

THE SEEDS OF Competitive Disruption



“Imagine that a complex legal problem can be mapped into a decision-tree with millions of “if this, then that” branches. Subject matter experts (lawyers) might be able to predict (or guess) the likely outcome . . . but would rather bill the client for watching the drama unfold. However, a computer, such as IBM’s Watson, can run all of the possibilities through many varied scenarios and predict the likely outcome. If the outcome is mathematically predictable, why wouldn’t the client use that information to resolve the dispute instead of paying their lawyers to play the game? Why indeed.”

This is precisely the question a legal reporter raised concerning the unfolding intersection between law and technology. Coincidental to reading this I was attending a meeting with the Executive Committee and practice leaders at a major firm. The nature of our discussions caused me to cite IBM’s Watson together with a couple of

examples of disruptive competitors that may well be in a position to capture legal work that would otherwise have come their way. Absolutely no one in the room was conversant with the competitors I was identifying. In fact, this group’s collective knowledge of these kinds of competitive entities was shockingly limited.

Today there is a new reality in which increasing numbers of legal departments, constrained by tight budgets, are demanding cost concessions and predictability in their bills. That shift has brought with it a groundswell of new entrepreneurs who have responded to these changing demands by starting practices or businesses predicated on delivering services in the most cost-effective way possible and disrupting the traditional model of the larger law firm. What many find surprising is that these businesses are often financed and managed by non-lawyers.

There is a tendency in some firms to equate all of this to simply more attention on alternative fee arrangements. This tendency fails to comprehend that the ground is moving. It is particularly difficult to disrupt any industry

where there is a healthy active competition that drives a lot of change and innovation. The best target is a sector with large complacent firms resting on prosperous margins earned by firm leaders who feel safe, and are perhaps too secure to risk innovation.

According to Clayton Christensen's 1997 classic book, *"The Innovator's Dilemma,"* new competitors typically start wooing a firm's least profitable clients with a service offering that is cheaper or one that costs the same but boasts innovative features, or is more easily customized. They then gradually bite off bigger chunks of a market as their offerings become better known.

Suffice to say, the legal profession is changing in dramatic ways, including the creation of new legal businesses that rely upon technology and process design to solve legal problems that have traditionally been handled by lawyers. As one of my colleagues used to say, "the huge advantage that law firms have is that they only have to compete against . . . other law firms." But that is not the case anymore!

What follows is a brief profile of **20** of these competitors, with a major presence in the U.S. that are growing, disrupting traditional law firms and taking away work that they would normally have expected to handle. You may find it useful to pass this along to the partners in your firm such that they might begin to get a better appreciation of *some* of the forces at work in their marketplace.

ADVANCELAW is a privately held company that operates a closed community of legal departments who share information on law firms and individual lawyers in order to obtain better quality at a lower cost. AdvanceLaw was formed a few years ago by Firoz Dattu, a Harvard-trained lawyer who practiced at Paul Weiss. Firoz started

AdvanceLaw in response to perceptions by general counsel that they were being overcharged and underserved by large firms in the major markets. AdvanceLaw vets law firms and lawyers on behalf of legal departments; but also screens and selects firms and thus far has 12 mid-sized firms in the US and 11 in 7 other countries (Canada, UK, Brazil, etc). These firms service AdvanceLaw's over 90 major companies including: Google, Nike, Sherwin-Williams, Lenovo, Towers Watson, Mastercard, Panasonic, eBay, Deutsche Bank, McDonald's, Molson Coors, Nestle, Heinz, Clorox, Unilever, CSS, and Starwood Hotels.

This disruptor has positioned itself as a trusted advisor that can provide reliable guidance in shopping for value, outside the big brand-name firms.

AXIOM LAW is a 12-year old, 900-person legal services provider, serving half of the Fortune 100 from 10 offices around the world. Axiom has won work related to commercial contracts and anti-trust in the UK, US and Asia. At current growth rates some observers predict that by 2018 Axiom will be larger than today's largest global law firms.

In its early years, Axiom was described by many as a high-end "temp" service for legal departments. The temp-service model enabled larger firms to dismiss Axiom on the belief that only a small tranche of legal work might be siphoned away. And that work is lower margin and price sensitive – so-called "commodity" work. But, if brokering lawyer services was originally the core of Axiom's business, they subsequently expanded their offerings. The fastest growing part of Axiom's business is its "Managed Services" practice. Part of the managed services practice is analyzing and redesigning workflows so that in-house lawyers have the cost and quality information needed to make better sourcing decisions. Because Axiom is helping to redesign

the workflows, including the specifications for sourcing decisions, it is well-positioned to do much of the resulting work.

