



LEGAL EXECUTIVE INSTITUTE

GEORGETOWN LAW
Center for the Study of the Legal Profession



ALTERNATIVE LEGAL SERVICE PROVIDERS

Understanding the Growth and Benefits of These New Legal Providers

EXECUTIVE SUMMARY

In recent years, the legal marketplace has seen an influx of new start-ups and new entrants looking to challenge the long-standing service model offered by law firms to their clients. Traditionally, clients looked to their law firms to provide a full range of legal and legal-related services, i.e., to handle every aspect of a matter, even including those activities that did not involve the direct provision of legal services. Today, by contrast, consumers of legal services find themselves the beneficiaries of a new and growing number of nontraditional service providers that are changing the way legal work is getting done.

These alternative providers comprise a new sector of the legal market, one that is emerging and evolving rapidly, but is still very much in its infancy.

In a first-of-its-kind effort, the Thomson Reuters Legal Executive Institute, in partnership with the Georgetown University Law Center for the Study of the Legal Profession and the University of Oxford Said Business School, sought to gain a better understanding of these new legal service providers, who they are, when clients use them, what factors matter to clients in choosing a provider, when and why law firms use them, and whether law firms view the model as a threat or an opportunity. Such a wide-ranging survey of a relatively new marketplace created no shortage of challenges but also provided invaluable insights into how these new entrants are carving a niche in the market.

DEFINING WHAT AN ALTERNATIVE LEGAL SERVICE PROVIDER IS

The first challenge was simply creating a definition to encompass these new providers. For the purposes of this study (involving a questionnaire survey and interviews), we refer to them as Alternative Legal Service Providers (ALSPs). This term is intended to convey that ALSPs present an alternative to the traditional idea of hiring an attorney at a law firm to assist in every aspect of a legal matter.

What makes a Legal Service Provider “alternative” is that the entity is typically one other than a law firm.

What makes legal services “alternative” is that they are delivered via a model that departs from the traditional law firm delivery model, for example, by using contract lawyers, process mapping, or Web-based technology.

It is also important to note that not all alternative legal services are delivered by a truly alternative legal service provider. As the findings show, law firms themselves have also gotten into the business of delivering alternative legal service models, typically through affiliate operations.

The list of services which was of interest in this study was limited to those traditionally thought to be within the scope of legal services. Accordingly, this survey – while including document review, e-discovery, contract management, and other services traditionally included by law firms as part of the legal services offered to their clients – does not address other administrative-type services generally offered by law firms. Nor does the study include information from providers about the development or sale of legal technology.

WHEN AND WHY ARE ALSPs USED?

What we discovered is that both law firms and legal departments leverage ALSPs to a fair extent, and for similar reasons, but often for different types of tasks.

For an emerging market, use of ALSPs is actually quite widespread. The full results of the survey show that at least 51% of law firms and 60% of corporate legal departments are currently using ALSPs for at least one type of service.

That being said, however, the most common use of ALSPs is low-risk or standardized, high-volume tasks. For both law firms and legal departments, one example of such a task was document review and coding services.¹ Thirty-one percent of law firms indicate they are using ALSPs for such work in 2016, along with 11% of corporate legal departments. There were other tasks for which law firms and legal departments were also more likely to seek out ALSPs, as follows:

Law Firm	Legal Department
e-Discovery support services	Regulatory risk and compliance services
Litigation and investigation support	Specialized legal services ²

Interestingly, corporate law departments were more likely than law firms to say that they would look to alternative providers in situations where specialized expertise was required, indicating some willingness to allow ALSPs to play at least some role in more bespoke tasks. For their part, law firms most frequently looked to ALSPs because those providers could give the firm access to a level of expertise not available within the firm. But at the same time, both law firms and legal departments expressed some reticence in using ALSPs for tasks involving legal strategy or judgment, or in areas that were viewed as core to the role of the firm or the business.

For both law firms and legal departments, awareness and use of ALSPs is indicative of an early market. Use of ALSPs is more prevalent among large law firms and corporate legal departments, but even this differs by the geographic location of the corporation or firm. Even among those firms and corporations that do use ALSPs, they tend to do so for a confined set of tasks. Most law firms and corporations do not have a concerted strategy for alternative service models or a particularly comprehensive understanding of the full range of services available.

Moreover, due to the emergent nature of this new market, there is little shared understanding of what constitutes an “alternative legal service” and “alternative legal service provider.” This lack of awareness extends not only to whom these providers are, but also to the full complement of services offered. The majority of decision makers in law firms and corporate legal departments tend to think only of specific services they are using from an ALSP, rather than the broader category of alternative legal services. They also tend to seek out alternative providers for a specific service, primarily when cost is a driver for them to begin looking.

It is also key to note that attitudes and organizational culture can impact the use of ALSPs. While certainly not a universal attitude, one general expectation stated by interviewees was “if it’s legal work, the expectation is that it will be done by lawyers.” At the same time, however, participants acknowledged that there are companies and law firms that are more open to innovation and exploring alternative service models, especially as competition remains to be tough.

Overall, both law firms and legal departments said they were motivated to explore ALSPs as a means to lower cost structures. For legal departments, the ability to shave costs and to handle high-volume transactional processes like corporate filings, contract management, or compliance-related processes, provides an incentive to look to ALSPs.

For law firms, much of the interest in ALSPs is driven by client pressures around price controls and cost reductions, or in situations when specialized expertise is necessary for particular tasks. However, many firms are also realizing that ALSPs can help facilitate a more efficient and profitable service model, as well as more cost-effective scalability for temporary, high-volume workflows.

This chart shows a fair representation of when ALSPs may be applied and measured in different situations ranging from more commoditized work up to work requiring more specialized talent.

¹ While only 11% of corporate law departments report directly utilizing a document review or coding service provider, our findings indicate that many more require that their outside law firms use such providers.

² “Specialized legal services” requiring a level of specializing or experience, often provided by licensed attorneys. Such services can include attorneys hired for their particular expertise in a particular area or services provided by a legal staffing agency.

