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Lessons from the "New Model" Law Firm:

Proven Ways to Cut Costs, Increase Revenue & Improve
Profits in Today's Highly-Competitive Legal Marketplace

Lessons from the “New Model” Law Firm:

Proven Ways to Cut Costs, Increase Revenue & Improve Profits in Today’s Highly-Competitive Legal Marketplace

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A Webinar Presented to Law Office Manager, 6 November 2014

Agenda

- Risk losing market share to new competition
- Keep or gain share by improving value
- Protect profit by reducing overhead

Law Firms Face New Competition

- Clients
- New model firms
- Alternative providers
- Substitutes, especially technology

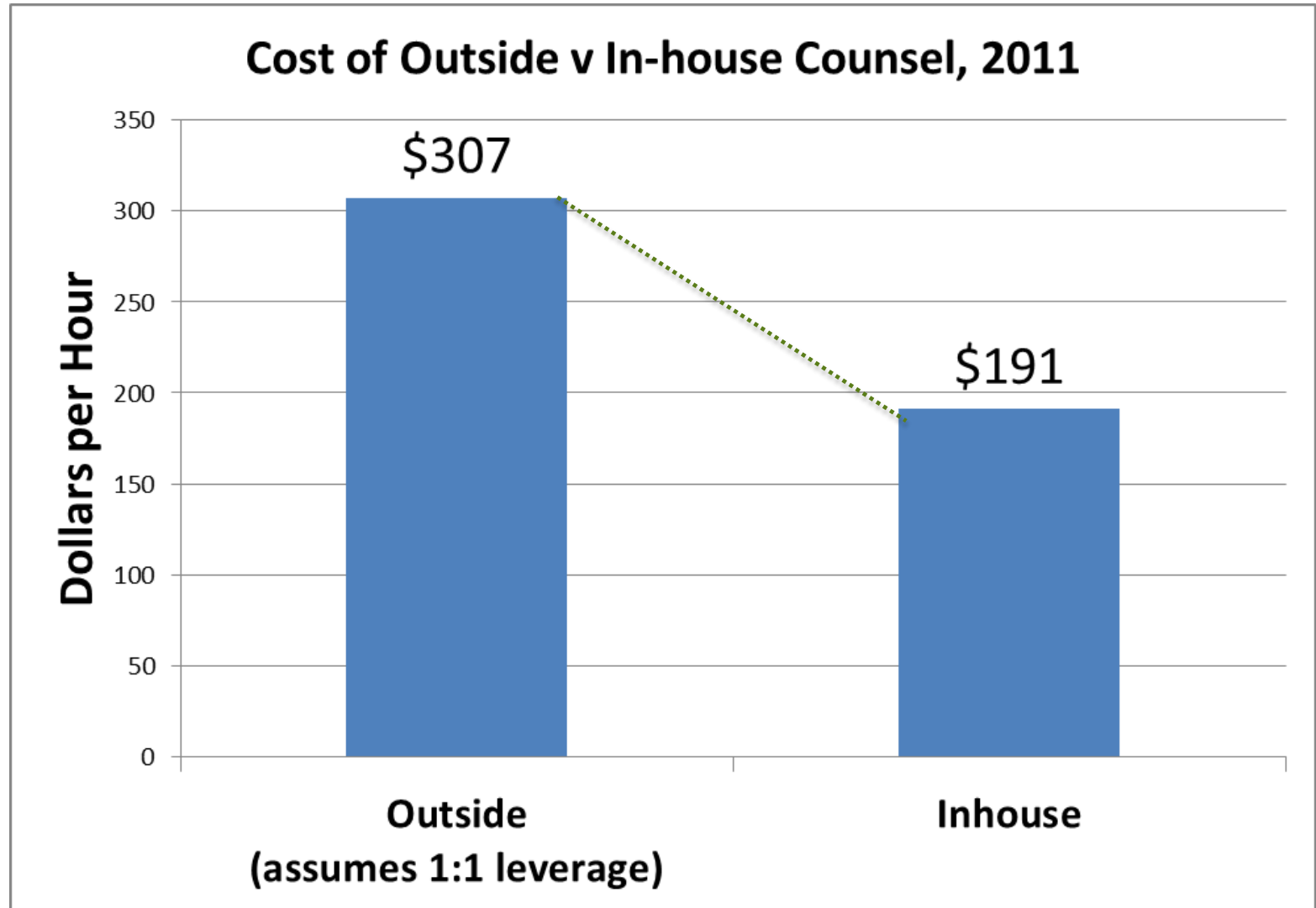
The New Competitors

Clients

Clients Make Instead of Buy

- All buyers face a “make vs. buy” decision
- Clients increasingly make

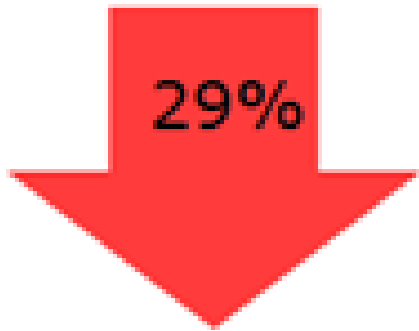
In-house Cost is Much Lower



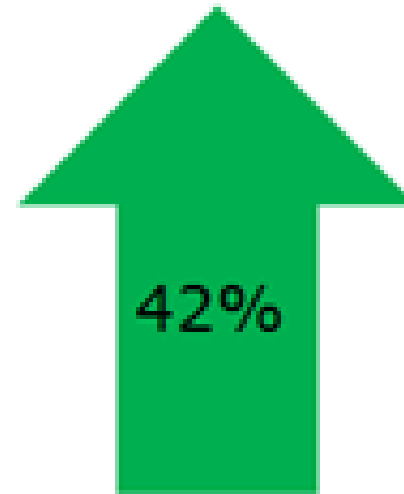
Source: General Counsel Metrics, [June 2012 blog post](#)

So Work Moves In-House

**Law firm use
down**



**In-house counsel
use up**



Labor Cost vs. Working Differently

- Clients move work in-house to save money
- But that is just “labor cost arbitrage”
- More important is *working differently...*

The New Competitors

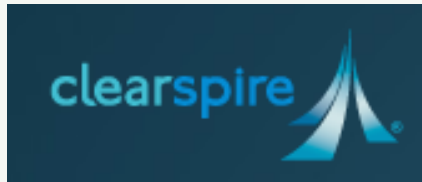
New Model Firms

New Model Firms Work Differently

- Fixed or alternate fees
- Low overhead
- Often virtual
- Take tech seriously
- Flexible work schedules

New Model Law Firms - Examples

US



BARTLIT BECK



UK



Aus

CONDUIT LAW

Can

The New Competitors

Alternative Providers

Legal Process Outsourcers (LPO)

Company	Start Year	Comments
CPA Global	1969	Initially IP, now full LPO
Integreon	1998	Also BPO (business process outsourcing)
Mindcrest	2001	
Pangea3	2004	A Thomson Reuters company
QuixLex	2001	

Gartner's 2020 View (as of Feb 2014)