This disruptor claims that it is not a legal process outsourcer but it is also NOT a law firm. Yet it's been solely responsible for the legal work on more than 10 M&A transactions over the past year – the kind of work law firms once thought they alone could do. For example, on February 7, British Telecom appointed Axiom to handle their commercial and anti-trust matters.

BLACK HILLS IP is exclusively focused on specialized Intellectual Property work. The company appears to be growing, as it did a PR-blitz to commemorate its 100th client. The company was originally started in Rapids City, South Dakota but has since expanded to Minneapolis. Unlike traditional law firms, these types of legal vendors are growing rapidly. Their secret sauce appears to be combining high-quality processes with capable, motivated paraprofessional talent. Meanwhile, a sister company, Black Hills Technology, provides detailed metrics to help clients understand problems with their patent applications.

This disruptor is endeavoring to provide services at a lower cost than law firms or in-house departments, and to be cost-competitive with Indian outsourcing and more affordable than in-house paralegals.

CLEARPATH IMMIGRATION is a startup working within the immigration system to make the immigration process (for those who have a legal right to it) easier, cheaper, and more accessible. For now, it is focused on the 8 million or so people who file upwards of 100 million forms each year. When reform comes, the number of filings could easily double. This represents a significant opportunity for Clearpath. Given that the immigration process is a multi-step,

multi-year process, having a platform that guides, collects, and stores the vital information, while also processing the data to generate actual filings, is of substantial value to millions of immigrants in the US. Clearpath has built and recently beta-tested a platform that directs users through a series of questions to generate an accurate and complete form. This is more challenging than it sounds as many of the documents and questions call for specific answers that are often confusing or overlooked. Clearpath's team of former immigration officials and technology experts constantly update the application that monitors the filings to ensure that all errors are detected.

While Clearpath does not view itself as a "legal disruptor," it recognizes that its platform does provide a service that many lawyers offer. With Clearpath's pricing topping out at around \$200, it represents a significant cost savings for those applicants who do not want to engage a lawyer but want an efficient method of filing.

CLEARSPIRE is one part law firm and one part business entity. The Washington, D.C.-based Clearspire Law Co. is the ultimate virtual law firm and aims to expand its presence across the country with the addition of 50 to 100 BigLaw lawyers each year for the next five years. It is serviced by its sister business outsourcing company, Clearspire Services Co. The founders of Clearspire spent \$5 million to build their online platform (Coral), which connects lawyers and clients through virtual offices and high-end video-conferencing. Their efforts have garnered the attention of more than 200 General Counsel of Fortune 500 companies in the past two years. The two-company model, along with the cutting-edge technology of Coral, strips away many of the overhead costs of large law

“Many of these competitive disruptors create innovative, differentiated services that solve problems for clients that can't otherwise be solved cost-efficiently.”

firms, driving efficiency. It also allows for non-lawyer investment and revenue-sharing in Clearspire's business arm, which doesn't operate under the restrictions of ABA Model Rule 5.4: Professional Independence of a Lawyer. The company plans to raise a further \$3 million from outside investors and it is noteworthy that the law firm has an Advisory Board comprised of 6 external and distinguished business executives.

This disruptor promises to provide the same level of legal expertise but charge clients *“much less than an AmLaw 200 firm—probable about 50% less. This cost reduction is supported by the elimination of the partner profit model and all non-productive overhead.”*

CPA GLOBAL is one of the leaders in legal process outsourcing. Founded in 1969 in Jersey, Channel Islands, the company employs over 1700 people in 3 US locations, with offices in 18 international locales throughout Europe, Asia and Australia; and serving clients' needs in 200 jurisdictions. Roughly 80% of the firm's revenues come from IP-related legal outsourcing. As an example of the firm's clients – since 2005, Microsoft, a top 10 global patent filer, has partnered with CPA Global to develop a long-term outsourcing strategy that would optimize the company's IP management.

As a disruptor, they assist corporations and law firms in managing valuable IP Rights, such as patents, designs and trademarks, ensuring that IP portfolios are protected, maintained and regularly reviewed in order to optimize value.