Examples of types of providers, why a particular vendor would be chosen, and what that vendor would be compared to, by types of tasks:

	Standardized	Specialized
Use cases	Corporate filings and compliance	Document review Temporary replacement/specialization requirements
Types of providers	Corporate formation and filing service providers	Document review providers Staffing agencies Outsourced legal service providers Specialized consultants Legal research providers
How do they decide?	Timeliness Accuracy Quality processes	Quality of output Efficiency gains Reputation and training of individuals Specialized knowledge
How do they benchmark service?	Organizations with good quality and service processes (e.g., Amazon®)	Paralegals and junior associates Senior lawyers in law firms (in country)

It seems clear from the findings that much of the growth of ALSPs is being driven by legal department demands. As in-house legal departments continue to push for more cost-effective solutions and standardized processes, new providers emerge to fill this demand. Law firms are utilizing ALSPs primarily in a reactive manner as a way to provide more cost-effective service models. Absent client pressures, it is unlikely that law firms alone would be driving the use of alternative providers. Those law firms that do proactively embrace partnerships with ALSPs will stand apart from their peers.

COMPETITION AND OPPORTUNITY

Beyond just providing new competitors and new business opportunities for law firms, ALSPs are also forcing a reexamination of the legal service delivery model. Some ALSPs, particularly those focused on legal project management, are disaggregating legal work into finer legal processes to provide more cost-effective solutions using a combination of legal and nonlegal staff. This desire to streamline process is flowing over into law firms and corporate legal departments as well. As one law firm interviewee said, "... any legal project can be broken down, and you can identify process-related elements which are better to have a different resource model applied. It's not just e-discovery or document review in a litigation context. It's elements of due diligence in corporate finance transactions."

As a result, many firms are exploring the ideal of serving as a "general contractor" for matters where ALSPs are leveraged to maintain or increase margins while maintaining or expanding service offerings and staying competitive. Particularly in matters governed by fixed fees, lowering the cost of production of a matter by leveraging alternative vendors for certain portions of the work can help lower the cost of that portion of the matter, increasing the ability for the firm to turn a profit. This type of large-scale process redesign could have lasting implications for the traditional pyramid structure within law firms, although lasting impacts remain to be seen as the diffusion of this type of thinking continues to evolve.

Also, some law firms have actually sought to create alternative providers as wholly owned affiliates of the firm or as partnerships or joint ventures with others, providing more cost-effective options for clients, while creating a new avenue for profit for the firm. However, the number of law firms taking this step is small likely because there is more demand from their corporate clients to leverage existing ALSPs.

It is also becoming increasingly common for law firms to leverage ALSPs as a way to maintain or increase margins while maintaining or expanding service offerings. Particularly in matters governed by fixed fees, lowering the cost of production of a matter by leveraging alternative vendors for certain portions of the work can help to lower the cost of that portion of the matter, increasing the ability for the firm to turn a profit. Many firms are also exploring the idea of serving as a "general contractor" for matters, providing not only direct representation and advice, but also management of ALSPs on the matter as well.

"For a lot of international clients, we don't have the luxury of filling every chargeable hour. We're largely working on fixed fees, and we've got to look at the need to maximize the margin."

– Law Firm

THE BIG 4 THREAT

Another key issue regarding ALSPs concerns the competition they represent to law firms. This is particularly true of the serious threat posed by the growth of legal service offerings and related services by the large accounting firms, particularly outside the United States. For firms in jurisdictions where alternative business structures are permitted and gaining popularity, the potential impact of the Big 4 accounting firms on the future market for law firm services cannot be overstated.

The shift in demand for legal services is already being felt in markets like the United Kingdom. As one UK law firm partner stated, “[The Big 4] are expanding the legal service they’re providing, whether it’s tax support or actuarial support or wide business management, strategic support.” Another law firm partner recognized, “We are facing increasing challenges by the accounting firms looking to do a lot of the work which would historically fall to a law firm, [particularly] in the fields of M&A, and advisory.”

As the ALSP market evolves, the Big 4 are likely to play an ever-expanding role. Though not foreseeable in the near future, any changes in the US allowing for the adoption of alternative business structures, similar to those found in the UK or Australia, would position the Big 4 to take an even larger share of legal spend. Law firms worried about such competition, however, can take steps today to begin incorporating ALSPs into their service delivery model, as discussed in this report, to offer more cost-effective models, thereby blunting the potential impact of any such possible shift.

THE SIZE OF THE ALSP MARKET

Based on our estimates, the global ALSP market is not unsubstantial, with a market of approximately \$8.4 billion annually. The following chart provides our estimates of the revenue associated with the five primary types of providers in the space. For each of those segments, we provide a definition and some examples. Note, while most of this study focused on the types of tasks for which ALSPs are used, this estimate focuses on the types of *providers* currently in the market.

The largest component of the market consists of independent LPOs and e-discovery and document review service providers, at \$6.2 billion. The Big 4’s legal services units and contract lawyer and staffing services have another \$900 billion in revenue each. Captive LPOs and Managed Legal Services are smaller segments in terms of revenue. By comparison, the total of all US law firm revenues is about \$275 billion, and we estimate total global legal spending to be around \$700 billion. ALSPs have clearly not swamped the incumbent players. But at \$8.4 billion and growing, ALSPs represent one of the most dynamic segments of the legal services industry and they are likely to continue to play a role as competitors and disruptors for years to come.

	Accounting and Audit Firms	Captive LPOs	Independent LPOs, e-discovery, and Document Review Service Providers	Managed Legal Services	Contract Lawyers, In-sourcing, and Staffing Services
Description	Accounting and audit firms that have a large amount of revenue in legal services. Tend to focus on high-volume, process-oriented work that’s complementary to accounting-audit work.	Wholly owned captive operations. Often located in lower-cost regions, focused on high-volume process work.	Perform outsourced legal work under the direction of corporate legal departments and law firms. Typically engaged for matter- or project-based work often proactively managed and globally delivered. Includes e-discovery services and document review providers.	Providers that contract for all or part of the function of an in-house legal team. Typically engaged for ongoing work within scope, proactively managed.	Providers of lawyers to companies on temporary basis. Can range from entry-level document review to highly skilled and experienced specialists.
Key players	<ul style="list-style-type: none"> • Deloitte • EY • PWC • KPMG 	<ul style="list-style-type: none"> • WilmerHale • Clifford Chance • Eversheds • Orrick • Allen & Overy • Reed Smith 	<ul style="list-style-type: none"> • Thomson Reuters Legal Managed Services • DTI • Mindcrest • QuisLex • Integreon • Consilio • LDiscovery 	<ul style="list-style-type: none"> • Thomson Reuters Legal Managed Services • Axiom • Riverview Law • Elevate 	<ul style="list-style-type: none"> • Halebury • Axiom • Special Counsel • Update Legal • LOD
Estimated revenue	\$900 million	\$150 million	\$6,200 million	\$250 million	\$900 million

CONCLUSION

Whether coming from a small start-up or a large accounting firm, the emergence of such a wide variety of new alternative providers has given clients a plethora of new vendors from whom they can receive services and further flex their buying power. At the same time, the evolution of the ALSP market has presented an interesting dichotomy for law firms, increasing competition, but also giving rise to new potential avenues for growth.

