



## East and West Converge on US Legal Marketplace

Written on January 11, 2011 by [Donna](#)

Years ago, when I was picking up my youngest from pre-school, I had occasion to ask a question of one of the other moms, who had 4 (yes, count them) kids about the details of a particular upcoming school event. She very sweetly turned to me and said, without explanation: "I operate on a need-to-know basis" and then carried on her mission of gathering I'm not sure how many of the 4 kids for the journey home.

I got it immediately. She had so much on her plate, that any information she did not need to carry out the immediate task at hand was considered unnecessary, and therefore she had no idea.

I liked her theory, and have used it often since that day long ago. Unfortunately, it is not always an appropriate methodology. Sometimes, without the information, you don't know that you need to know it.

But that is how it seems much of the profession feels about reports and conversations concerning two distinct law practice market dynamics. These dynamics are converging to present a more complex challenge to the way we here practice law: from the East, the aggressive insurgence of Legal Process Outsourcing (LPO); and from the West, the emergence of the UK's Alternative Business Structures (ABS) portion of their Legal Services Act (LSA).

In my blog post [Why I Write About the Legal Revolution](#), I point out that both the ABS and LPOs are designed to enable a cost-effective law practice that can increase a firm's bottom line. And in Jordan Furlong's [The Blind Side](#), he gives plenty of evidence that businesses in the UK, eyeing the emergence of ABS, are taking a strong liking to the potential for LPOs to expand and upgrade their services. More emphatically, Furlong notes:

*They [LPOs] will be law firms, in effect, and even if lawyers in a given jurisdiction somehow succeed in keeping them out, the landscape will have changed: clients will demand their lawyers compete on the same playing field. . .Some firms, especially in the UK, seem to sense this already, and they're [taking outsourcing seriously](#)*

Yes, even in 2009, UK firms were beginning to drool over LPO potential in the coming free-market scenario that ABS would create. Now fast-forward to January 2011, noting that LPOs are wasting no time in making those predictions come true. Take the infamous purchase of Pangea3, an LPO, by Thomson Reuters. Carolyn Elefant says:

*More than any development I've seen since I started this blog in 2002 (including the rise of Legal Zoom), the Thompson/Westlaw/Pangea3 acquisition makes me nervous with regard to its implications for solo and small firm lawyers. The combined company possesses enormous research resources and economies of scale and employs both US and foreign lawyers. True, it likely has a decent amount of overhead, but that's counterbalanced considerably by the low cost of offshored labor. All of these factors mean that this new*

*behemoth can provide fairly good quality services at very competitive rates. Pangea, which will remain a separate division for the time, plans to open a US outpost – which means that lawyers stationed in the US offices could supervise and sign off on foreign lawyer's work. According to Pangea's site, the merged company will [provide a suite of services to corporations](#).*

*Prior to the acquisition, Pangea3 had been assuming responsibility for tasks previously handled by first year biglaw associates. But now, I could also envision Thompson/Westlaw/Pangea3 stepping into the shoes that small virtual firms are trying to fulfill: that sweet-spot of low-cost online unbundled services, with the extra value add of lawyer-assistance. Trouble is, because of its size and infrastructure (presumably Westlaw/Pangea already has a top of the line cloud-based portal system), Westlaw/Pangea could provide the same service even less (because of lower labor costs and economies of scale).*

In [The Legal Review](#), Matt Packer has this to say:

*The year 2010 has been a watershed for legal services outsourcing (LSO). As the sector has developed and its offerings grown in sophistication, LSO has been acknowledged in industry reports as a [valuable tool for helping law firms to evolve](#) and for [enabling in-house counsel to play a more active role in corporate management](#).*

*All of which demonstrates that LSO is becoming more deeply embedded in the legal business arena. Leah Cooper, Director of Legal Services Outsourcing at leading provider [CPA Global](#), shares that view. 'As LSO has become more established and accepted in the legal mainstream,' she says, 'so has its credibility and prestige increased. This, in turn, has attracted more top legal talent to the sector – both onshore in the UK and US, as well as in offshore delivery centres – with LSO being seen as a viable alternative career for legal professionals.'*

[Technolawyers](#) Feature writer [Seth Rowland](#) believes that the Pangea3 purchase was the tipping point for LPO integration into the new normal of law practice. The LPO industry got the email:

*What LPO firms do exceptionally well is identify "repetitive processes" than can be systematized and performed more efficiently by lower-wage employees without sacrificing work quality. These services are "bundled" together with a specially trained and supervised workforce that is made available on a "need to use" basis. Not only are the services substantially cheaper, you only pay for what you actually use.*