EXEMPLAR LAW claims to be the first corporate law firm in the nation to abandon hourly billing in favor of a fixed, value-based pricing model, with professionals in Boston, LA, New Orleans, New York and DC. Their primary target is in serving high-growth mid-market companies. Exemplar is an integrated group of companies including Exemplar Law, LLC; Exemplar Business (a business execution firm); and Exemplar Capital (an Investment Bank specializing in middle-market representation). They were one of the first firms to offer clients a “Value Guarantee” such that *“if the value was less than the price you paid, call us and together we will determine a fair price.”*

As an example of their work, earlier this year Exemplar Law completed a \$4 Million Equity Raise for a leading LA-Based Superfoods company with a New York City based Private Equity Firm focused in the natural foods space. As General Counsel and deal counsel, Exemplar negotiated a successful equity round on favorable terms to leadership.

This disruptor is slowly moving up the food chain in securing legal work that would normally have gone to much larger firms.

EXEMPLIFY is a start-up company founded by Professor Robert Anderson at Pepperdine Law (and former associate at Sullivan & Cromwell). Rob found it frustrating that there was no alternative to spending countless hours comparing deal documents and often turning in a work product that still couldn't possibly reflect knowledge of the whole

market. After Rob left law practice and enrolled in a Ph.D. program at Stanford, he began doing what entrepreneurs do: Finding a better way to do the research associated with a transactional law practice. Beginning in 2003, Rob began the process of compiling the computational models that became Exemplify. The goal of the invention was simple to: find a way to determine market standard language while considering the entire market, making the desired outcome apparent at a glance. An early version of the product was shown at the LegalTech New York show in February 2012. After a successful beta program with attorneys at AmLaw 100 firms, Exemplify moved to a commercial phase, launching at the International Legal Technology Association (ILTA) show in August 2012.

Using super computer technology and inductive computational linguistics, Exemplify works on law firms' own repository of documents, automatically creating a standardized clause library and comparing an attorney's current document against the firm's standard work product. No prior filtering or document selection process is required. Exemplify automatically builds the firm's Exemplar library of standard clauses. If an attorney does not have a precedent with which to begin, Exemplar Search will find standardized clauses culled from the entire history of the firm's work product. The attorney will have the confidence that any language selected has been vetted against the firm's own internal work product, enabling quality control and increased efficiency while maintaining the firm's own best practices.

This disruptor claims to be transforming the transactional law practice by mitigating the risks associated with drafting complex agreements.

EXIGENT is a legal process outsourcing

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(LPO) provider that has just expanded its business with the acquisition of Bangalore-based contract lifecycle technology company mLegal. Exigent's founder and CEO David Holme said the deal would provide a base from which Exigent could expand in North America and enhance its technology offerings to clients elsewhere. *“mLegal's operating center is in Bangalore but its client base is in the US, while Exigent operates out of Cape Town and Western Australia,”* said Holme. *“This deal adds 125 staff in Bangalore as well as the US market. From a purely commercial point of view it means we have more than 400 staff and a presence in every major market. It makes us one of the biggest players in the market and one of the most diverse in terms of operating centers.”*

This disruptor claims the deal, which sees it add mLegal's proprietary contract automation technology to its outsourcing offering, should result in cost savings for corporate legal departments of more than 50 per cent.

FAIR OUTCOMES INC. offers, via an interactive website, game theory solutions for a range of legal disputes, including those involving property division, business buyouts and reputational damage.

Four years ago James Ring wanted to eliminate the time lawyers spend bullying and bluffing their way through monetary disputes and other protracted negotiations. So the Boston-based trial lawyer and his

firm—Chu, Ring & Hazel—teamed up with academics to form Fair Outcomes Inc. They borrowed from the practice of game theory, the science behind conflict resolution, to introduce a series of online solutions that entice both sides to be truthful in their expectations.

As a disruptor this website purports to be a speedier and less costly resolution of legal skirmishes.

FLATLAW is a legal marketplace where lawyers can set up an account — complete with a profile photo — and advertise their fixed rates alongside their peers. It spares clients from having to phone 10 lawyers just to find out how much each charges for specific services. The idea of FlatLaw isn't a race to the bottom on price. It's that people can specialize in what they're good at. There are currently over 60 ads on FlatLaw.ca. The web site filters lawyers by city and area of law. Listed lawyers include those in criminal law, corporate law, litigation, estate, immigration, and contracts. Through their accounts, they can track the number of page views they're getting.