Though clearly indicative of an early market, the results contained in the charts and commentary that follow provide very interesting insight into today's ALSP market, and bring into focus numerous areas that merit further scrutiny as the ALSP market continues to develop.

METHODOLOGY

The study was conducted in two phases: a quantitative phase consisting of an online survey, and a qualitative phase consisting of telephone interviews to gain further insight into some of the information learned from the quantitative results. While the initial research project was international in scope, a limited number of survey responses from the UK and Australian legal markets limited the effectiveness of the data from those regions. As a result, only survey responses from US-based law firms and corporate legal departments are included in the charts below. This is supplemented by interview results from the US and other regions.

The online survey was conducted in June 2016. In total, the survey received responses from 554 law firms and 271 legal departments. Respondents were screened as to whether they had a role in helping to select ALSPs for use by their respective organization. Those who did not play a role in helping to select providers were screened out of further responses.

The telephone interviews, conducted in August and September 2016, were intended to address the following supplementary objectives:

- Identify use contexts for different types of alternative legal services
- Determine motivations or drivers for use and nonuse
- Identify types of providers being used and prominence of providers
- Identify and understand decision factors in selecting providers, as well as quality benchmarks
- Identify potential areas of growth in use of ALSPs
- Understand barriers to growth in the market for ALSPs

A total of 38 phone interviews were conducted with respondents from both law firms and in-house law departments in the US, Canada, Australia, and the UK.

The market-size estimates are based on a number of third-party studies, other published reports and data, and our own analysis of the existing players. Most of the players in this space are privately held and do not report revenues, so we have purposefully kept the estimates approximate, even as we are confident that they are directionally correct.

Audience	US	UK	Canada	Australia	Total
Small law firms	5	–	–	–	5
Medium and large law firms	7	4	0	1	12
Corporate	5	10	4	2	21
Total	17	14	4	3	38

“I had one case that had 30,000 emails, so we brought in some professionals to get everything indexed and searchable. For something like that, it's more efficient to use somebody else.”

– Law Firm

KEY FINDINGS

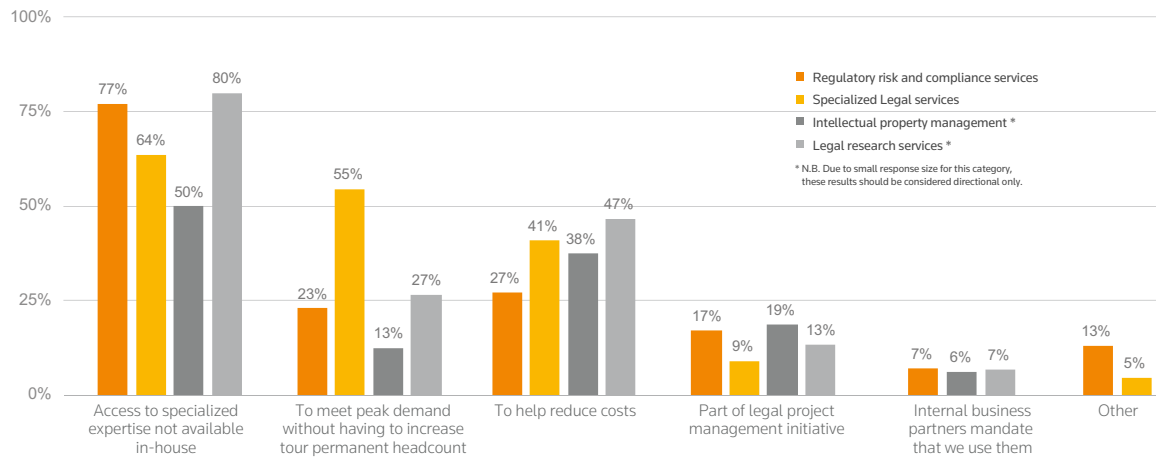
- **The use of ALSPs by corporations and law firms is strong and expected to grow in volume and types of service used.**
 - **More than one-half of law firms and corporations are using at least one category of alternative legal service providers.** Fifty-one percent of law firms and 60% of legal departments in corporations are currently using an alternative legal service provider (ALSP) in at least one service category. A further 21% of law firms and 14% of corporations plan to use an alternative legal service provider in the next year. Motivations for use vary by service category, with access to specialized expertise, controlling costs, and meeting peak demand as top reasons.
 - **ALSPs are being used for more than e-discovery.** While law firms are more inclined to use litigation support services (e.g., e-discovery, document review, litigation, and investigative support), corporations are more likely to use services in specialized areas (e.g., regulatory risk and compliance services, specialized legal advice, legal research, and IP management). Areas of growth in usage align with services now being used.
 - **Use of ALSPs also varies by type of legal organization.** Large and mid-sized law firms are currently more inclined to be using ALSPs which may signal an untapped opportunity for small firms. Similarly, corporations in highly regulated industries (e.g., financial services, communications, energy, pharmaceuticals) are more inclined to use ALSPs, particularly for tasks like e-discovery or regulatory compliance.
- **Corporations are flexing their buying power and law firms are responding.** Much of the interest in ALSPs on the part of law firms is driven by client price pressures, and 55% of law firms believe that using an ALSP can help mitigate price pressure from clients. Many law firms are combining legal, technology, and project management services to compete.
- **Motivations for using ALSPs go beyond cost savings to access to specialized expertise.** For certain services such as compliance and legal research, corporate use of ALSPs is driven largely by a need to access specialized expertise not available in-house. Law firms are also turning to ALSPs for specialized expertise in areas such as e-discovery services. Reducing the costs of high-volume transactional processes is an additional incentive for corporations and law firms to use ALSPs.
- **Both law firms and corporations are concerned about quality of service.** Law firms and corporations both cited concerns about quality of service as a reason for not using an ALSP, and need convincing of the value proposition relative to traditional service models. Law firms are also more concerned about data security and client confidentiality relative to corporations.
- **The growth of ALSPs presents new opportunities for corporations and law firms.**
 - **New partnerships.** Law firms can maintain control of client relationships and associated profit by disaggregating legal processes into component parts, with law firms continuing to offer high value-add guidance and managing the overall process with ALSPs in the same manner as general contractors.
 - **Technology-enabled services.** Technology-enabled services for both high-volume and more complex work are expected to deliver value that will drive future growth.

