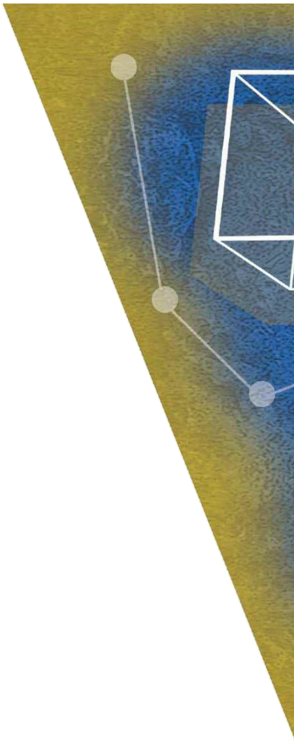
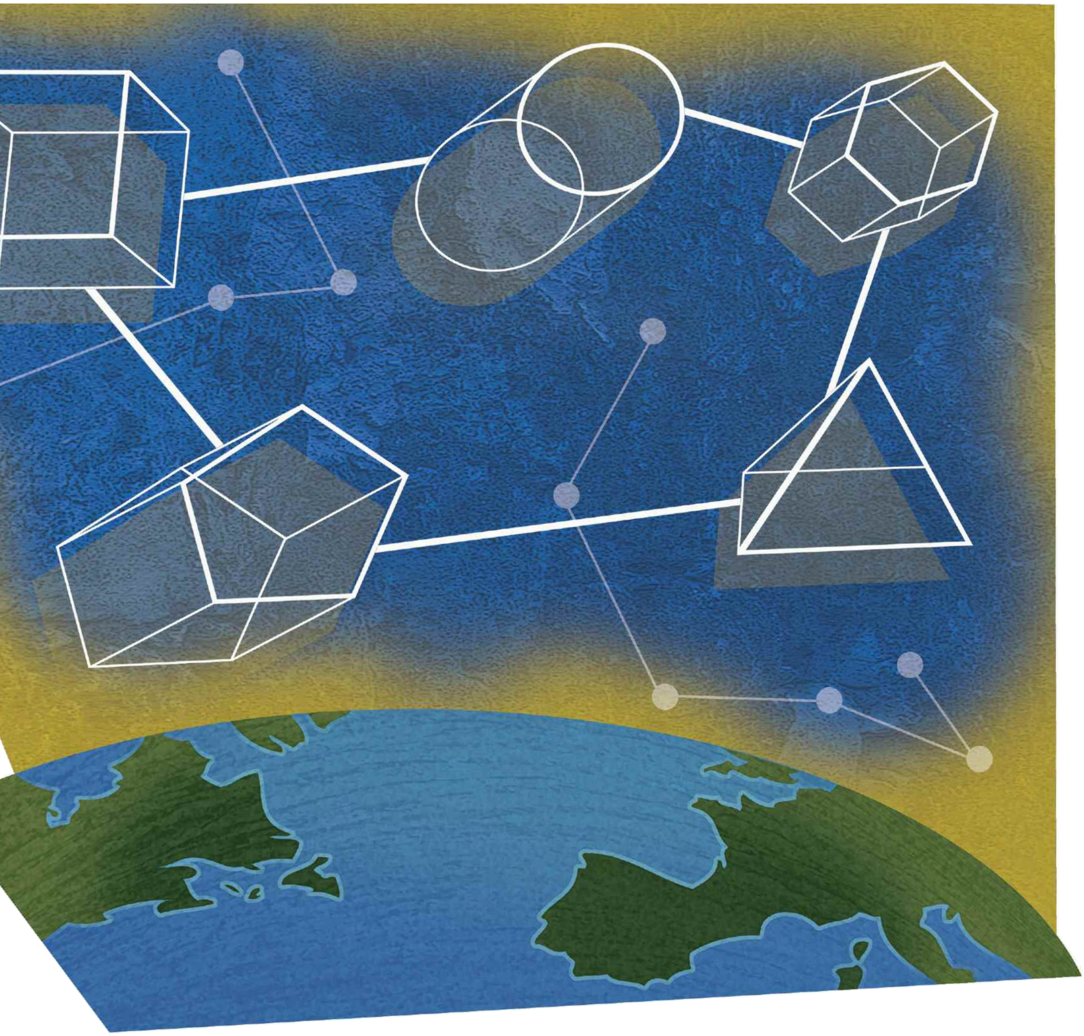


Alternative Growth Structures:

A new constellation of non-merger options for expanding your law firm

We are in a period of genuinely unprecedented change in the legal market. Deep-seated structural changes have been ignited by a combination of economic downturn and deregulation, creating a constellation of different structures and models for providing legal services where once stood the near-universal model of a partnership of professionals.

By Chris Bull



At the same time, new levels of competition and consolidation make growing, or even holding onto, your share of the market much harder. For the law firm determined to grow but unconvinced that merger will preserve the best things about their organisation or help achieve that goal, there is an expanding range of alternatives to evaluate.