75% of U.S. + U.K. corporations will use LPO

Document Review Companies

Company	Max # Reviewers + Related Staff	Publicly Held
DiscoverReady	500	No
Hudson	NA	Yes
Huron Consulting	1,500	Yes
Robert Half Legal	10,000	Yes
United Lex	1,500	No

Note: Most above provide services beyond document review
Sources: LinkedIn and company websites

Other New Competitors

- “[Axiom](#) is a
 - 1,000-person firm,
 - serving nearly half the F100
 - through 12 offices and
 - 4 centers of excellence globally.”
- “When you engage [AdventBalance](#) you get
 - our top tier lawyers to work on secondment
 - directly in your organisation when needed”

UK Alternative Business Structures

- Outside investors can own law firms
- Regs shift from “who” to “what” (activity-based)
- ABS Examples
 - [Direct Line Group \(UK's biggest auto insurer\)](#)
 - [The Co-op \(grocery, financial services, more; 5,000 UK locations\)](#)
 - [Stobart Group \(logistics / trucking\)](#)

The Substitutes

Technology

Enabling Tech for Efficiency

Knowledge Management



Document Assembly



Legal Project Management



Transformative Tech to Do Less - 1

Tech Assisted Review in Discovery



Contract Drafting and Management



Transformative Tech to Do Less - 2

Managing Deals More Effectively



Interactive Legal Advice

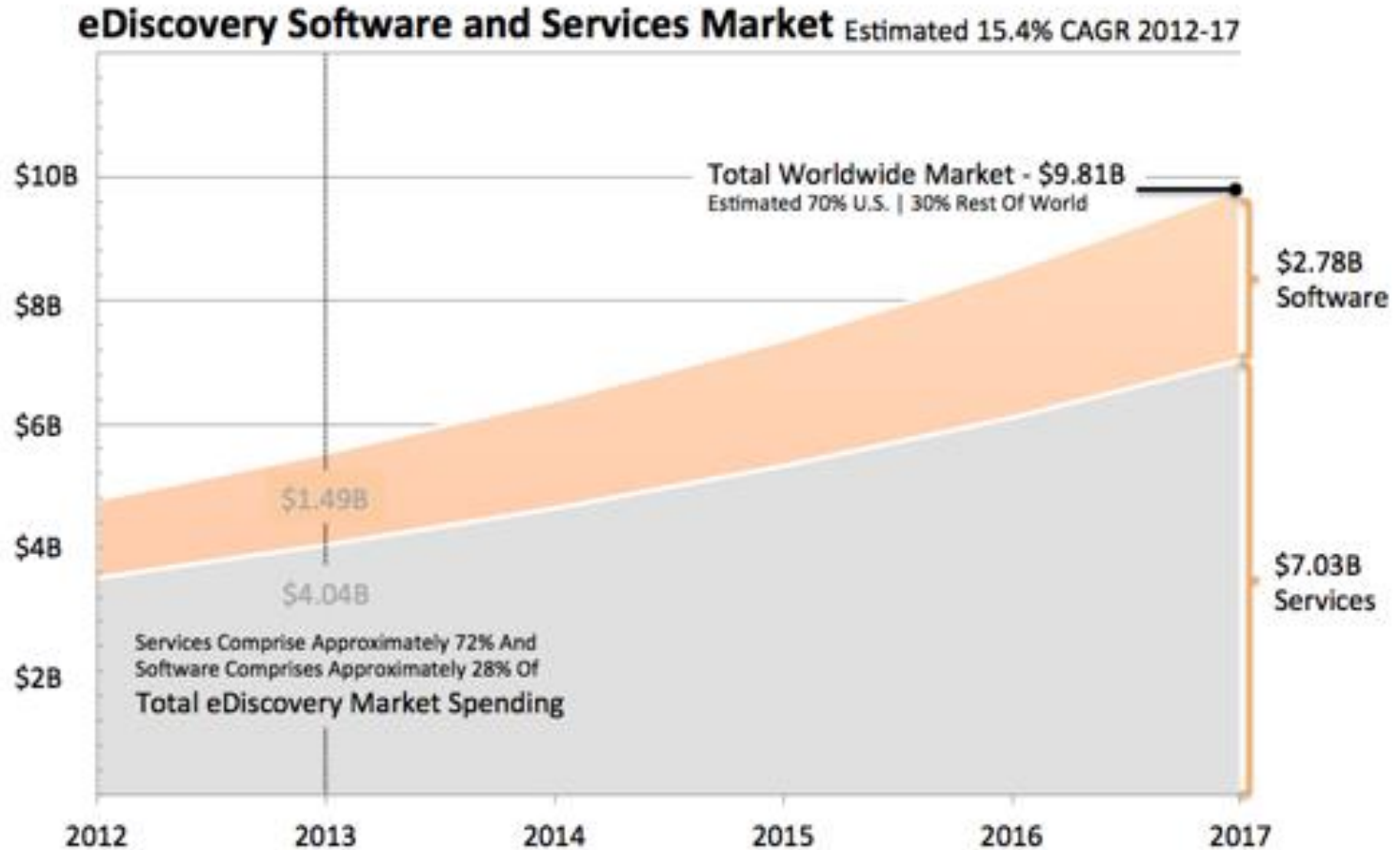
Neota | Logic

LPA VisiRule

New Competitors and Substitutes

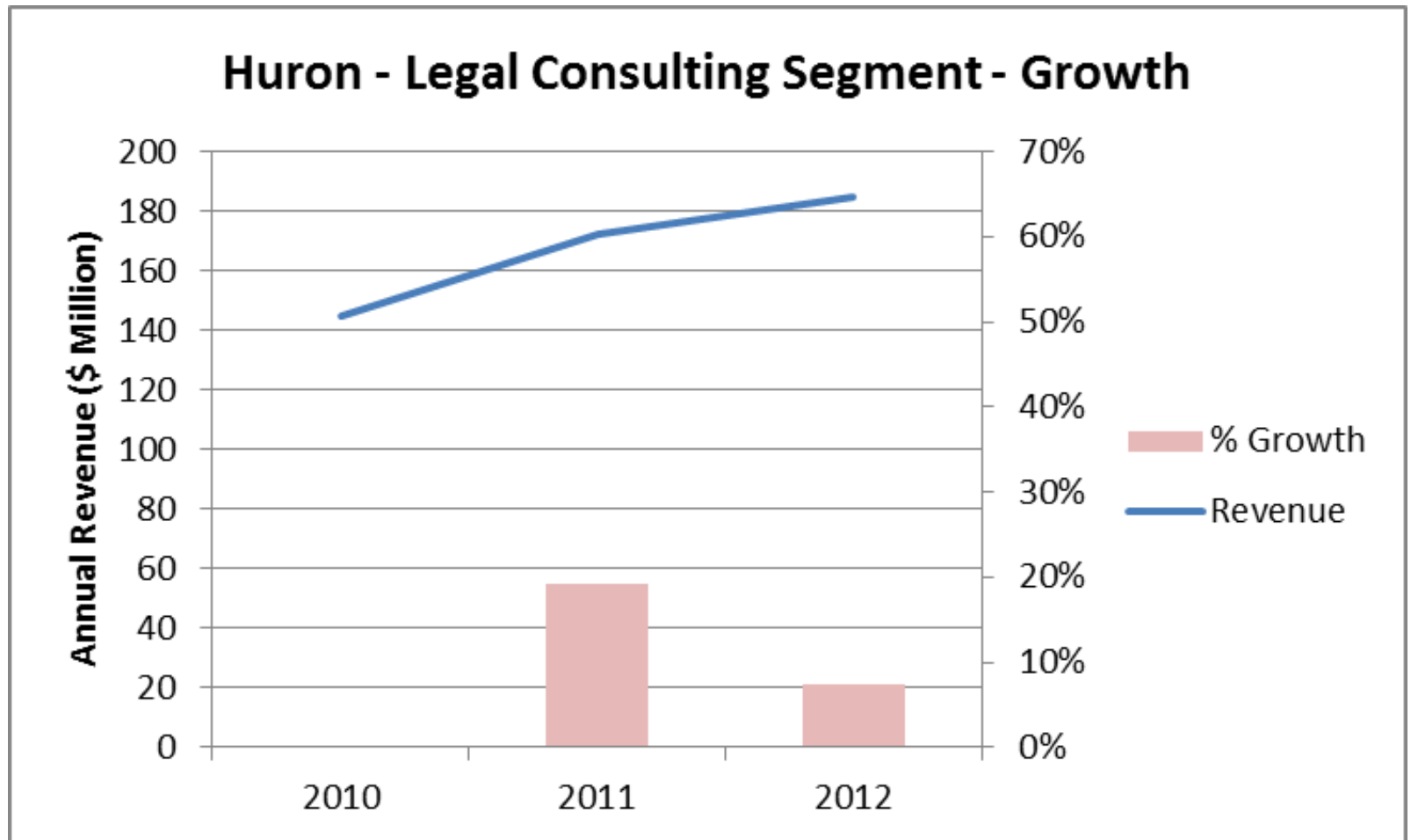
Impact and Growth

eDiscovery Growth



Source: Complex Discovery blog, [An eDiscovery Market Size Mashup: 2012-2017 Worldwide Software and Services Overview](#) (June 2013), citing Gartner, Rand, IDC, Radicati Group, Transparency Market Research, others

Huron Growth



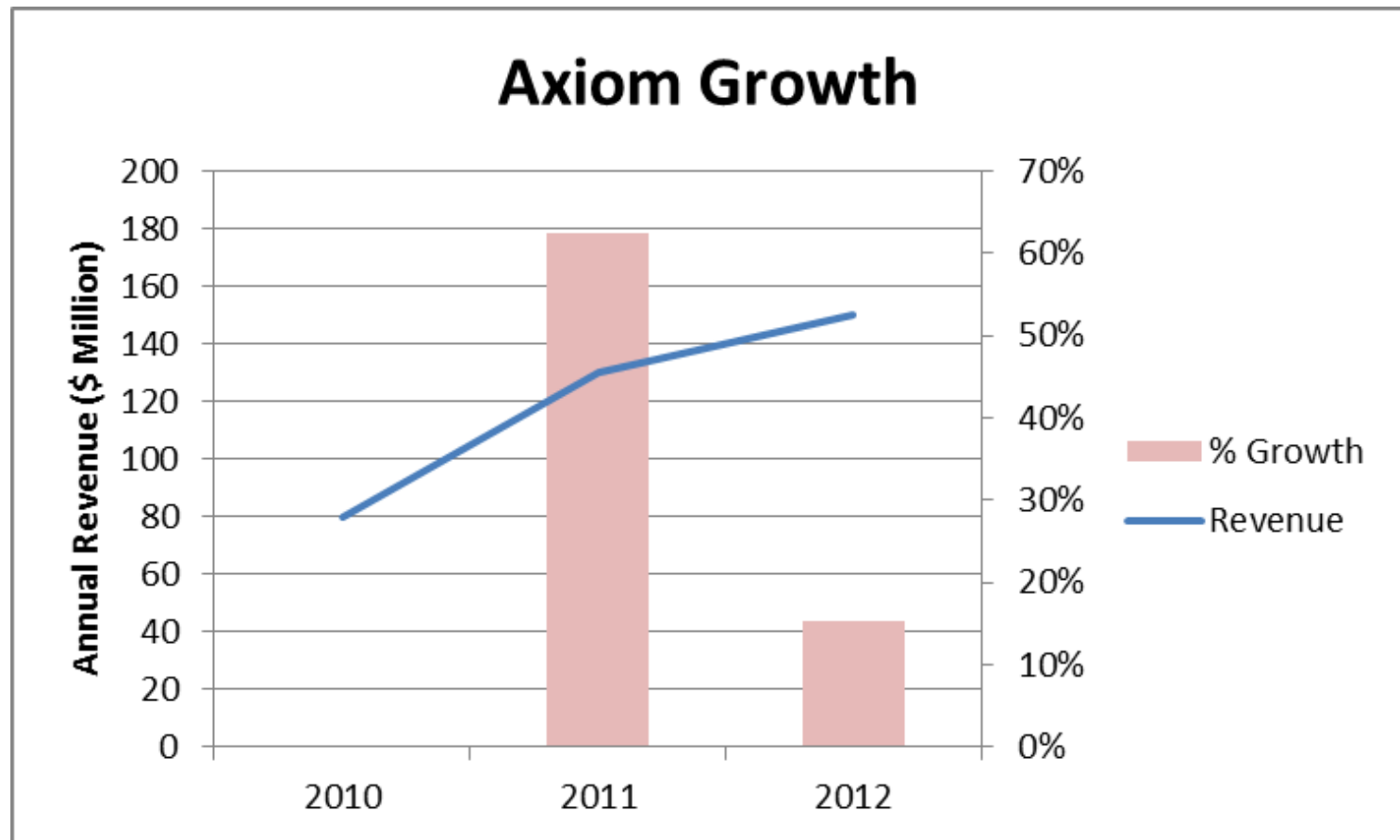
Note: Document review is 80% of total in 2012

Source: Huron 2012 10-K Filing and spreadsheet analysis

Novus Law Growth

- “Tripling its revenue year over year”

Axiom Growth



“Axiom is a 1,000-person firm, serving nearly half the F100 through 12 offices and 4 centers of excellence globally”