Law firms primarily use or anticipate using ALSPs for electronic discovery, document review and coding, litigation and investigation support, and nonlegal research. It is highly likely that much of the use of ALSPs by law firms for these tasks is being driven by client expectations that ALSPs be used for these types of tasks in order to control costs more effectively. Corporations primarily use them for regulatory risk and compliance services, specialized legal services (e.g., legal staffing), legal research, and IP management. Rates of corporate reliance on ALSPs for services like document review and e-discovery may also be somewhat artificially low in terms of actual adoption because the corporation may not be using such a service or provider directly, but may be directing a law firm to use one for litigation matters, as reflected in the higher rates of usage of ALSPs for those types of tasks among law firms.



WHEN AND WHY WOULD A CORPORATION TURN TO AN ALSP?

Corporations mainly use ALSPs for access to specialized expertise not available in-house and to help reduce costs. Meeting peak demand is also a factor for using specialized legal services.



Corporate legal departments are using ALSPs to handle high-volume business processes in more cost-effective ways. Faced with continual cost pressures, corporate legal departments are using ALSPs for high-volume, transactional processes. In addition to document review and contract drafting and management, this can include compliance-related processes and requirements.

Corporate legal departments are also seeking alternative solutions to value-added legal tasks that are viewed as low risk. For example, they are turning to legal staffing agencies for overload, temporary staff replacement, or special projects (e.g., a six-month project to advise on compliance changes). In addition to legal staffing agencies, some are turning to lower-cost firms outside major centers for advice in specialized areas.

“When the opportunity presents itself, it’s the type of thing where you’re thinking, ‘Why use a law firm and pay law firm rates for this when there are a bunch of other providers out there that do just as good a job?’ It might be labor-intensive, doesn’t require the skills or knowledge of law firm partners.”

– Corporate Legal

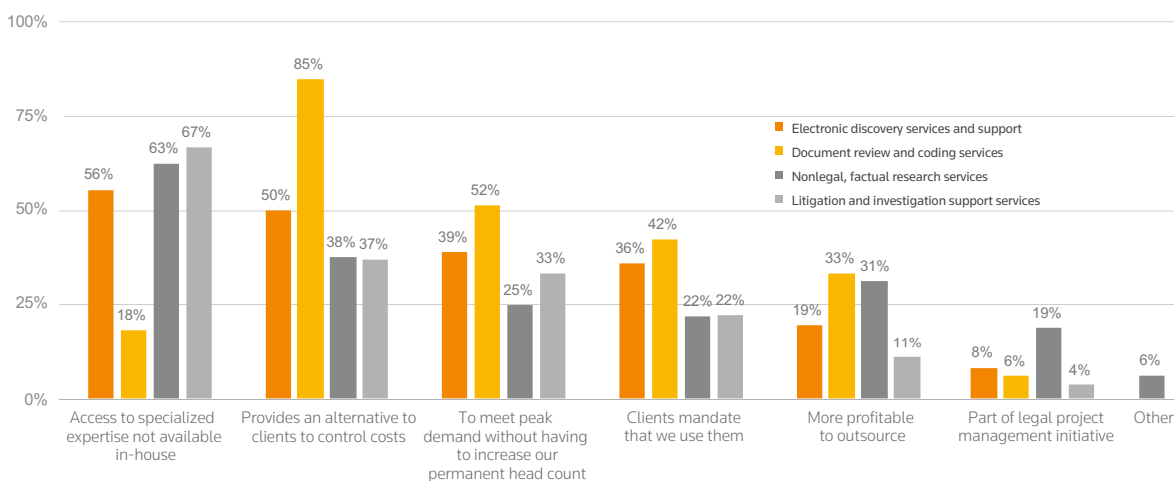
Service Category	Use Case Scenarios for ALSPs	Types of Providers Used
Specialized legal services	Temporary replacement of full-time staff on leave Overload requirements	Legal staffing agencies Law firm alumni panels
Document review	High-volume due diligence, discovery for litigation or internal or regulatory investigations	Outsourced document review service providers (both directly and through panel law firms)
eDiscovery	Services provided to facilitate aspects of the e-discovery process including consulting, project management, data collection, and data preparation in connection with e-discovery	eDiscovery service providers
Nonlegal research	Support for litigation	Economists
IP management	Monitoring trademarks for infringements and renewal deadlines	IP management and trademark monitoring service providers
Regulatory and compliance	Routine corporate filings Identifying and monitoring regulatory requirements, and developing and updating internal processes and procedures to ensure regulatory compliance globally Updating compliance processes (software plus service) in response to regulatory changes (e.g., impending changes from Brexit) Regulatory compliance requiring specific industry knowledge Board meeting/compliance support	Corporate formation and filing service companies Accounting firms Specialized industry regulatory consultants Corporate board/secretarial services
Legal drafting and Contract management	High-volume, routine transactions (e.g., supply chain transactions, leases) Procurement process renewal	Contract drafting and review providers combining software and service Accounting firms Dedicated affiliates

“Standard agreements ... for example, fund management agreements. Does it need a qualified lawyer to assist on that internally? Is that the best use of resources?”

– Corporate Legal

WHEN AND WHY WOULD A LAW FIRM TURN TO AN ALSP?

Law firms that use ALSPs for electronic discovery, nonlegal research, and litigation and investigation support do so to gain access to specialized expertise not available in-house, and to control costs. Controlling costs is the primary reason for using ALSPs for document review and coding services, followed by meeting peak demand without increasing permanent head count.