Merger comes with a whole stack of compromises and tradeoffs, no matter whether your firm is in the dominant role (what the rest of the business world would call the acquirer) or not. Those compromises are often unpalatable to a partnership accustomed to its own ways of doing things and a high degree of control over its destiny. At the same time, how do these firms compete for clients and people with ever-better funded, better marketed and more aggressive competitors?

LEARNING FROM THE U.K. EXPERIENCE

When taking law firm leaders in the U.K. through their options for growing the firm, I focus on routes for independent firms to:

A. compete in terms of a more powerful market position and channels to market; and to

B. harness genuine economies and efficiencies in their business infrastructure and purchasing.

The pace of change in the British market has created more of these options than in any other major jurisdiction. The U.K. has become the world's "legal laboratory," initially in anticipation of the implementation of the *Legal Services Act 2007*. Since early 2012, when the first Alternative Business Structures (ABS) were licensed, the development of experimental legal business models has been stimulated still further.

We have been working with a range of networks of all shapes and sizes, from purely domestic groups to the largest global structures.

A GRANDER ALLIANCE

Quite a few firms are already members of referral networks and other alliances, many of them longstanding and generally loose federations. We have been working with a range of networks of all shapes and sizes, from purely domestic groups to the largest global structures. Across the board, members are re-assessing the potential value of these ventures and examining what is required to unlock more of that value as the market changes.

We anticipate rapid growth of some existing groups and a formalisation of brand identity in some cases. This will be particularly true for networks in which a majority of member firms want to strengthen the collective brand in the market to compete against bigger firms or franchises, but which prefer to remain independent entities. In other groups, we expect dissolution as members fail to agree on the pace or extent of future amalgamation.

Many firms not currently affiliated will join or create new groups and networks to strengthen their position. With a welter of new competition, big spending on marketing, and the need to invest in technology and process, there is a much stronger case for collaboration as opposed to going it alone. (See the next article by Nick Jarrett-Kerr for more on this subject.)

THE MDP ROUTE TO GROWTH

Multi-disciplinary partnerships (MDPs) have been out in the cold since the tsunami of regulation and client aversion that followed the collapse of Enron. It is easy to forget that in some cases, particularly in continental Europe, accounting firm-led MDPs had become very serious players in the legal market up to that point.

The new regulatory environment in the U.K. encourages a range of MDP formats. Limited-shared ownership between solicitors and other professionals inside Legal Disciplinary Partnerships (LDPs) has already been operating for two years, with these firms now converting to ABS status.

High net-worth clients, with a closely interlocking range of needs for investment, tax, financial and legal advice, are a natural market for MDP models, as are SME businesses. We are once again seeing renewed, serious interest from banks, financial services businesses and accountants in building multidisciplinary offerings incorporating legal services. As with almost every option in this article, this provides an opportunity for a minority of law firms to lead their own MDPs.

STEALING THE OUTSOURCER'S CLOTHES

Some law firms have taken on the tactics of Legal Process Outsourcing companies (LPOs) and begun to work with corporate clients to develop another form of closer relationship. Managed legal service deals see firms take on all or most of a corporate client's legal function, providing the day-to-day support typically provided by the in-house team but also the less regular work that is passed to external counsel.

The law firm is accepting, in these deals, a block of low (or no) margin process-based work that would, in isolation, be unattractive. The benefits, however, include not only winning the lion's share of the more lucrative work the client spins off, but also securing a unique, and sometimes exclusive, position within the client that will defend the firm for a set period against competitors.

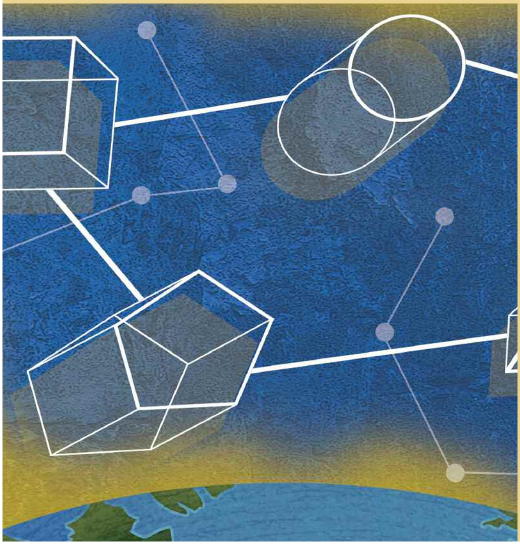
Both Eversheds and Berwin Leighton Paisner (which launched its own Managed Legal Service venture on the back of a deal with Thames Water) in the U.K. have taken strides in this direction. Top 100 firm Hugh James has executed a smart sequence of actions to consolidate all of its volume legal work into one division, set it up as a separate LLP, and rebrand it as "Involegal," now led by the law firm's former managing partner and labelled as outsourced legal services.

VIRTUAL REALITY

Another trend that responds to the demand for new ways of delivering services to corporate clients has been the "virtual law firm." U.S.-based Axiom

B2C: New options, opening fast

Some of the U.K.'s leading B2C-focused firms have come together under a single brand. Quality Solicitors has built up a law firm network with almost 200 locations under a distinctive common identity.