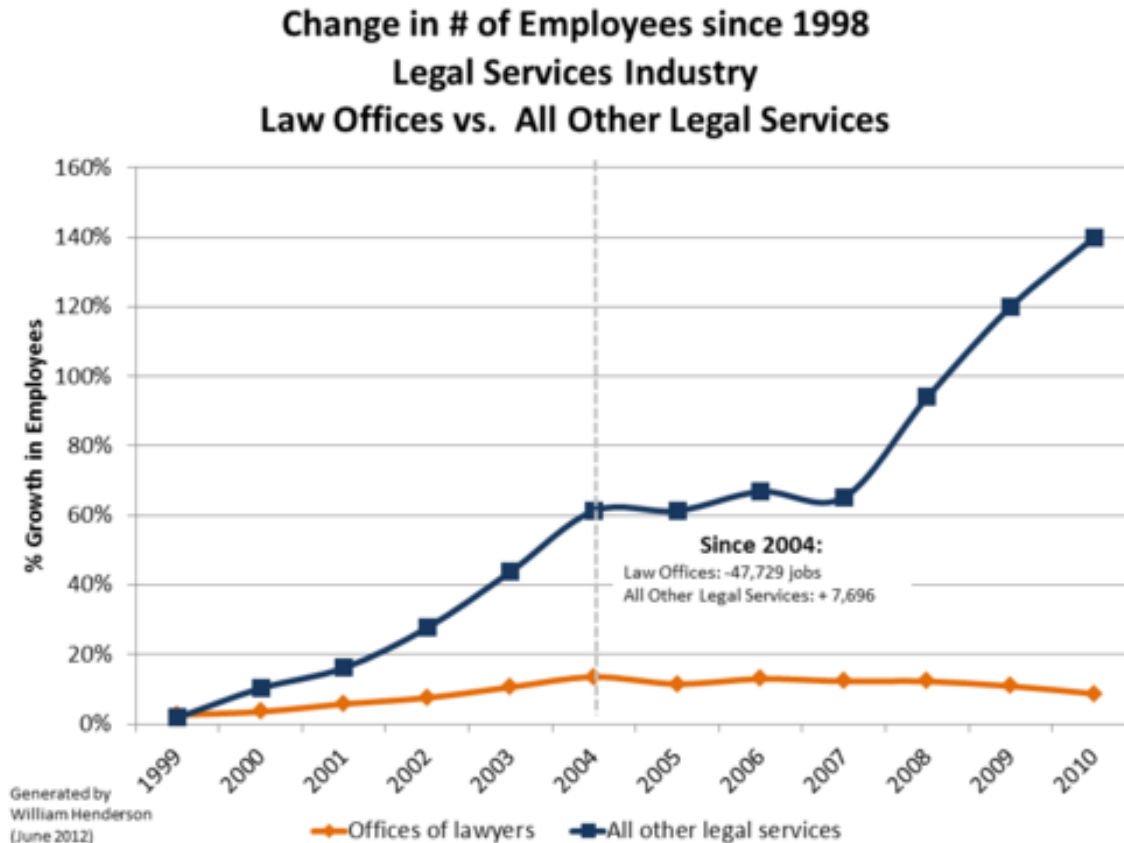
Sources: <http://www.axiomlaw.com/what-we-do/>; [Axiom Law Is Not An LPO...](#)
(Disruptive Legal Innovations Blog, 19 July 2013)

\$1 on Alt. = Bigger Loss to Firm

Article on Novus Law reports:

- \$1 of client spend means \$3 less for firms
- 80% of work substitutes for large law firms
- Focus now: documents in big litigation
- Future focus: drafting briefs and motions

Competitors Add Heads Faster

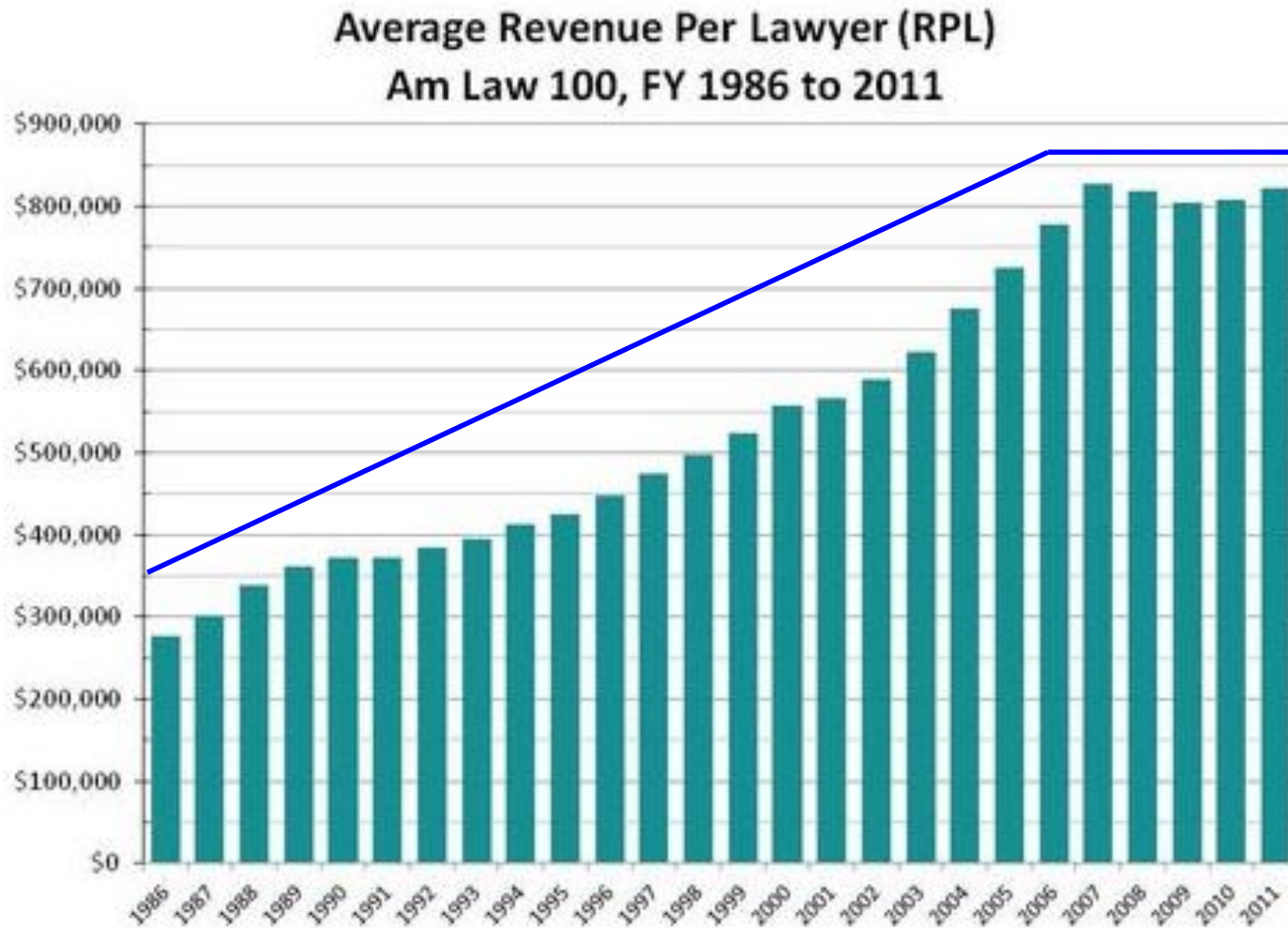


Source: The Legal Whiteboard, the blog of Prof. William Henderson, Indiana School of Law, [More Job Market Data Showing a Structural Shift](#) (27 June 2012)

New Competitors and Substitutes

So What? Should We Worry?