Law firms are using ALSPs for standardized, high-volume tasks to reduce costs and improve efficiency. Overall, law firms are using ALSPs in areas where they are being pressured by clients to reduce costs or are seeking to deliver services more efficiently in response to fixed-fee arrangements. The most commonly used services are document review and electronic discovery services. Although some large law firms are introducing different service models that encompass more specialized services (e.g., consulting, contract drafting, and management), most law firms want to keep tasks involving legal interpretation or advice in-house.

While much of the reason that law firms are using ALSPs relates to client pressures, law firms also realize that ALSPs can benefit their business in other ways. Approximately 55% of law firms agreed that ALSPs can help mitigate pricing pressures that they are feeling from their clients. Among those same firms, 41% agreed that ALSPs can help firms scale and expand their business based on changing needs.

Service providers might also be used in areas where specialized expertise is required. In certain situations, law firms will turn to ALSPs for their specialized expertise. For example, they might use specialized consultants for regulatory or M&A matters or e-discovery service providers who offer technical expertise that they do not have in-house.

Service Category	Use Case Scenarios for ALSPs	Types of Providers Used
Specialized legal services	Temporary replacement of full-time staff on leave Overload requirements	Legal staffing agencies Alumni panels
Document review	Large volumes for due diligence, litigation	Legal staffing agencies Outsourced document review service providers In-house, alternative resource centers
eDiscovery	Services provided to facilitate aspects of the e-discovery process including consulting, project management, data collection, and data preparation in connection with e-discovery	Outsourced document review providers In-house, alternative resource centers Specialized e-discovery vendors
Legal drafting	Translation of contracts into foreign languages	Specialized legal translation firms
Legal research	Overload library support, discrete research tasks	Law libraries
Nonlegal research	Due diligence where investigation or company research is required	Accounting firms, economists
Litigation support	Background checks, skip tracing Preparation of courtroom exhibits	Investigation companies Exhibit/graphic support companies
Regulatory and compliance	Routine corporate formation, filings, good standing certificates "Boots on the ground" trustee services (for nexus out of state) Compliance in specialized areas (e.g., Foreign Practices Act)	Corporate formation and filing service companies Trustee services Specialized regulatory compliance firms
M&A	Situations where financial, tax, or industry knowledge required in context of transaction	Consulting and accounting firms that combine compliance or corporate structuring advice with financial, tax, or industry expertise
Other	Property transactions	In-house licensed conveyance staff Specialized conveyance firms

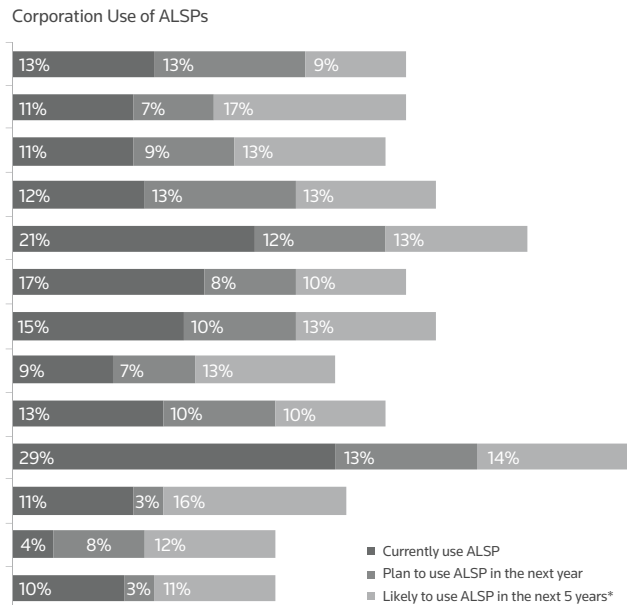
"[A major] merger required a second review before the government would give it their approval. The firm ended up assigning 200 lawyers to the project, which meant that another 200 had to assume their work. Today, the firm might assign 20 lawyers to supervise an outside firm."

– Law Firm

A MISSED OPPORTUNITY?

Anticipated use of ALSPs by corporations could create business development opportunities for law firms willing to incorporate ALSPs into their delivery models, but only if law firms incorporate the right kind of ALSPs that meet the needs corporations currently have or anticipate.

Corporations report an increasing interest in using ALSPs across all types of services through the next five years. For law firms to capture a share of the profit from this interest, they have at least two potential options: Adopt a supply chain management mentality where the firm acts as a “general contractor” for the ALSPs, or create an affiliated entity that functions as an ALSP allowing the firm to retain control over both the client relationship and the profit margin.



* Likely to use in next 5 years = rated somewhat likely, very likely, or definitely will use ALSP in next 5 years.

“If there were some kind of very peculiar government filing or issue at the state level that we didn’t have expertise in, we’d have to go to some group that provides that service.”

– Law Firm

In an increasingly competitive market, some firms are seeking to differentiate themselves through alternative service models, such as combining technology, consulting, and legal services, and are seeking cost-effective ways to deliver standardized, process-oriented services to help maintain client relationships. They also see it as an opportunity to keep control of these aspects of the client relationship and the accompanying profit, provided that they can differentiate from stand-alone providers through a combined value proposition and the quality assurance associated with their firm’s brand.

Clients clearly want to be spending more of their budget with ALSPs. A law firm not willing to part with this portion of a client’s business could consider adapting the service delivery model to one of a “general contractor” rather than a one-stop shop. Indeed, many law firms are choosing to take such an approach. Under this model, legal processes are disaggregated into component parts, with law firms continuing to offer high value-add guidance and possibly managing the overall process in the same manner as general contractors. Alternatively, law firms could play a niche role by collaborating with the legal department in coordinating service providers for their legal requirements. As this trend has emerged over the past few years, it has been increasingly referred to as law firms developing a capacity for “supply chain management.”

Other law firms are opting to try to capture this new client demand more directly by creating their own affiliated entities to function as ALSPs, creating for the firm an opportunity for new business and profit, but at a potentially large expense. Firms considering such an approach must be careful that the entities they create meet a client need and are a point of differentiation for the firm in order to avoid incurring substantial expense to establish an affiliate that does little to drive profit.

Thus far, it does not appear that law firms have responded with redesigned service offerings in the areas where corporations will be looking for ALSPs.

