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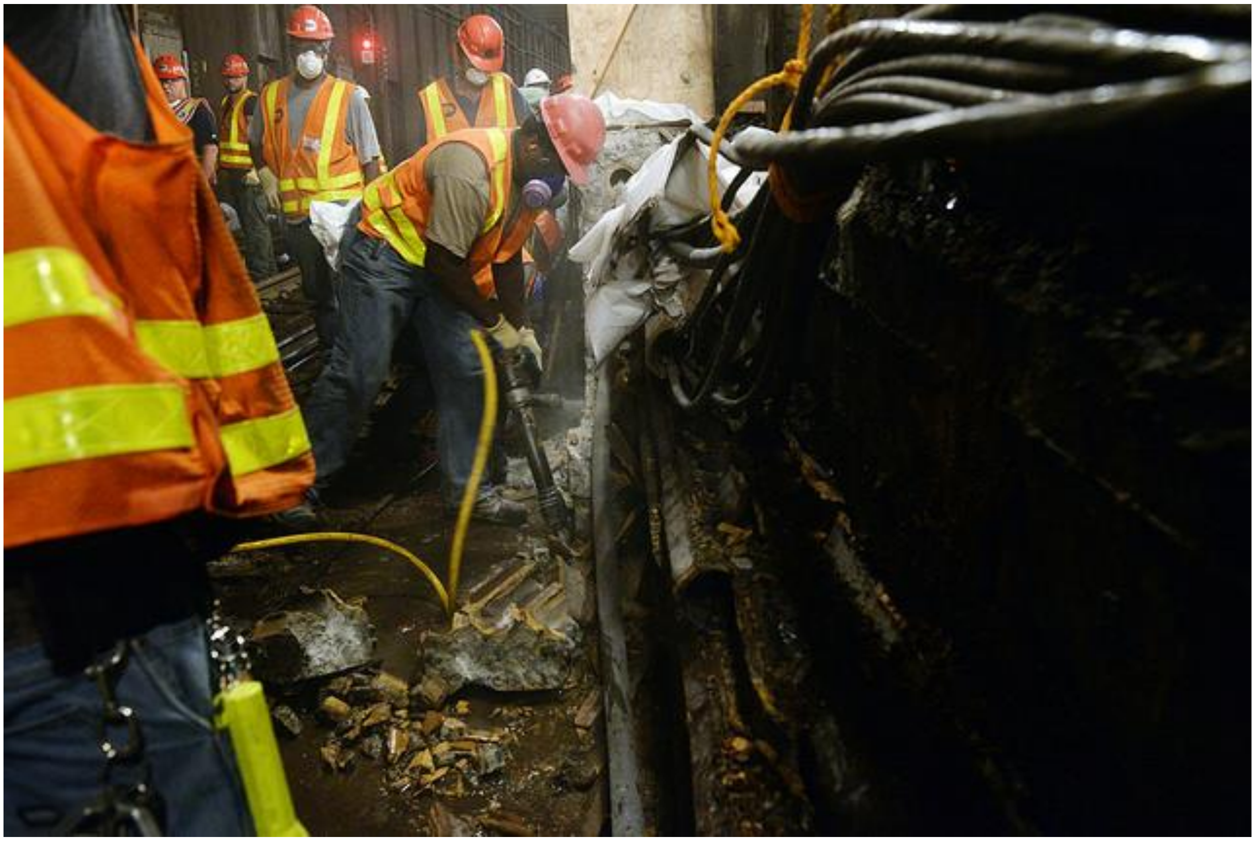

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Stress Cracks and Repairs to the Big Law Structure

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Editor's Note: *The author of this post is the founder and CEO of Legal Mosaic, a strategic consulting firm and a regular contributor to Big Law Business.*

By Mark Cohen, Chief Executive Officer, Legalmosaic

It's hardly news when a law firm delivers legal services in concert with another firm or service provider. Disaggregation of legal services has been around for some time, even if its scale, scope, and complexity continues to expand.

But it *is* news when a Goliath law firm partners with a legal service provider to promote client value. That is evidence — at least to me — the traditional law firm structure has stress cracks and some firms are taking steps to repair them.

The DLA-LOD Alignment: It's Cozy and Different

DLA Piper announced recently that it is forging a partnership with Lawyers on Demand (LOD), a UK-based legal staffing company with about 500 attorneys. The alliance, initially focused in the UK, is intended to expand to other regions after its roll out next year.

On the face of it, that's not big news. LOD counts approximately 20 other law firms as clients. Staffing companies have supplied lawyers to law firms and in-house legal departments for decades. But the LOD alignment with DLA is different. Jonathan Brenner, LOD's co-Founder characterizes it as "bespoke" and "the first of its kind."

What's so different?

DLA had initially planned to launch its own "captive" flexible resourcing venture but opted instead to partner with LOD because of its track record, size, and turnkey capability. DLA no doubt realized that its high rates were no longer palatable for certain types of work.

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Enter: LOD and its corporate structure. Note: many of LOD's lower-priced legal talent were alumni of DLA. Translation: same lawyers — different uniforms. And those lawyers now deliver the same work from corporate, not traditional law firm structures (and price points).

The law firm delivers specialized legal expertise and high-value judgments — service providers do the rest. And law firms manage supply chain integration and delivery. This is a snapshot of the future.

DLA is no stranger to aligning itself with "alternative providers." It was an investor in Riverview Law, a move that created no small amount of friction among DLA partners, many of whom knew nothing about the investment until after-the-fact. And in the alliance with LOD, it turns out many of the service provider's contract attorneys are "alumni" of DLA.