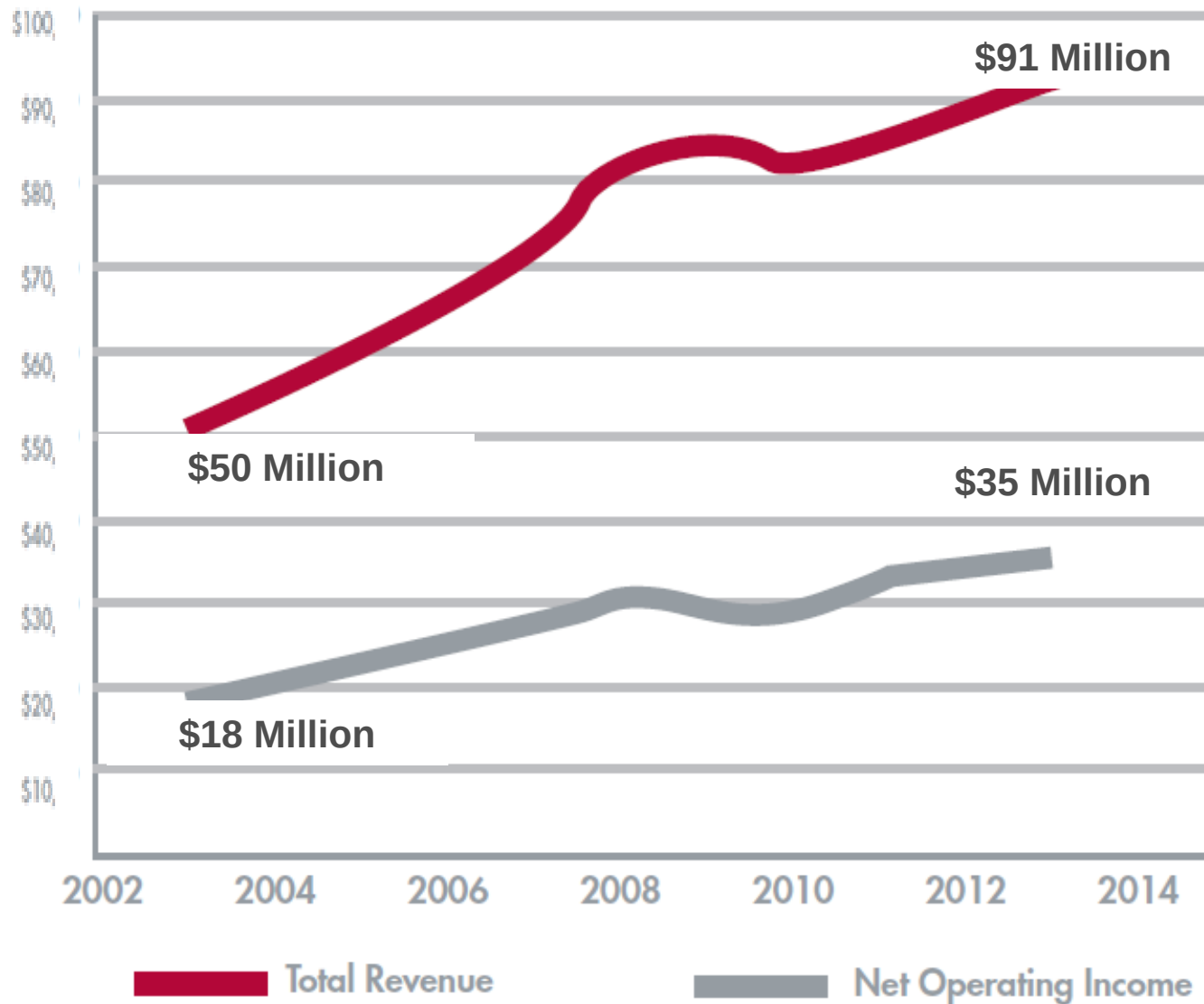
Should Big Law Worry?



Source: William Henderson, *Rise and Fall*, THE AMERICAN LAWYER (June 2012)

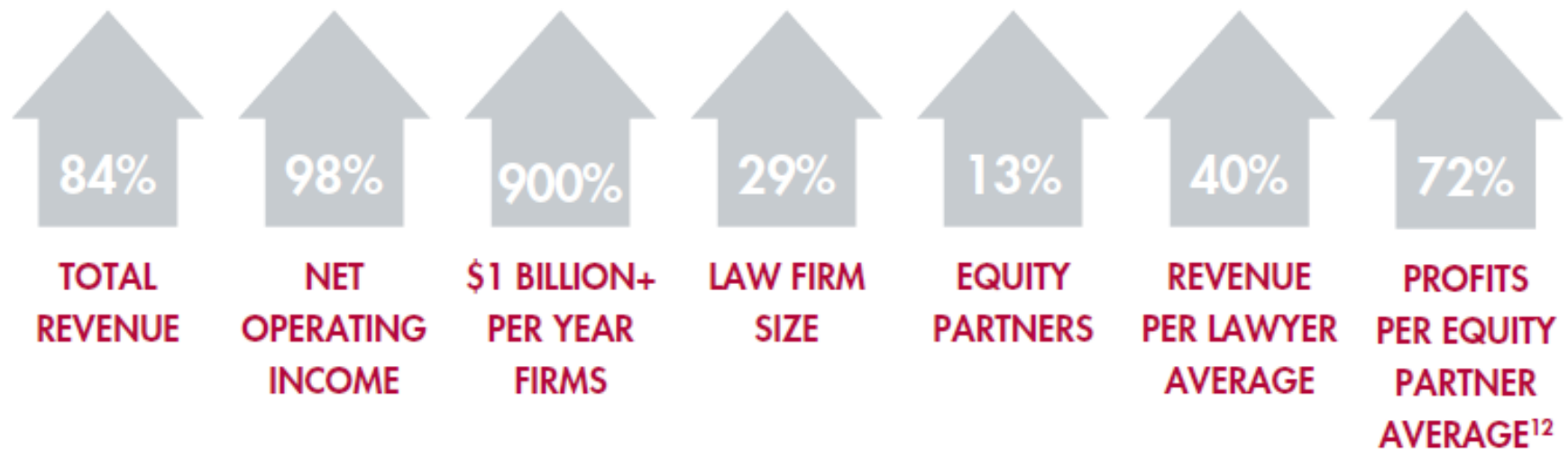
Source: Bill Henderson, The Legal Whiteboard and AmLaw Mag article

But BigLaw Far from Down - 1



Source: Aderant White Paper, [Big Law Future Looks Bright](#), Dec 2013

But BigLaw Far from Down - 2



Yet Losing Share a Real Risk

- Drive for value invites competition
- Competitors may offer
 - Higher value
 - Lower hourly costs
 - More flexibility
 - Better service delivery
 - Factory approach to high volume work

Is Share Loss a Risk for Your Firms?

- Matter mix
- Price sensitivity

Risk Depends on Matter Mix

Matter Segmentation

Bet the company

High stakes

“Bread and butter”

Commodity

Most Matters are Price Sensitive

Matter Segmentation	Price Sensitivity
Bet the company	Very low
High stakes	Some
“Bread and butter”	A fair bit
Commodity	A lot

What's Your Matter Mix?

Segment	Partners Say
Bet the company	10%
High stakes	50%
“Bread and butter”	35%
Commodity	5%

Mix May be Price Sensitive

Segment	Partners Say	What If
Bet the company	10%	1%
High stakes	50%	9%
“Bread and butter”	35%	65%
Commodity	5%	25%

If Price Sensitive, What to Do?

