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Are Law Firms Going to be Replaced By Internet Based Providers of Legal Services?

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Some time ago, I warned that lawyers should beware because their jobs might be replaced by computers. I was then referring to automated document review software developed, by among others, IBM. But, today, I would suggest that lawyers should become even more concerned because their jobs are more widely threatened by the Internet and, more particularly, Internet based providers of legal services, acting in direct competition with lawyers and law firms/

I've previously discussed the potent force of www.legalzoom.com . When I wrote about legalzoom.com in April of this year, it had $48,000,000 in capital and some 500 employees. In late July of this year, Legalzoom.com announced it had raised another $52,000,000 in capital, with a view towards issuing an IPO. Since its formation, Legalzoom.com has served over 2,000,000 clients, is realizing revenue in excess of $100,000,000 annually and is running at a profit. Without minimizing Legalzoom.com's successes, I daresay that few intelligent law firm leaders or entrepreneurs would have difficulty in building a successful law firm with that kind of capital base, outlandish advertising and marketing budgets, while not paying BigLaw salaries and without incurring major midtown office rental expenses.

To suggest that Legalzoom.com is

not actually involved in actively practicing law, which Legalzoom.com consistently denies, does require some suspension of belief. The array of services it performs, as described on its web site, rivals that which is offered by the majority of law firms in the United States of almost any size. Certainly, no law firm of any price can match Legalzoom.com's pricing.

While the debate looms large regarding non-lawyer ownership of law firms, as is about to be legally permissible in the United Kingdom and is now being contemplated in the United States, Legal Zoom.com is anxiously tiptoeing through various raindrops in this regard since it is unabashedly non-lawyer owned (one of its founders, Robert Schapiro, a minority stockholder is a lawyer) and once it goes public, it will rather brazenly be owned by non-lawyers. Two lawsuits, one in Alabama (which was apparently dismissed) and the other in Missouri (which seems to be still pending) took the issue head on. An interesting aside is that Jacoby & Meyers, which once enjoyed its 15 minutes of fame as national franchisor of its brand name, recently instituted an action in New York recently attacking the rules which precludes non-lawyer ownership of law firms. The gravamen of Jacoby & Meyers' complaint seems to suggest that without having non-lawyer investors, it is impossible for smaller law firms compete with more established law firms. New York's Attorney General, as is his statutory duty, is vigorously defending against the suit. Nothing in the public record suggest that this same attorney general has any issue with Legalzoom.com, despite its ubiquitous television commercials.

In any event, I do not pretend to be privy to Legalzoom.com's business plans, but it seems to me that the logical next step for that company to use proceeds of either its venture capital investments proceeds of its initial public offering and establish a series of kiosks in the malls that dot the nation and leave its protected Internet nest and compete head to head with the bulk of the law firms in America. A UK based company is even now pursuing a similar strategy.

The simple point here is that the overwhelming number of lawyers in the United States practice in law firms of fewer than five lawyers and the bulk of the work they do, short of litigation, is in direct competition with Legalzoom.com. And these lawyers simply cannot compete with the pricing of Legalzoom.com's services, nor can they compete with the ubiquity of Legalzoom.com.

The story hardly ends here. Sniffing a profitable Internet business, Google is entering in to direct competition with both Legalzoom.com and a great number of legal practitioners in the nation. Google today announced that it was investing $18,500,000 in Rocket Lawyer, which which bills itself as the "fastest growing online legal service." Forbes reports that the “firm has 70,000 users a day and has doubled revenue for four years straight to more than $10 million this year. Rocket Lawyer provides online legal forms, from wills to Delaware certificates of incorporation, that non-lawyers can fill out and store and share on the Web. For $19.95 a month, consumers can also have their documents reviewed by a real lawyer and even get legal advice at no additional cost.”

Seventy thousand clients a day at Rocket Lawyer and over two million clients at Legalzoom.com. Commoditization aside, how many AmLaw 100 firms can boast of those kinds of numbers? Actually, the commoditization issue is of little moment, since given the lower operating costs and rich capitalization of both companies, their margins are substantially higher than most law firms and their capital resources literally shakes the foundation of much of the profession.

Whether we do suffer a double dip recession, we must recognize that the core business of law firms is being eaten away at both the top levels by legal project outsourcers and at the lower end of the spectrum by Internet based providers of legal services.

The various bar associations and state regulators will doubtless dither for years about modifying extant rules barring non-lawyer ownership of law firms, but the market has already spoken, and rather loudly and clearly on the subject.

But all is far from lost. Law firms, at every level, must recognize that they are in the knowledge management business. They have the resources and experience to deliver substantially higher quality – and consistently higher quality services – than the new kids on the block. Law firms at every level will be required to invest in new technologies as well as even new pricing models to compete with the new kids on the block. Failing to recognize these new realities may prove disastrous.

Let us also not ignore the fact that the Internet based providers of legal services as well as legal project outsourcing companies are completely unregulated. In many respects, these organizations are akin to Bernie Madoff; not that they are engaged in patent illegality (other than perhaps their practicing law openly without adequately being licensed and are owned by non lawyers), they are simply too big and brazen for the regulatory agencies to deal with. Before Madoff, the SEC could grab a malefactor in a heartbeat for insider trading. But the Commission could not wrap its regulatory muscle anywhere near a $65 Billion Dollar Ponzi scheme. Similarly, if a lawyer would perchance improperly direct $25 out of its escrow account, the local bar association would be at his or her throats in a nanosecond. But, running a $100,000,000 provider of legal services is owned by non-lawyers, is like the SEC in confronting Madoff, simply too big for the regulators to wrap their muscles around.

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