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It Takes a Village to Build a Successful Law Firm; Fewer Residents of that Village are Actually Lawyers

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Jordan Furlong, a brilliant analyst of the legal profession and an important thought leader, recently authored a thought provoking piece entitled "Law Schools and the Laws of Supply and Demand." Jordan's enticing opening salvo was "If law schools were publicly traded companies and you held some in your portfolio, I would be strongly advising you to sell. Fast."

With all of the noise emanating from across the pond about private equity investments by non-lawyers in law firms (to which I confess to having contributed), a similar thought occurred to me: If existing corporate law firms were currently publicly traded, now may well the time to sell.

The business model of the existing business model for corporate law firms is that they are generally built on the Cravath pyramid model, which is breathing its last, as Larry Ribstein reported last year. Jordan correctly notes that the profession needs "fewer, differently skilled lawyers than it has during the past several decades" and that law schools are not proviving graduates with those required skills. Professor Ribstein describes the increased fragility of BigLaw firms and the diminishing leverage extant in BigLaw.

Yet, as the recent AmLaw rankings reveal, BigLaw may have either recently experienced flat, nominal or negative growth in gross revenues, most have reported increases in net profitability. Assuming the reliability of these public reports, a proposition, not universally accepted, the increases in profitability is largely attributable to the stark differences in the work force deployed by law firms in service of their clients. In short, law firm profitability and survival no longer depends on the ability of law firms to recruit cadres of bright law students; rather, the key to profitability and law firm survival is hiring talented professionals with entirely different skill sets. I posit that it is indisputable that the proceeds of any equity investments in law firms will not be invested in talented lawyers; they will be invested in a combination of infrastructure and infrastructure.

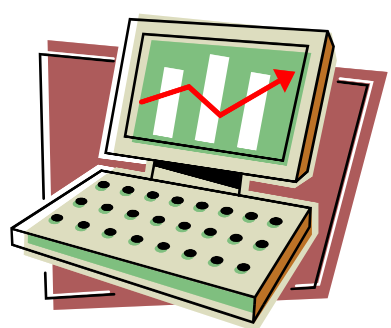
Corporate clients and law firms have been rudely awakened to the fact that law firms are in the knowledge management and processing system. And they have also awakened to the fact that traditional law firms do not have a monopoly on the delivery of legal services. Market realities are rapidly eroding ancient guild rules of bar admission require law firms to either compete directly with or sub-contract to off-shore entities, "virtual" law firms, systems and purely automated computer driven systems.

This just isn't your Granddaddy's style of law firm any more. And the important folks in the law firm are increasingly likely to be those with virtually no formal legal education.

First, start with the intake process: The strong likelihood is that new clients as well as existing clients which are referring increased amounts of business to the law firm are influenced more and more by marketing directors. Moreover, many new engagements are secured through responses to RFP's - Requests for Proposals. The personnel involved in preparing these responses are dominated by non-legal personnel; often a team effort by the firm's marketing and accounting functions.

Procuring a significant engagement through an RFP is not like putting in the winning bid on E-Bay. You don't simply exchange billing and shipping instructions. Rather, the next step is often a discussion of an Alternative Fee Arrangement, which requires significant input from a firm's risk management function and its legal project management team.

The next steps involve performance of the engagement within the scope of the AFA. Before this work even begins, the law firm's own data archives need to be mined for work previous product that may be instructive with respect to the current engagement, calling on the expertise of the firm's information sciences department. Finally, the issue of law firm legal staffing presents new challenges. This means decisions need to be taken about staffing, for which lawyers with the firm are only a component. Some of the work may be out-sourced, some down sourced, some assigned to automated computer based models. Important players in this function are members of the legal project management team and the client relationship managers.



As the engagement proceeds, the informed client will also require some real time transparency, requiring the deployment of an extranet, a portal through which the client will have real time access to the work as it progresses.

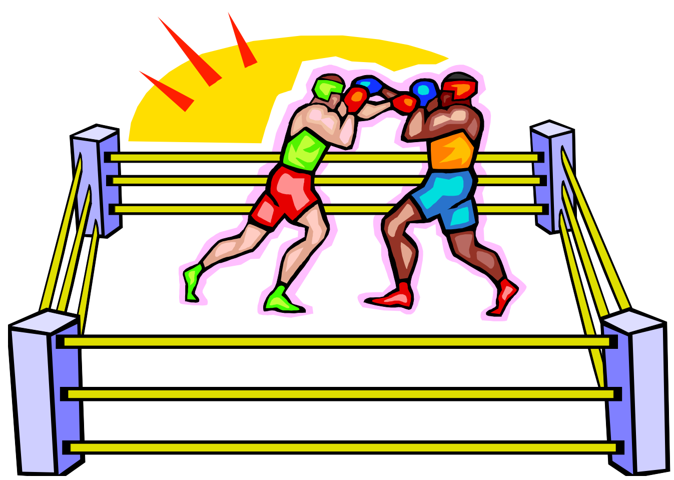
So, let's recap here: Increasingly important stakeholders in the future success of a law firm are those schooled in marketing, business management, accounting, risk management, information management skills and legal project management. The day will soon arrive when the successful law firm will boast of the fact that its support teams are trained in outstanding business and information sciences schools just as its smaller number of lawyers are the products of outstanding law schools.

The effects of this brave new world are far-reaching and some yet not even completely understood. Work will certainly be increasingly commoditized. Processing information already at the law firm will play an increasing important role. Processing accumulated information forms and templates will be key components in servicing client demands. Price pressures will continue to increase. In days of yore, a lawyer might have roamed the halls and inquired "anybody ever do a brief on a forum non-conveniens motion?" or "anybody ever do an S-1 for a B2B dot.com?" Modernity changed those hallway chants to circulated emails with similar inquiries. We're now past both of those as IT specialists mine the firm's data banks for answers to those questions with nary a lawyer's hand involved.

We've previously addressed what we anticipate the effects will be once law firms will be permitted to accept equity investments by non-lawyers. Those proceeds will largely not be for new legal talent, but in required ancillary services. A number of forward thinking enterprises have opted simply not to wait until bar associations proceed at their typical glacial pace. These include www.legalzoom.com and www.clearspire.com . Jacoby & Meyers just entered in to the fray by commencing litigation challenging the prohibition of non-lawyer ownership of law firms.

We believe that these efforts will have material adverse trickle-up effects in the profession. Mark Cohen, Esq., a Clearspire founder (and a former law partner of mine) made it very clear to me that Clearspire's objective is to be a very real, credible and viable alternative to AmLaw 200 firms. Clearspire is apparently using the bulk of its initial $5,000,000 capital investment to build infrastructure.

Similarly, it appears that Legalzoom.com is utilizing its remarkable $46,000,000 capital investment in investing in technology and infrastructure. Compare the array of legal services offered by www.Legalzoom.com with those offered by many fifty and under lawyer firms and the overlap is remarkable. The price differentials are breathtaking.



Both the business models of Clearspire.com and Legalzoom.com pose real and present dangers to important components of the business model of

BigLaw based on both price and quality.

Business success is not simply a function of supply and demand; it is also a function of meeting competition and deploying the appropriate assets.

We are not yet adequately focused on assessing the competition or deploying assets now required in a changed world.

Until we adequately understand and plan for what warriors we need to house in our law firm village and are sure that they are adequately trained for the tasks, we may be at a serious competitive advantage.

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