- Cede share
- Protect share
 - Offer higher value
 - Improve service delivery
- Reduce cost to maintain profits

Improve Value to Protect Share

- Outsource
- Deploy lower cost lawyers
- Do less
- Re-engineer

Protect Share by Improving Value

- Outsource: Pros and Cons
- Deploy lower cost lawyers
- Do less
- Re-engineer

Outsourcing Pros

- Cost
 - Variable instead of fixed cost
 - Cheaper labor
- Operations
 - Tailored tech + processes
 - Metrics, governance, SLA
 - Better utilization
 - 24 x 7 coverage

Outsourcing Cons

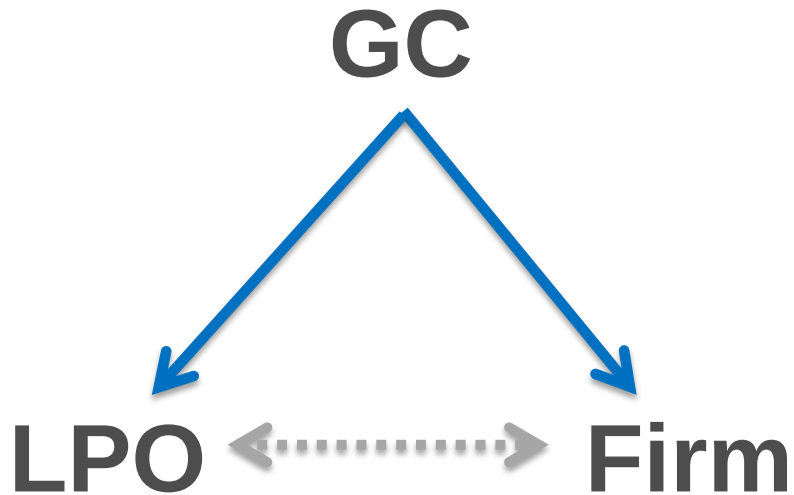
- Lose capability and control
- Scope arguments
- Reduced or no profit on that work
- Negotiation cost
- Lock-in risk
- Vendor strategic shifts
- Service problems

Do Objections to LPO Stand Up?

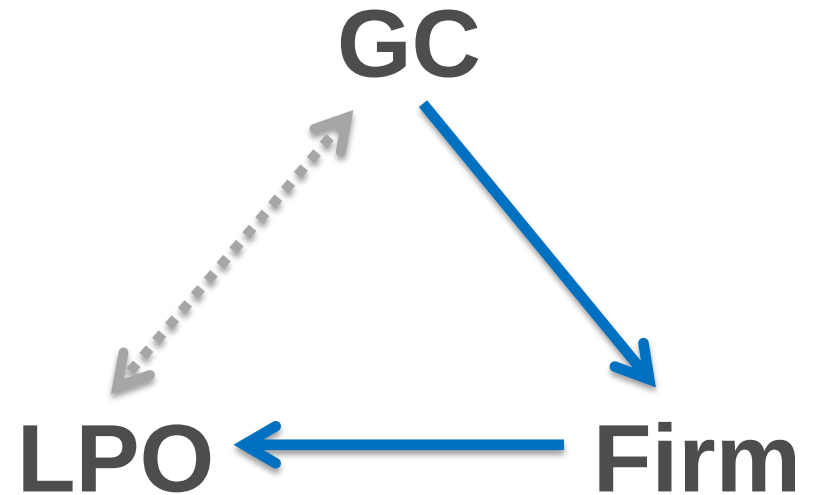
- How good is law firm support?
- Do law firms really manage support?
 - Metrics defined and tracked
 - Service level specified (SLA)
 - Formal governance
- Does ownership guarantee quality?

Who Will Take Charge of LPO?

Client Retains LPO



Firm Partners with LPO



Law Firm – LPO Partnerships

- McCarthys and Exigent Global
- Akin Gump and Novus Law
- Seyfarth and Integreon
- Mallesons King & Wood and Integreon

Sources:

- McCarthys: [The Lawyer](#), July 2013
- Akin Gump: [Who's eating law firms' lunch?](#), *ABA Journal*, Oct 2013
- Seyfarth: [Contract Management – A New Collaborative Legal Services Delivery Model](#), Integreon blog post, Oct 2012
- Mallesons: [Press release](#), Oct 2011

Protect Share by Improving Value

- Outsource
- Deploy lower cost lawyers: pros and cons
- Do less
- Re-engineer

Why Alternatives to Associates?

- Lower cost = more value for client
- More flexibility
- Better career paths for some
- Match task and skill

Numerous Possible Alternatives

- Staff / practice / departmental attorneys
- Legal assistants (paralegals)
- Contract lawyers
- Part-time lawyers
- Alumni network

Alternatives Make the News

“At Well-Paying Law Firms, a Low-Paid Corner”

New York Times, (23 May 2011)

- Large law firms are creating a
 - “second tier of workers” of
 - “full-fledged lawyers” who do
 - “the same work traditional legal associates” but
 - “earn less than half the pay” and
 - “know... they will never make partner.”
- Firms: Orrick, WilmerHale, McDermott Will

Alternatives Examples

Firm	Loc.	Differentiator + Comments
Fenwick Flex	US	Flexible in-house staffing
Potomac Law Group	US	Part-time lawyers work from home
Allen & Overy Peerpoint	UK	Experienced, high caliber lawyers who work on contract
Eversheds Agile	UK	Flexible staffing model
Conduit Law	Can	Non-traditional law firm offering “embedded” and “gap” lawyers

Protect Share by Improving Value

- Ethical consideration in outsourcing and alternative resources

Ethics of Legal Outsourcing

1. ABA: [Ethics Opinion 08-451](#); [Ethics Commission 20/20 \(105C\)](#)
2. [Integreon white paper](#) by expert Mark Ross:

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Ethics of Marking Up Services

