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Virtual Law Firms: Here to Stay?

Proponents see virtual firms grabbing greater market share

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When Axiom broke onto the scene in 2001 in New York, it began its escalation toward becoming the largest, most popular virtual law firm in the country.

Since then, the firm has established hubs in San Francisco, London, Los Angeles, Chicago, Washington, D.C. and Boston, and it hopes to build a presence this year in two other U.S. markets and in continental Europe.

The firm's 275 lawyers, who average salaries of \$210,000 plus benefits, were chosen from approximately 25,000 resumes, and more applications pour in daily. The firm expects to employ between 600 and 800 lawyers in the next three years.

Could Axiom's success be predictive of the future of virtual law firms?

Axiom's model is like that of other firms creating alternatives to the traditional, brick-and-mortar structure: it employs only experienced lawyers and holds minimal office space. Its lawyers work from home or from their clients' offices, and its rates are far below those of its large-firm competitors — in Axiom's case, \$200 an hour for lawyers with an average of 15 years' experience, compared to the \$600 to \$800 hourly that's common at a high-end firm.

Since the tech bust of 2000, the

number of virtual law firms has proliferated. Other well-known examples include FSB Corporate Counsel, a 52-lawyer, partner-only firm founded in 2001 in Atlanta, and San Francisco-based Rimon Law Group, started in March 2008 and now home to 34 partner-level lawyers.

But no one else has achieved the traction and scope that Axiom has — yet. Virtual Law Partners, for instance, targets bet-the-company and run-the-company work much like Axiom, and considers top traditional law firms to be its competitors. But it is still in its early growth stages. Virtual Law Partners was launched in 2008 by three Silicon Valley lawyer-entrepreneurs and has already swelled to 40 lawyers. How well the firm will continue its expansion remains to be seen.

Not surprisingly, the recession has been helping the cause. RoseAnn Rotandaro, a VLP founder, said her firm's model has given it a leg up this year over traditional law firms when it comes to billing rates.

"There's no way they could be as flexible as we can be," Rotandaro said.

That's due to the inflexibility of overhead costs like rent and employee salaries. Mark Chandler, general counsel of San Jose-based Cisco Systems Inc., said he's seen plenty of shoddy work done by associates from overpriced downtown office space, and excellent work done from a home decked out with videoconferencing equipment.

"As the GC of a Fortune 60 company, I very rarely visit the offices of the law

firms that do work for us, and the offices are far-flung," Chandler said. "Because of that, law firm investments in fine art or furniture don't matter much to me."

Allyson Willoughby, general counsel of San Francisco-based Method Products Inc., confirmed the attraction to virtual firms in today's business climate.

"These days, corporate legal departments are being asked to do more with less, and everyone is looking for an alternative to the traditional lock-step billable hour," Willoughby wrote in an e-mail. "Virtual law firms offer a very appealing and efficient model to the in-house legal department."

Axiom's trajectory shows that virtual firms can sustain growth past the opportunities presented during a single downturn. According to Mehul Patel, a former lawyer now working on the firm's expansion, venture capital-funded Axiom doubled its revenue each year for its first few years. And four years ago, it became profitable — a position it maintained through the downturn. Axiom reinvested those profits in technology infrastructure and geographical expansion, while its traditional-firm competitors were paying out profits to their partnerships.

But while it's so-far, so-good for a smattering of virtual firms, will they be a lasting feature of the legal industry? Or are they a passing fad that will die during the next boom? Should traditional law firms be squaring up to compete against a new kind of enemy?

Several firms with alternative models that didn't begin as virtual firms have already proven they've got staying power. Mountain View-based GCA Law Partners, founded in 1988, now employs 27 partners and of counsel, but has no associates, secretaries or billable hour requirements. It counts among its clients Agilent Technologies Inc., Monolithic Power Systems and the Packard Foundation. In another example, The General Counsel, a nine-lawyer firm started in 1985 in Minnetonka, Minn., bills its clients monthly or periodically instead of hourly, with its lawyers functioning as project-focused, integrated or outsourced corporate counsel.

However, times a-changin' don't necessarily mean minds a-changin'. Virtual firms do have their detractors, and some industry analysts expect Rome to reign on.

"I don't see virtual law firms competing with traditional-model law firms in the near term, and it would surprise me if virtual law firms were able to establish any foothold in the industry," said Richard Gary, a Bay Area legal consultant. Gary raises a slew of questions about the new model.

"How do you do quality control? How do you do training? How do you do collaboration?" he asked. "I recognize that all of that can be done electronically — I just don't think it can be done as effectively in an electronic format."

Blane Prescott, a San Francisco-based legal consultant for Hildebrandt International, said he expects to see more virtual firms in the coming years, but he doesn't think large law firms should be shaking in their boots.

"The whole world is becoming more virtual, but I don't see a major threat to the law firms," Prescott said.

Prescott said virtual firms can be good for work that doesn't require much leverage, or for pointed advice in legal subject matter that requires unusual and deep expertise, such as tax, ERISA or patent prosecution. But most virtual law firms shy away from large

litigation matters or large-scale mergers and acquisitions work, as they require hordes of associates or contract lawyers to complete tasks like document review and due diligence, with litigation being particularly paper-intensive.

Beyond limitations to the kinds of work they can do, virtual firms are dependent on traditional law firms to supply their talent pool, at least until a new training model for young lawyers emerges.

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CISCO SYSTEMS

"They don't perpetuate themselves very well," Prescott said.

That's a shortcoming at least some virtual firms have accepted; they expect to continue to recruit from in-house legal departments and traditional law firms indefinitely.

"We think there's an ecosystem here," says Axiom's Patel. He envisions an increasingly fragmented legal industry in which traditional law firms, solo practitioners, virtual firms and outsourcing companies each grab a piece of the pie, with traditional law firms getting an ever smaller piece.

Each on-looker had a different view of how much market share might go to which group. Prescott said he "wouldn't be shocked" to hear that virtual firms commanded 5 percent of the country's corporate legal work sometime in the next 10 years. But Patel said Axiom is shooting for 20 percent to 30 percent of its clients' legal work, a target already met with some clients.

"At the end of the day, what Axiom is about is taking work away from traditional law firms," Patel said.

Unlike Prescott, Patel pictures virtual firms handling more like a quarter of the country's corporate legal work, and in his view, it won't be just the commodity piece, or specialty matters like ERISA and tax. Virtual firms are vying for the full spectrum of legal work, from bet-the-company down to routine matters.

"I think there's going to be room for disruption all the way up and down that chain," Patel said.

At the moment, it's a chicken-or-egg dilemma: To command that much work, a greater number of virtual law firms must be born, grow large, and last. But to do that, they must command more of the market.

According to Willoughby, "It's hard to predict how much work will get diverted to virtual firms ... but I am confident these models will only grow and multiply."

As virtual firms position their rhetoric in opposition to the brick-and-mortar model, Cisco's Chandler cautions against a binary view of law firms as either traditional or virtual.

"I think virtual techniques are going to be adopted across the spectrum of legal service providers, so the distinction between who's a virtual law firm, and who isn't, isn't particularly meaningful," Chandler said. "There's a continuum here, and it's a reflection of the fact that there are fundamental shifts in the way that legal services are going to be delivered."