This disruptor is all about costs – Incorporation goes for \$650 - \$750 on the website.

INTEGREON, founded in 1998, is a provider of integrated legal, research and business support solutions to law firms and corporate law departments, leading corporations, financial services organizations and professional service firms. This venture- and private equity-based LPO has tried to distinguish itself with its global platform and language capabilities. Their over 2,000 associates work globally in areas such as market and competitive intelligence, discovery, legal process outsourcing (LPO), operating model transformation and back office redesign. In October 2013, Integreon CEO Bob Gogel

shared the findings of an LPO survey of 77 US legal departments wherein the results show that the majority of US companies had tried legal outsourcing and were satisfied with their experiences. Meanwhile, UK-based law firm CMS Cameron McKenna outsourced the firms entire support staff in a 10-year deal worth more than \$500 million.

This disruptor's clients already include 7 of the 10 largest global law firms; 32 of the top 50 AmLaw firms; 3 of top 10 UK law firms; 9 of the top 10 investment banks and 11 of the top 50 global brands.

LEGALZOOM initially founded in 2001 and now employing over 500 employees, is a nationally recognized legal brand for small business and consumers in the United States providing an easy-to-use, online service that helps people create their own legal documents. Its cut-rate legal forms and plans fill a lucrative niche with penny-pinching individuals and small businesses. In January 2013 it sold a \$200 million controlling stake to private equity fund manager Permira.

The company has spent millions settling cases alleging unauthorized legal practices, and more could be on the horizon. LegalZoom credibly denies practicing law, and it offers third-party attorneys to customers seeking advice. But litigation still looms. Another threat is an explosion in competition. Dozens of companies, and even some states, offer basic documents comparable to LegalZoom's, often for free. Small private competitors like BizFilings, RocketLawyer and The Company Corp are also making inroads. What's more, Rozman Wills, LegalCarte and dozens of other law firms combine forms with legal advice at prices competitive with LegalZoom's. LegalZoom is expanding into the UK and other countries that, unlike the United States, allow non-attorneys to join with lawyers in

providing legal services.

As a disruptor LegalZoom enjoyed 2012 revenues estimated at \$200 million achieved while serving over 500,000 customers.

MODRIA is an online dispute resolution system that enables businesses and governments (mostly municipalities) to avoid costly, in-person legal proceedings to resolve a steady stream of similar disputes that are part of running a business or government. Many businesses could be drawn to Modria, but so could/would many smaller governmental units. Indeed, several (progressive) county governments have become clients (e.g., on property assessment appeals).

This player is disruptive because so many forums for resolving disputes, such as courts, repeat-player arbitrations, and various government boards, are not perceived as prompt, fair, and/or just, often times because costs of dispute resolution are so high. So even if the dispute is resolved correctly on the merits—for the subset who can pay the cost – there remains a large residue of dissatisfaction.

MODRIA – DIVORCE MEDIATION CENTER (a partnership with LegalZoom) promotes a 5-step divorce mediation process offering a free consultation and a flat-fee. The average cost of a contested divorce can range from \$15,000 to \$20,000—the majority being legal fees; and when taken through the courts can last 1.5 years on average.

This disruptor provides divorce mediation at an average cost is \$3000 or less and takes 90 days on average.

NEOTA LOGIC is a privately held company founded by former Davis Polk partner and CIO Michael Mills. The company spe-

cializes in the creation of expert systems that can improve the quality and efficiency of many transactional and compliance related activities. Neota Logic provides an integrated suite of tools with which to develop, test, maintain and deliver expert applications, which can be embedded in business systems or consulted interactively in a browser, on a computer or smartphone. It enables people who are not trained software developers to build, maintain and deploy very complex applications. Earlier this year, Seyfarth selected Neota Logic Server as a key component of the firm's technology toolkit for more effective and efficient service to clients.

This disruptor enables law firms to create innovative, differentiating services that, *first*, solve problems for clients that can't otherwise be solved cost-efficiently, and, *second*, leverage the firm's expertise more effectively than can be done via billable hours alone.

NOVUS LAW was formed in 2005, in Chicago as a legal services company by two PwC former executives and non-lawyers. The firm claims to be tripling its revenue year over year. It reviews, manages and analyzes documents for large-scale litigation, and is poised to focus its technology and resources on drafting briefs and motions. Client engagements are priced on a predictable budget, defect-free work product and timely delivery. The Novus One-Touch work process was part of the first-ever quality management system independently certified by the Underwriters Laboratories for use in the legal profession. In 2008, this resulted in Novus Law becoming the first non-law firm to win the InnovAction Award from the College of Law Practice Management (which I was instrumental in starting back in 2003).