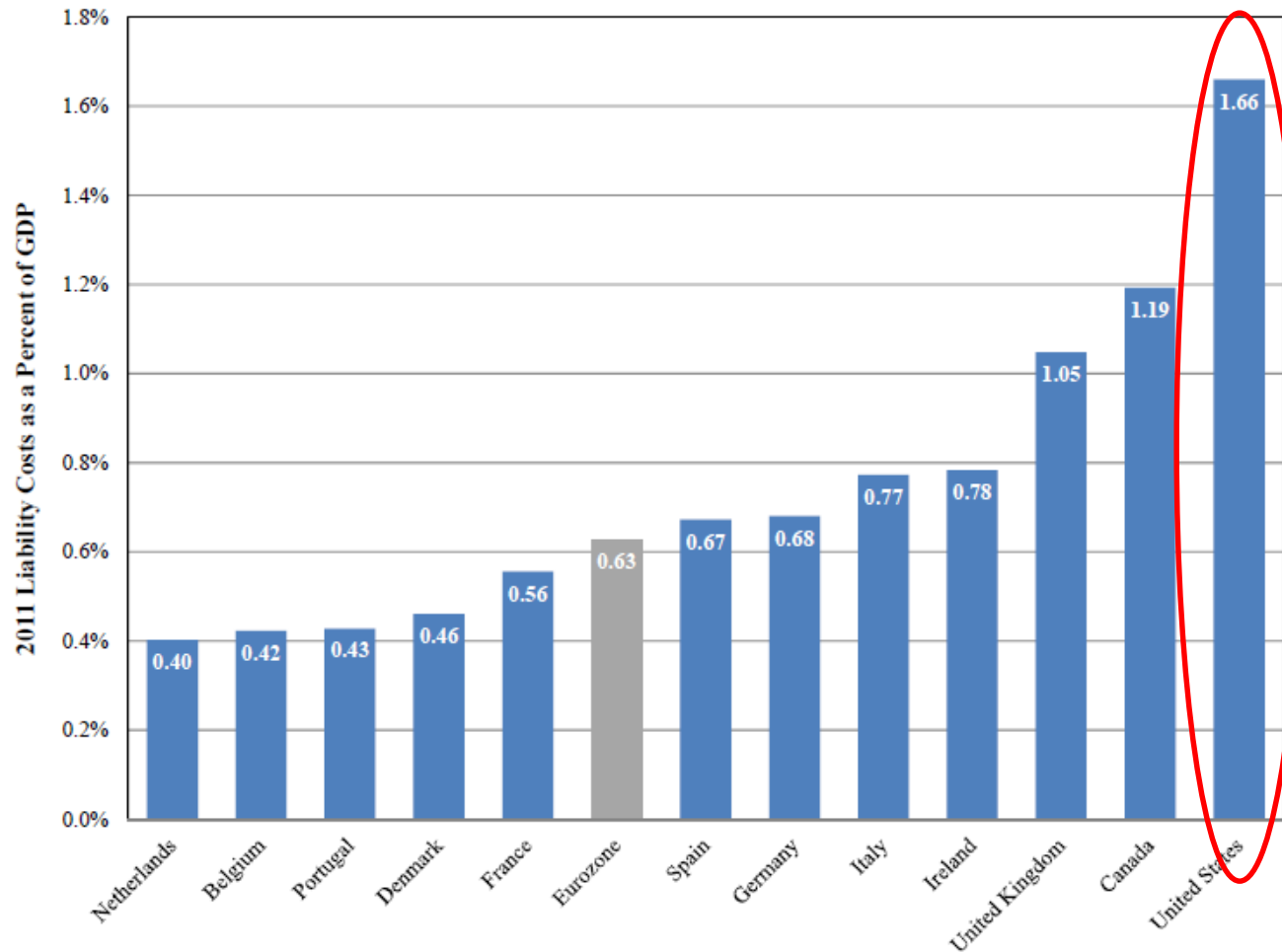
- Rules may vary by jurisdiction
- “Reasonable mark-up” = “it depends” ?
- Does disclosure immunize?
- In B2B lawyering, who do rules protect?

Protect Share by Improving Value

- Outsource
- Deploy lower cost lawyers
- Do less
- Re-engineer

Data Say We Can Do Less Law

Liability Cost Percent of GDP



US spends
~**3x** more
than
Eurozone

Too Many Law Firms Deliver This



When Clients often Want this



Protect Share by Improving Value

- Outsource
- Deploy lower cost lawyers
- Do less
- Re-engineer

Pricing Alone is Not Enough

- 200+ large firm pricing professionals
- Value $\neq$ “creative pricing”
- Value = “reduce cost”
- Without changing the way lawyers work...
 - What does new pricing accomplish?

Re-engineer *How* Lawyers Work

- Legal project management
 - Many firms adopting LPM
 - Improve matter management + profitability
- Process improvement
 - Map processes
 - Eliminate waste
- Technology
 - Move beyond Word and e-mail
 - Substitute silicon for carbon

Re-engineering examples

Technique	Article or Blog Post	Comments
LPM	Adopting Legal Project Management at Gowlings – Case Study in Change Management (Feb 2014, Strategic Legal Technology blog)	• Public commitment • LPM hire treated like high-powered lateral
Process Improvement	Foreclosure firm goes statistical to improve speed and quality (March 2014, ABA Journal, 4000+ words)	• Apply Lean processes to high volume practice
Technology	Law Firms and Document Assembly: Q&A with Ken Grady of SeyfarthLean Consulting LLC (Feb 2014, Adams on Contracting Drafting blog)	• Seyfarth Lean use of document assembly and Neota Logic expert system

LPM “Stake in the Ground”

Ad in *Globe and Mail*

[Financial Post](#) writes article about ad (Feb 2014)



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Reduce Overhead to Protect Profit

- Adjust staff ratios
- Open low-cost centers
- Streamline and centralize
- Outsource

US Law Firms Have Laid Off Many Staff in 2013 – H1

February 28

- Stroock & Stroock & Lavan – half of staff to be laid off

March 14

- Jones Day – 14 staff members

May 3

- Sullivan & Cromwell – trim ratio of associates to secretarial staff 4:1



March 1

- Patton Boggs – 30 associates and 35 staff members laid off

March 25

- Latham – 7-11 “voluntary departures” of secretaries

May 3

- Kramer Levin – 10 staff members

May 6

- Cleary Gottlieb – 30-40 staff

May 20

- Allen & Overy – 43 staff roles moving to Belfast

May 22

- Edwards Wildman – 20 staff members

May 24

- WilmerHale – 14 staff attorneys

June 14

- Crowell & Moring – 29 secretaries

June 24

- Jones Day – 65 staff



members (stealth layoffs)

May 21

- Akin Gump – 20 secretaries & “unknown number” of support staff

May 23

- Dickstein Shapiro – “sizeable number of associates”

June 7

- Orrick – 2 executive staff, 21 non-secretarial staff

2013 Layoff

June 24

- Weil – 60 associates, 110 staff

US Law Firms Have Laid Off Many Staff in 2013 – H2

Lay-offs and buy-outs continue in the second half of the year
(reverse chronological order through November 2013)

Proskauer	Debevoise	McKenna Long	K&L Gates
Patton Boggs	Fried Frank	Schulte Roth	Day Pitney
Katten Muchin	Baker Botts	Arent Fox	Davis Polk
Duane Morris	Wilson Sonsini	Pillsbury	Wilmer Hale
			Winston Strawn

Staff Cutbacks Continue in 2014

- Cleary Gottlieb
- Arnold & Porter
- Steptoe & Johnson
- Bingham
- Husch Blackwell

US Low Cost Services Centers

US FIRM	CITY	YEAR OPENED
Sedgwick	Kansas City	2014
K&L Gates	Pittsburgh	2013
Kaye Scholer	Tallahassee	2013
Bingham	Lexington	2012
Pillsbury	Nashville	2012
WilmerHale	Dayton	2010
Weil Gotshal	Brooklyn	2008
Reed Smith	Pittsburgh	2007
White & Case	Manila	2003
Orrick	Wheeling	2002
Baker McKenzie	Manila	2000
Nixon Peabody	Rochester	1999