- Forty-six percent of corporations report planning to use an ALSP for specialized legal services in the next five years.
- But only 15% of law firms have created or plan to create a specialized legal services affiliate.
- Similarly, 56% of corporations will be looking to ALSPs for help with regulatory risk and compliance services.
- But only 5% of law firms plan to have such an affiliate up and running in the next five years.

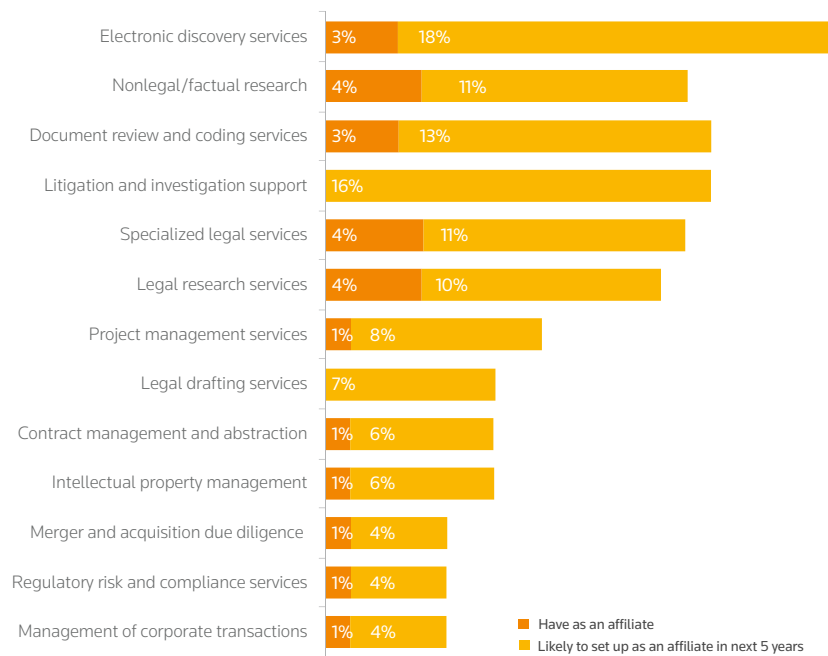
Moreover, some firms may potentially miss the mark of creating a truly different approach in their affiliate. Only 35% of corporations plan to be directly using an ALSP for e-discovery services in the next five years, yet one in five law firms reported intending to create an e-discovery ALSP affiliate. If this comes to pass, such affiliates may not serve to differentiate the firm, resulting in a substantial expense to create an affiliate that does little to drive profit. Also, only 17% of corporations reported that they were encouraging their panel of law firms to set up affiliated ALSPs. The reasons for this are not completely clear, but what is certain is that law firms would need to invest time and energy into convincing their corporate clients that any law firm affiliates would truly serve the clients’ needs and bring additional value in order for the client to accept these services.

Firms that are successful in incorporating ALSPs into their delivery models may well be those that can find a balance between “build” and “buy” solutions, creating affiliates for those types of services where the firm has particular strengths or its clients have specific demands, and acting as the client’s “general contractor” in situations where such an approach is more appropriate.

“Why would we want to give away revenue? We also think there’s a danger to letting somebody else into activity with clients. We think an integrated proposition is one the clients like as opposed to having to manage two or three providers.”

– Law Firm

Law Firms’ Use of ALSPs as Affiliates



Types of Affiliates Set Up or Being Considered by Law Firms	Currently Have as an Affiliate	Considering Establishing	Not Considering Establishing
Provider of legal software in conjunction with service offerings	3%	9%	88%
Interdisciplinary practice involving a mix of services	1%	10%	89%
General consulting and accounting firm	3%	8%	89%
A legal process outsourcing firm or managed service provider	1%	9%	90%
A staffing or insourcing company (providing lawyers and/or other legal staff to companies on a temporary basis)	3%	8%	89%
Other	2%	–	98%

A FEW OTHER APPROACHES ...

Large firms have established alternative resource centers. A number of large law firms have set up in-house, alternative resource centers that utilize a lower cost structure to deliver elements of a legal project (e.g., document review, due diligence, e-discovery). These service centers utilize lower cost staff and are located in low-cost cities. Firms deploy a mix of business models with many establishing departments or business units within the firm rather than separate legal entities.

Some corporate legal departments have established dedicated affiliates for large volume transactions. Some corporate legal departments have set up their own, dedicated affiliates in low-cost centers to handle large volume transactions (e.g., supply chain contracts, NDA agreements), with supervision by in-house lawyers. In addition to cost, corporate legal departments that have deployed this strategy can be motivated by risk mitigation, both in terms of controlling the process and data security.

SO HOW DO THEY DECIDE ON WHETHER TO USE AN ALSP?

There is an expectation of lower cost. Both law firms and corporate legal departments expect that ALSPs will be more cost-effective than using traditional law firm resources. ALSPs are assumed to be higher risk relative to law firms, which requires cost justification. For law firms working under fixed-fee arrangements, there also needs to be demonstrated contribution to profit margins. The one area of exception would be specialized advisors who offer expertise, including combinations of legal and other services, not otherwise available through law firms.

Quality of output is most important for high-volume tasks. For high-volume tasks such as document review and routine contract drafting and management, both law firms and corporate legal departments assess quality based on the accuracy of the output. While the experience of those conducting the work might be considered, the quality and accuracy of the work product are of primary concern. When comparing such services from an ALSP to how a law firm traditionally would complete such tasks, most corporations recognized that firms will utilize paralegals and/or junior associates for these tasks. With this in mind, it is logical that evaluation of such services when provided by an ALSP would place an emphasis on quality of output over the credentials of the people doing the work.

Accuracy and timeliness are important criteria for compliance services. For services linked to compliance, accuracy and timeliness are important criteria in assessing alternative services. These services tend to involve automation of filing or other processes, and decision makers want to ensure that filings are completed on time, in the proper manner.

Reliability is important for critical business processes. For critical business processes (e.g., management of routine supply chain contracts) that could involve both software and service elements, the reliability of the supplier becomes a more important factor in decisions. Corporate legal departments want to ensure that the provider will be available to support the solution and provide service levels to ensure quality and continuity.