Reports about this disruptor claims that nearly 80% of the work done by Novus Law attorneys

is work large law firms would otherwise do.

PANGEA3 was founded in 2004, and now claims to be a global leader in legal outsourcing (LPO) with substantial operations in India (Mumbai and Delhi) and offices in New York and Dallas. Initially backed by venture capital, but subsequently sold to Thomas Reuters in 2010 the operation employs roughly 1,000 lawyers in the US and India. Since its inception, Pangea3 has grown at “40% to 60%” per year and was said to be “growing even faster” in 2012.

Now think about this: 1000 lawyers growing at 50% per year for five years is over 5000 lawyers - by 2017. And that is just one LPO. We look at flat revenues in BigLaw and draw the inference that we are in a prolonged recession. Meanwhile, the legal business is absolutely booming in India, thanks in substantial measure to its integration into the U.S. and U.K. legal supply chain. Play these trends forward for a few more years and it gets rather threatening for traditional law firms.

This disruptor is already serving more than 100 Fortune 1000 companies

PRIORI LEGAL is trying to transform how small businesses interact with lawyers. Every business needs trusted legal advisors. But finding the right lawyers can be time-consuming. Licensed in New York State with confirmed malpractice insurance, Priori believes “*finding the right lawyer for your business can protect you down the road, and we understand that hiring and working with a lawyer is the most personal kind of business investment. By bringing transparency and simplicity to how businesses find, hire and pay for legal services, we make sure you don’t make such an important investment in the dark.*”

As a disruptor, Priori offers an easy-to-use

platform that provides access to vetted, hand-selected lawyers with at least five years of experience at fixed fees and a 25% discount.

RECOMMIND is a privately held company, formed in 2000 with over 450 employees in 3 US and 3 International locations. Recommend specializes in predictive coding for use in document review and e-discovery. From the client perspective, predictive coding is at least as good as first-level human review (typically junior attorneys screening for relevance and privilege) but dramatically less expensive. Founders were graduate students in Artificial Intelligence programs at Stanford and UC Berkeley in early 1990s. Recommend has been rumored to be planning a public offering.

This disruptor enjoyed revenue of \$70 million in 2012 with a 95% growth from 2010 to 2011 proving that predictive coding trumps hiring expensive associates.

UNITEDLEX is a global company with a singular mission: to improve the performance of law departments, law firms and academic institutions. UnitedLex is the only full service LSO recognized by Chambers & Partners as a Tier One/Band One legal service provider. Founded in 2006 and now with more than 1,500 attorneys, engineers and consultants the company provides solutions to address areas of litigation, contracting, intellectual property, general legal and operations to the benefit of clients in North America, Europe and Asia. For example, in December, UnitedLex, announced its Cyber Security Risk Services practice with the appointment of two industry veterans. UnitedLex intends to help clients better understand their cyber risk profile, protect against actual threats to valuable data assets, and respond to security incidents with confidence, speed and accuracy.

Meanwhile, the national law firm of LeClair-

Ryan and UnitedLex, jointly announce the creation of the LeClairRyan Legal Solutions Center. This collaborative venture, effective November 1, 2013 provides a range of support services and incorporates technology and quality control processes into the law firm’s litigation and transactional practices. The LeClairRyan Legal Solutions Center is intended to assist clients with obtaining more comprehensive, value-based services at a lower and more predictable cost.

This listing of 20 competitive disruptors was compiled from hours of research, but it is not (let me repeat, NOT) intended to be comprehensive, but just an indication of how things are evolving. All of these examples are drawn from the US, and there are similar disruptors emerging in Canada, the UK, Australia and elsewhere.

You may also find it instructive to take a look at the list of legal startups (<https://angel.co/legal>) at Angel List. As of this writing, the list has 427 companies identified as legal startups. Companies listed here are trying to come up with better ways to do legal research, negotiate contracts, manage legal documents, match consumers with lawyers, search patents, manage a law office, track and bill time, and much more.

Competitive Disruption is, by definition, disruptive to our preconceived notions of how our world could and should be. Today’s client innovations will become tomorrow’s client expectations as technology and new approaches enable clients to obtain legal services cheaper, faster and better – year after year.

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