Add into the mix a national prime-time TV advertising campaign (accompanied by an iTunes chart hit theme song, surely a first for a legal business), in-store tie-up with leading retailer W. H. Smith, and a dose of notoriety ("Why does everyone hate Quality Solicitors?" was the tongue-in-cheek headline of a recent post on influential website Legal Futures), and this is the brand to catch for new entrants.

Quality Solicitors is essentially a marketing services membership model. The appeal of this model to independent firms who want to avoid merger or acquisition is

Law has become the leading example during its rapid rise to prominence, but the model is being adopted and adapted by others. For example, Keystone Law in the U.K. now has more than 100 solicitors working entirely from home offices and spanning the full range of corporate legal services.

These models are clearly not for every lawyer and are not attractive to every client. But their very existence and confident growth belies any claim that firms need an attractive office and the expensive infrastructure that goes with it. Law firms have certainly learned from these models, and many now use flexible working plans that are not just good corporate citizenship, but also are rooted in sound business benefits.

Berwin Leighton Paisner evolved this model much further and set up its

powerful: participating in a strong, nationally marketed brand that the firm could never afford to develop (or compete against) alone. That said, the jury is out on both return on investment and the potential reputation risk from the activities of so many other member firms.

The structural changes in the U.K. market were popularly dubbed "Tesco Law" for many years, reflecting the expectation that the large supermarkets and retailers would be the first in to offer legal services. It has been the Co-operative Group, operating a range of business from financial services to funerals to supermarkets, which has been fastest to build a legal services brand and was an early recipient of an ABS licence.

The leading retail banks have also packaged legal advice-line and drafting services to their personal and business customers, while other financial services and retail brands are examining the business case for setting up their own ABS.

This must be seen as a powerful competitive threat for law firms focused on the individual or small business, including some top 100 U.K. firms. But there is also a slew of opportunities for lawyers to operate white-labelled services on behalf of retail brands, many of which would hesitate before investing in the set-up of their own ABS law firm. These deals could provide a large increase in work volume with low costs of sale and limited impact on the firm's own market position and reputation.

The advent of mass-market, well-funded online channels for consumer legal services looks to be more disruptive than the changes noted already. Online legal services ventures are offering more "freemium" services, with the "core" service offered free of charge or for a nominal fee, in order to entice consumers into a long-term contract or to take other, chargeable services.

Although online is a serious threat to many law firms, there are opportunities to work with the new entrants and grow with them. U.S.-based online offerings like LegalZoom and Rocket Lawyer already operate an extensive network of small law firms and individual lawyers who provide the expert legal advice available through their sites.

own "virtual law firm," founded on its alumni and existing contacts, called "Lawyers On Demand." Other firms, including Eversheds and its "Agile" brand, are following suit, diversifying their legal offering in a new direction inspired by start-up virtual firms.

For the large U.K. or U.S. firm anchored in the expensive legal centers of London or New York, Mexican Wave 2.0 allows them to stream work effectively to lower cost locations and meet clients' expectations.

MEXICAN WAVE 2.0

"Mexican Wave" is a term coined many years ago to describe a commercial legal deal in which a lead-partner law firm sub-contracts specific types of work to other selected (typically smaller) firms. Lovells (now Hogan Lovells) struck a deal with insurance giant Prudential and a small set of regional U.K. firms to manage the insurer's overall real estate law caseload and stood behind the quality of work done by the sub-contractors.

Amidst the new models emerging in the legal sector, Mexican Wave 2.0 is important, as a range of formal and informal deals are made between the large London firms and regional and national "sub-contractors" with different areas of focus, viable matter sizes and lower fees. For law firms looking to expand their workload without merger, becoming a sub-contractor is a serious option.

And for the large U.K. or U.S. firm anchored in the expensive legal centers of London or New York, Mexican Wave 2.0 allows them to stream work effectively to lower cost locations and meet clients' expectations.

BUILDING GEOGRAPHIC COVERAGE

I have not lingered long on the challenges of international growth in this piece. Related articles in this edition of the *Edge International Review* cover the important parallel developments that are enabling new merger options to open up across borders. Specifically, the use of Swiss Vereins and international alliances is challenging the received wisdom that the only legitimate way of achieving geographic coverage involves building a single firm with a shared profit pool.

A REAL ALTERNATIVE TO MERGER

Despite the accelerating search for growth and the lengthy economic crisis, the actual pace of consolidation in the main legal markets is still modest compared to predictions. Law firms continue to find many aspects of merger and acquisition very challenging.

Law firm leaders worldwide are keen to have a list of other options that could provide the growth and competitive boost they need without the loss of control and independence. Many of the alternative growth structures considered in this article, as well as in my colleagues' articles to follow, will be on those lists. •

Architecting the new model firm

Chris Bull *consults with a range of legal service businesses — from established law firm partnerships to large corporate legal departments and brand new entrants — exploring alternatives to the traditional legal model and the opportunities these models present. Chris draws on more than 15 years as a leading practitioner and pioneer in law firm management and developing best practices in technology, process management, and legal outsourcing.*

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