Gina Passarella makes the point that law firms are feeling the pressure to compete with the services LPOs are now offering, and in some cases, clients are demanding that their firms employ them for the purpose. Quoting Jordan Furlong and Janet Stanton in her ABA article [Law Firms Feel Pressure From New Breed of Competitors](#), she says:

*The pressures from LPOs are real, they said. Law departments simply have to find ways to get what they need done for less money and they are slowly starting to realize that the quality isn't lost when using an LPO, Furlong said. Both Furlong and Stanton pointed to the increased hiring by many LPOs of seasoned, high-quality attorneys to do this work.*

And the list goes on. In fact, LPOs are being embraced by the new legal marketplace to the extent that entrepreneurs have created a site called [RedBadgeStrategy.com](#), a start-up whose business is to assist law firms and legal departments in evaluating, selecting and transitioning to incorporating the use of an LPO in their law practice business model. Do you see a trend here?

In this landscape, let loose the full engagement of ABS innovation, the caged animal now set free by the terms of the LSA. Businesses looking to invest in and/or joint venture with law firms are increasingly turning their

<http://lawpracticestrategy.com/>

sights to consolidating with LPOs instead. And sole practitioners in the UK are not pleased with the idea of what will result. In a terrific UK blog entitled [There May Be Trouble Ahead: A Blog About UK Legal Services Deregulation](#), author Mike Scutt offers this in his post [The LSA: Opportunity or Threat](#):

*...the question of whether it [ABS] is opportunity or threat is a live one. Being a lawyer, I'll give my usual lawyer's answer: it depends. That's not merely a cop out as I think to give an answer to it **depends on where you're sitting in the profession**. For the bigger or, indeed, the biggest firms the ability to raise external investment or to float on the stock market must be seen as an opportunity. For the mid size firms it might be tougher: not big enough to float, not systematized enough to be attractive to private equity and too big to be easily adaptable. But where will the threat to them come from? How about from corporate clients demanding more and better services more cheaply – possibly sourced off-shore? Perhaps in-house legal departments doing more and more themselves?*

*The usual argument peddled is that the big brands will sweep all before them because customers (not clients, note, in this post- LSA consumer-focussed world) shop only on price. Some will, some won't. Some customers will go for the cheapest deal, in the same way that some people shop at Lidl or Asda. Other customers will shop on quality and reputation, even when looking for a commoditisable type service such as wills or conveyancing. **There just won't be as many of them around as there are now – that's the threat. Offering new and innovative ways of servicing those clients is the opportunity.** (emphasis supplied)*

What's proceeding is the ability to gain financing for developing a legal service provider (LSP) that can partner with or be sold, down the line, to big firms and/or investors. The opportunity would then be to offer alternative fee arrangements more beneficial to the client due to reduced cost and risk. And why would big firms care about offering client-centered fee structures based on the ability to automate? First, their in-house clients are demanding it. But also think about this: they can capture both ends of the market. That would be their end of the market — **and yours**.

Think about this: in Richard Granat's post [Will LegalZoom Become the Largest Law Firm in the West](#), he discusses the fact that LegalZoom is testing beta on a program that "...links its marketing capabilities to a network of law firms that offer legal services under the [LegalZoom brand](#)." Of course, that can't be done in the US due to restrictions on linking for-profit capital to law firms. "Unlike, the United Kingdom, [which is in the process of deregulating the legal profession](#), enabling profit-making companies, from banks and insurance companies to retail chains like [Tesco](#), to actually own a law firm, and/or split legal fees with a non-law firm, these practices in the US are strictly taboo."

Sounds like ABS opportunity to me. An opportunity that is not available to US attorneys.

Here's another interesting venture. [TheLawyer.com](#) (a UK publication) announced a deal between DWF (a divorce law firm) and Co-Operative Bank whereby the bank will fund the proceeding by lending money to DWF's client so client can pay her/her legal fees. To DWF. The loans are repaid on a monthly basis after the proceeding is complete. Most likely, interest would be accruing, of course.

And how can we consider this topic without mentioning the Thomson/Pangea3 purchase? Thomson is a world-wide legal publisher; Pangea3 is one of the top-rated Indian LPOs. What kind of business(es) will they become? Depending on their goals and strategies, our profession will be affected. We just don't know when, how or how much.

This and much more is what's going on around us as we meet our daily commitments and try to live our lives. As Mike Scutt said above, offering innovative ways to serve our clients is our opportunity. And since these innovations require technology, you need to automate. Create new and different ways your clients can access

your services. The technology is there to do it, and you have the flexibility to use it in whatever way makes you comfortable.