internally and externally, and you share a lot of that with the partners and clients. How is that reflected in your compensation process?

BURGER: At Sterne Kessler, we really strive to align our compensation system not with what is in the best interests of the individual attorney or partner, but what is in the firm’s interests, and most importantly, what is in the best interests of our clients.

In the end, there are only five levers of profitability: billing rates/fees, realization, leverage, utilization and expenses. We use a compensation method that was developed by Paula Alvary at Hoffman Alvary. Sterne Kessler looks at the following core factors: client satisfaction/results, origination, managing and growing clients, being a subject domain expert, collaboration/teamwork and contributing to the firm management or leadership. This is implemented through a highly transparent elected committee (including myself and our CFO) that figures out partner compensation each year.

We find the subjective approach, informed by objective data, to be a very good one (as opposed to compensation strictly by formula). This allows us to focus on the changing goals of our firm each year, and again, not what is in the individual attorneys’ best interest.

Rob Burger is the executive director and chief operating officer of Sterne, Kessler, Goldstein & Fox, a global intellectual property law firm headquartered in Washington, D.C.

Eric Ruud is the managing director for Legal Enterprise Solutions, Thomson Reuters, Legal. Ruud was previously managing director for Thomson Reuters, Tax & Accounting, Indirect and Property Tax Business. Ruud joined Thomson Reuters through the acquisition of Sabrix in 2009, where he had been for the prior seven years. His background is in enterprise-level software companies, starting in the early days with Sybase, Documentum, Extensity and Sabrix.