Specialized expertise is valued for certain services. In some instances, specialized knowledge offered by the service provider becomes more important as a decision criterion. This includes technical expertise in areas such as e-discovery, as well as process or industry knowledge in areas such as regulatory compliance or M&A consulting.

For specialized legal services, individual credentials and experience are more important. Where legal staffing agencies or other service providers are used for customized legal work or advice, the individual credentials of the person delivering the service become more important. In these cases, the expectation is that the resource assigned will be an experienced, qualified lawyer from within the country of service, possibly with training from a large law firm.

WHO DECIDES AND HOW?

In a law firm ...

Decisions are primarily made by partners and senior lawyers working on matters. Decisions to use ALSPs tend to be made at the partner or local office level. Some do have panel relationships with legal staffing companies, often coordinated through the HR department.

Corporate clients can dictate choice of provider. Some corporate clients have established panel providers that law firms must use, primarily for document review. This tends to be in industries that are more litigation-intensive, such as insurance.

In a corporate law department ...

Decisions are led by general counsel or legal group heads. Decisions on use of ALSPs by corporate legal departments tend to be led by general counsel. In very large legal departments, they might also be led by heads of legal groups. The general counsel might consult other functions, including Finance, IT, or HR, depending on the requirement. Temporary staffing decisions are also made by general counsel or legal group heads, often with support by the HR department.

Procurement can be more formal for larger, business process changes. Some corporations might use formal selection and tender processes to select ongoing vendors. In particular, solutions combining technology with a service provider or a large process implementation are more inclined to involve a formal procurement process.

WHAT MOTIVATES USE AND WHAT STANDS IN THE WAY?

Types of Service Providers	Drivers of Use	Barriers to Use
Legal staffing services	Flexibility for temporary overload requirements Lower cost relative to full-time staff	Lack of business knowledge
Document review providers	Lower cost for routine reviews Lack of internal resources for high-volume requirements Increased flexibility without having to hire full-time staff	Data security concerns by clients about storing sensitive information offshore Uncertainty of qualifications/lack of comfort with credentials of document reviewers
eDiscovery service providers	Lack of internal resources Lower cost relative to in-house resources More efficient, turnaround time Technical knowledge	Have in-house solution
Legal drafting and contract management	Lower cost relative to internal resources for drafting and translation More efficient process Contracts are kept up to date with current law	Provider might not grasp legal concepts Potential for quality issues/errors in drafting Data security concerns by clients about storing sensitive information offshore Time zone differences for offshore providers Risk for more complex transactions
Legal research providers	Experienced researchers with more knowledge than internal resources Faster completion times	Prefer to handle in-house
Corporate formation and filing service companies	Lower cost for routine filings, coverage of jurisdictions More efficient, frees up internal resources for value-added tasks Reliable, not affected by staff absences In-house expertise not available if specialized area	Potential risk of error, noncompliance
Regulatory risk and compliance service providers	Specialized knowledge Technology platform or bundled technology solution	Risk of error/noncompliance Lack of knowledge of (and relationship with) local regulators
M&A consultants	Specialized knowledge not available within the firm (e.g., industry knowledge)	Tight turnaround on large deals, requirement for backing of large firm with resources
IP management	Cost-effective Covers multiple jurisdictions Technology platform	Some use law firms that offer cost-effective technology for regular tracking, but can add value for disputes

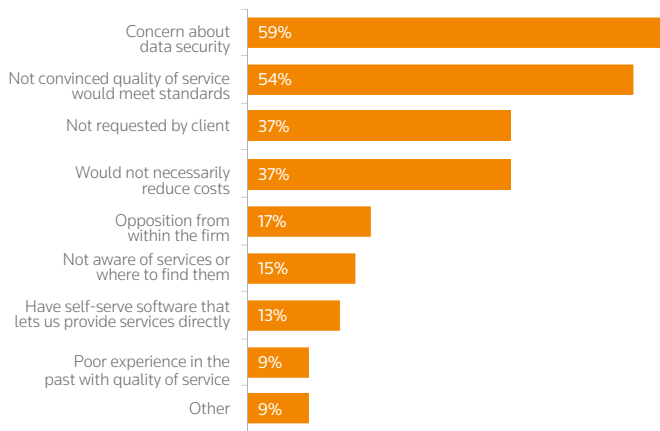
“I would expect the same level of service, whether it’s a law firm or an alternative service provider. If it’s a document review or whatever, I would expect it to be done properly.”

– Corporate Legal

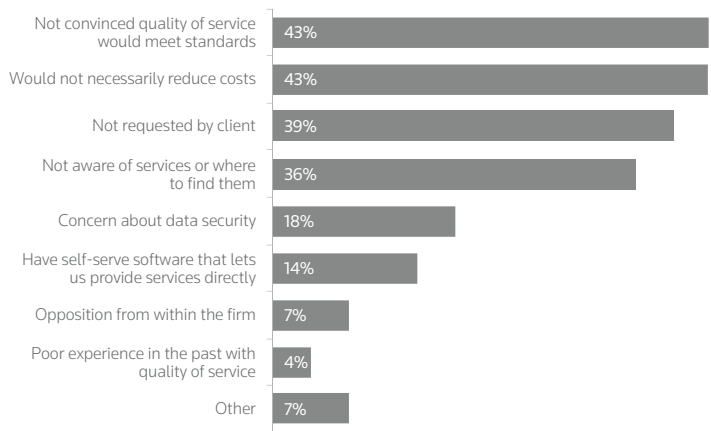
FOR SOME, HESITANCY REMAINS

Aside from a general lack of familiarity with the broad range of vendors and services available, law firms and corporations cited a number of other reasons for not using ALSP services. Law firms that do not use any ALSPs cite concerns about data security and quality of service as top reasons why. Corporations’ top reasons are concerns about quality of service and lack of cost reduction.