Top 10 UK Firms Have Low Cost Centers and/or LPO Partner

THE UK TOP 30 – USE OF LPO PROVIDERS OR SERVICE CENTRES

Firm	Formal LPO or service centre	Details
Clifford Chance	Yes	Set up knowledge centre in New Delhi in 2007 to assist lawyers on routine tasks such as research and analysis and e-discovery; 60 staff
Linklaters	Yes	Set up centre in Colchester with Integreon for business support and paralegals; document review and due diligence; 30 staff
Allen & Overy	Yes	Launched own low-cost centre in Belfast that opened in 2011; 220 staff, business and legal support back office; conflict checking and due diligence. Also uses Integreon for document review
Freshfields	Yes	Has tested LPOs and outsourced work to other lower-cost firms; operates 'Freshworker' scheme, referring work to lawyer alumni
DLA Piper	No	Sends work between regional offices – "no need for LPO"
Hogan Lovells	Yes	South African-based legal services outsourcer (Exigent) for document support work. Framework agreements with LPOs, including with Integreon. Also has collaborative agreements with two regional firms (one based in Scotland) and 'Mexican wave' scheme
Herbert Smith Freehills	Yes	Launched own low-cost centre in Belfast that opened in 2011; now employs 114 (107 fee earners); carries out due diligence, document review and supports real estate team
Slaughter and May	Yes	Uses legal process outsourcing on a case-by-case basis with clients; has worked with LPO providers for litigation, investigations and due diligence
Eversheds	Yes	Uses LPOs for 'discreet' pieces of litigation work (Exigent and Williams Lea). Piloting an in-house low cost facility.

Note: DLA consolidated document production in Leeds, UK in Jan 2014

Source: Legal Week Magazine, July 2013

11 of Next 20: Low Cost Center, LPO, or Move Work to Low Cost Office

Norton Rose Fulbright	No	Keeping LPO options under review
Ashurst	Yes	Opening own low-cost legal base in Glasgow with 150 staff
Clyde & Co	No	
Simmons & Simmons	Yes	Uses Integreon and also sends work to Bristol office which has 25 legal staff working in partner-led teams.
Berwin Leighton Paisner	No	Looking into options of own low-cost base in the UK, if not will use LPO provider
Bird & Bird	No	No formal arrangement but will work on case-by-case basis at client request
CMS Cameron McKenna	Yes	Uses Integreon for document review; refers some work to Bristol office
Pinsent Masons	Yes	Outsources litigation work to Exigent in South Africa. Also uses Capita
Irwin Mitchell	No	Sends some work to regional offices
SJ Berwin	No	Early stage discussions to outsource document production function to up to 20 people
Addleshaw Goddard	Yes	Uses own TST team in Manchester and looking at using LPO providers
DAC Beachcroft	No	
Dentons	No	
Holman Fenwick Willan	No	
Wragge & Co	No	Sends work to Birmingham office
Nabarro	No	No formal plans, but works on a case-by-case basis for clients; uses Sheffield office to keep costs down
Withers	Yes	Uses Exigent in South Africa for proof reading and dictation
Stephenson Harwood	No	Currently reviewing outsourcing arrangements and looking into possibility of own low-cost centre
Hill Dickinson	No	Sends work to its regional offices
Olswang	Yes	Outsources document production. Also has a formal panel of LPO providers. Uses Thames Valley office for some practice areas
Kennedys	No	

Strategies to Reduce Support Cost

- Streamline
 - Eliminate unnecessary work
 - Improve processes, esp. substitute tech for labor
 - Assign appropriate skill for each task
- Centralize (cluster like staff in same location)
- Outsource
- Build and operate a low cost center

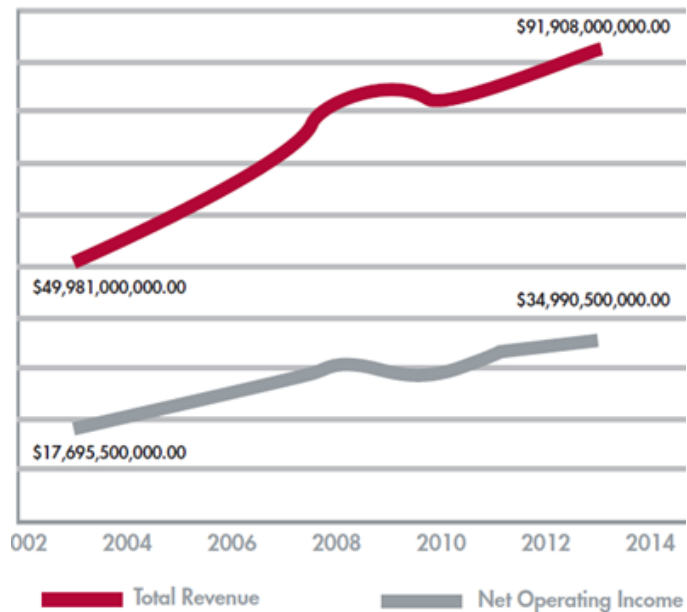
Summary and Your Choices

Summary

- New competitors > risk losing share
- Keep share > improve value
- Value > reduce client cost
- Maintain profit > streamline support

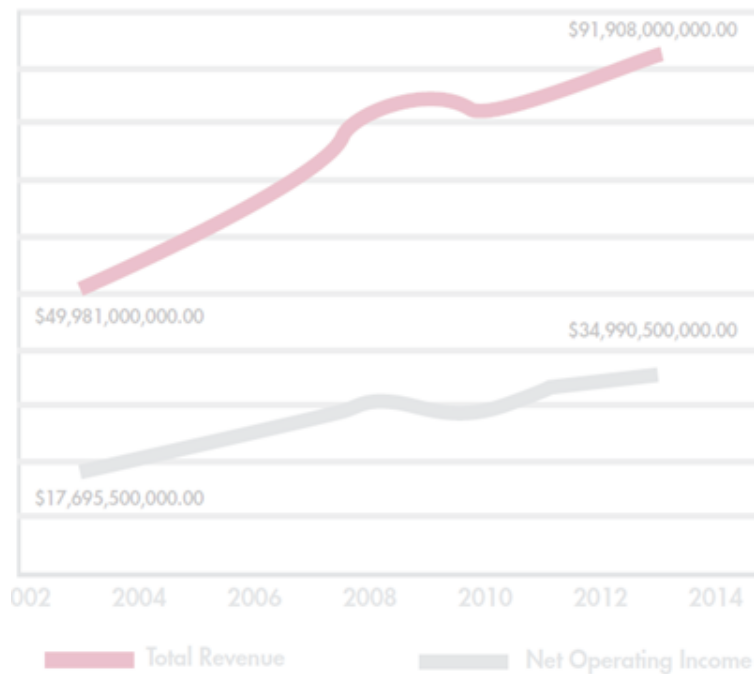
You Decide

Ignore Competition,
Assume Growth



You Decide

Ignore Competition,
Assume Growth



Protect Share + Profit

- Improve value
- Reduce cost
- Re-engineer
- Streamline support

Contact Ron Friedmann

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Coming soon!

December 10, 2014

How to Protect Your Law Firm Against Costly & Destructive Cyber Attack

Sharon D. Nelson, Esq., President

John W. Simek, Vice President

Sensei Enterprises, Inc.