It's also noteworthy that LOD was spun off from Berwin Leighton, who initially owned a controlling interest in the staffing company. Many of LOD's lawyers are "alumni" of Berwin Leighton.

See a pattern here?

Where are the Structural Cracks in Law Firms?

Disaggregation, heightened competition, an influx of new legal providers with corporate structures, competition from in-house departments, and value driven clients are stressing the traditional law firm structure. While PPP remains high among a shrinking number of law firms (law's one-percent), the long-term sustainability of the traditional law firm structure is under attack.

And so, law firms are increasingly focused on ways to tinker with a structure that is inalterable — unless a firm was to disband and reconstitute with a different business model. Some firms have pursued a "bigger is better" strategy, but that is just kicking the structural problem down the road. What DLA has achieved in its partnership with LOD is something different: a first step in structural reconfiguration.

Such collaboration may not be a panacea, but it *does* promote some important objectives: client value, market differentiation, revenue recapture, and (partial) structural readjustment.

Many firms are making internal adjustments to promote efficiency. DLA and White & Case are two among several large firms that have recently opened "shared office centers." While this is good for the firm's bottom line, such internal adjustments — unless accompanied by rate reductions — do little for clients. In contrast, law firm "partnerships" with service providers can bring significant value to clients.

Other Firms Are Hedging Their Bets, Too

DLA might be the first mega firm to partner with an outside staffing company in a "bespoke" (read: systemic) way, but it is by no means the only firm to hedge its bets. A host of UK firms have launched "captive" staffing arms, albeit under different brand names. Allen & Overy (Peerpoint), Pinsent Masons (Vario), and Eversheds (Agile) are among the ever-expanding list that have done so.

The ascendancy of in-house legal departments and the hyper-competitive and disaggregated market for legal services are putting great stress on the traditional law firm partnership structure. Allen & Overy, has taken steps to address this, for example, by its launch of several subsidiaries. These entities offer, in effect, "five flavors of legal services." And not so long ago, all of those services were delivered by the firm itself-at higher price points and larger margins.

Bottom line: disaggregated services no longer align with the traditional law firm structure.

Can law firm service provider "spin-offs" compete with companies built specifically to address key delivery components such as eDiscovery, contract management, cyber-security, and data management? And would law firms be better advised — as DLA elected to do — to turn to a proven provider such as LOD instead of building out subsidiaries on their own?

Time will tell, but my hunch is that strategic partnerships with top providers are likely the better option for most firms. After all, work is being taken from those firms *precisely because* the best of those providers can do it as well or better, more efficiently, and far more cost effectively than law firms.

Bottom line: disaggregated services no longer align with the traditional law firm structure. And corporate clients, increasingly, are making buying decisions with that in mind.

Similar Changes Are Underway on This Side of the Pond

One might infer that the level of activity between law firms and legal service providers is greater in the UK than the US because of the different regulatory climates. After all, the UK's sanction of Alternative Business Structures (ABS) has kickstarted competition, new entrants into the legal marketplace, and has promoted a more client-centric approach among new entrants.

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But market conditions in the U.S. — by far the world's largest legal market — are causing prescient law firms to address structural limitations identical to their UK counterparts. And this goes beyond limiting the number of equity partners, bringing in lateral rainmakers, and merging with other law firms.

Altman Weil's 2015 survey of CLO's found that 40 percent of corporate legal departments plan to decrease legal spend next year. And among those surveyed, a significant percentage — almost 25 percent — responded they would rely more heavily on legal service providers (in place of law firms). Add to that the recent Citibank report that projected nearly flat demand growth for law firm services, and its going to be tough sledding for most law firms.

Stephen Poor, the astute Chairman of Seyfarth Shaw, recently offered a prescient reading of these tealeaves. In a post appearing in *Bloomberg Big Law Business*, Poor noted that “we are seeing structural, rather than cyclical, change in corporate legal buy.” He further observed that this environment “requires each firm to reimagine its role in the changing ecosystem,” noting that no one response fits all firms.
Poor concluded: “All of us, however, can benefit from one shared mandate: to understand the evolving needs of our clients and how that leads to a strategic repositioning of corporate legal buy.”

So true! And Mr. Poor practices what he preaches — Seyfarth has consistently been well ahead of the curve in its client-centric restructuring of legal delivery.

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Another Example of Collaboration

Goodwin Procter and Kaye Scholer are two other firms that have taken bold steps to confront their structures and the “strategic repositioning” of corporate legal buyers. Each of these firms has entered into a collaborative partnership with UnitedLex, a diversified legal and business solutions company, in an effort to drive client value. UnitedLex provides end-to-end data and technology related services (hosting, project management, eDiscovery, and a range of other functions). The service provider embeds its team of highly trained professionals in the firm that is relieved of a significant amount of fixed costs – while increasing capability and reducing risk.

It appears to be an “everybody wins” arrangement. Clients have saved millions on legal delivery costs; the law firms enhance revenue and client service; and UnitedLex, likewise, derives a return from its services.

This is a variation of the DLA-LOD picture through a wider lens of services. The picture is the same: law firms collaborating with service providers to drive value to clients. That is a powerful response to the stress cracks to the traditional law firm model.

Conclusion

Is law firm collaboration with service providers a big deal or trend? Many pundits — and lawyers — would say no. As Freud said, “Sometimes a cigar is just a cigar.”

But my nose tells me this is a very different type of smoke.