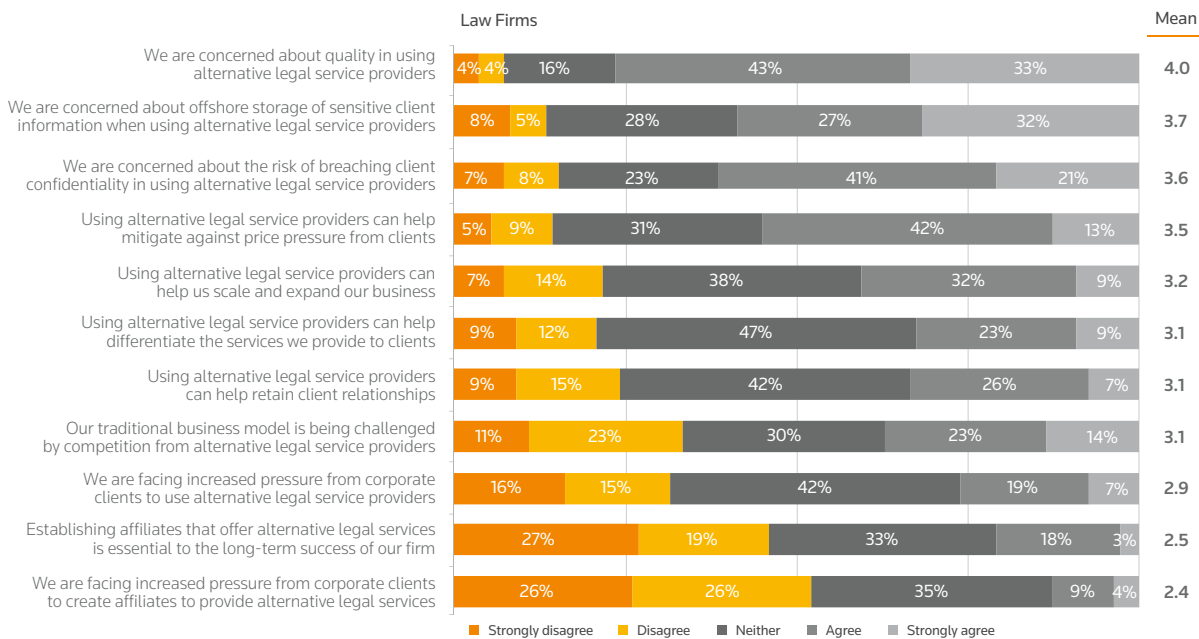
Law Firms' Reasons for Not Using Any ALSPs



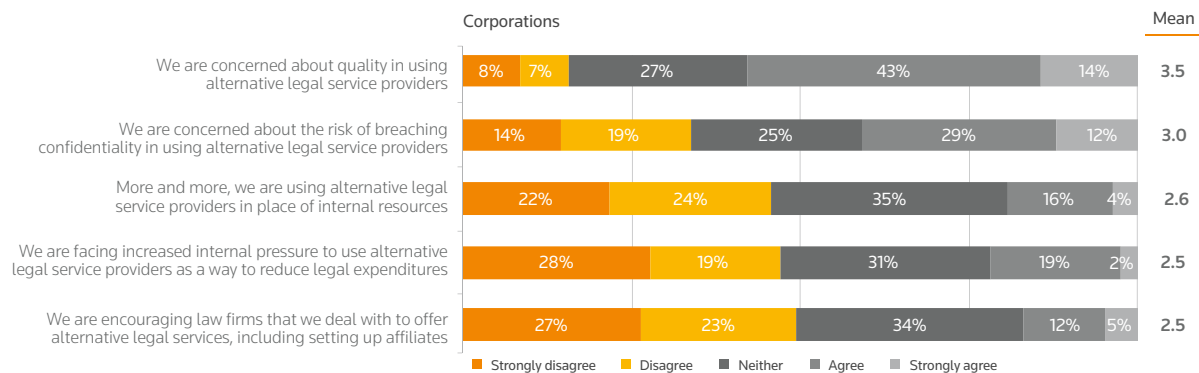
Corporations' Reasons for Not Using Any ALSPs



Law firms indicated they have concerns about quality in using ALSPs, offshore storage of sensitive client information, and risk of breaches in client confidentiality. At the same time, just over half did agree that using ALSPs can help mitigate price pressure from clients.



Corporations agreed that they have concerns about quality in using ALSPs, but are less likely than law firms to have security concerns.



WHAT DOES THE FUTURE HOLD?

Continued growth in use of alternative legal services for high-volume tasks. Although attitudes are expected to change with time and advancements in technology, currently neither law firms nor corporate legal departments are comfortable using alternative providers for specialized services involving the provision of legal advice and interpretation; both law firms and corporate legal departments do foresee continued growth in use of ALSPs for high-volume tasks. Notably, use of alternative approaches to routine contracts to support transactions is seen as an area of potential growth by corporate legal departments.

Technology-enabled solutions could drive growth. Technology is already being leveraged in conjunction with service around high-volume tasks such as document review. In areas linked to transactional processes within a company, such as contract drafting, some foresee the application of decision technology enabling growth in the scope of ALSPs to capture more complex scenarios requiring legal judgment.

CONCLUSION

While the ALSP market is still relatively young, it has grown quickly, driven in large part by the changing dynamic between law firms and corporations and the desire to lower costs as well as the need for specialized expertise that does not exist in-house. More than half of law firms and corporations report using an ALSP in at least some capacity today, with the number of customers using ALSPs and the number of tasks done through ALSPs set to grow in the near future. Despite not being recognized widely as a cohesive segment of the legal services market, ALSPs now have more than \$8.4 billion in legal spending. While their use today is primarily centered around standardized tasks, increasing sophistication on the part of the ALSPs, as well as better technology and growing familiarity and comfort on the part of law firms and corporations could lead to ALSPs playing a greater role in increasingly complex services and tasks.

For corporations, legal departments can benefit from a growing reliance on ALSPs, particularly for regulatory risk and compliance or specialized legal services for which they do not have in-house expertise. In addition, it is quite likely that insistence on the part of corporations that their outside counsel leverage ALSPs in litigation matters for tasks like e-discovery and document review will only grow.

As for law firms, continued resistance to working with ALSPs may ultimately impact client relationships as corporations look to rely more heavily on ALSPs. For those firms already working with ALSPs, or looking to start, partnering with an ALSP and acting as their clients' general contractor is a pathway firms can leverage to retain and grow business.

While the exact trajectory of the ALSP market remains impossible to predict, there is no doubt that it is and will remain a growing and competitive part of the legal marketplace.

"We want to take a lot of the routine contracts and effectively have the business build them without any real need for lawyers ... that frees up lawyers to do more strategic stuff."

– Corporate Legal

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