

# THE AMERICAN LAWYER

An ALM Publication

americanlawyer.com

JULY/AUGUST 2012

## Disruptive *Innovation*

*Look out firms, [Axiom](#) is trying to beat you at your own game.*

BY DREW COMBS

**F**OR MUCH OF ITS 12-YEAR HISTORY, Axiom Global Inc. has been little more than a long-term legal temp placement agency. It took advantage of a ready supply of dissatisfied and burned-out Big Law refugees and in-house legal departments looking to keep overhead down. Like other temp agencies, the company played little to no role in how its 450 temp attorneys, who worked from their own homes or clients' offices, fulfilled work assignments. Axiom was simply the middleman between the temps and the firm's Fortune 500 corporate clients. It's been a lucrative line of work—especially during the Great Recession. Axiom posted revenues of \$130 million in 2011, a 62 percent increase over the prior year.

But two years ago the New York-based company created a new division to do legal outsourcing work, what Axiom refers to as “managed services.” This unit hired 330 staff attorneys (all are full-time Axiom employees) to work out of Axiom facilities in Chicago, Houston, and Belfast, Northern Ireland. Axiom trains, manages, and directs these lawyers, but it's not a law firm so there are restrictions on the type of work and legal analysis it can provide.

The staff attorneys have worked for 19 clients, including Hewlett-Packard Company, Kraft Foods Inc., and Vodafone Group plc. Last year, these managed services matters represented 25 percent of the company's 2011 revenue—up from 10 percent in 2010. (Axiom declined to say how profitable this work is.)

The rapid growth of Axiom's outsourcing arm is just one example of the disruption that is taking place in the legal services market as clients embrace nontraditional providers of legal services, as well as alternatively structured law firms like Washington, D.C.-based Clearspire Service Co. and Silicon Valley-based Virtual Law Partners. Both Clearspire and Virtual Law Partners emphasize cost-reducing work-at-home attorney staffs, technology infrastructures to efficiently manage work flow, and fixed-fee pricing. While Virtual Law Partners focuses on transactional matters, Clearspire offers a full range of litigation and corporate matters.

AXIOM COFOUNDER  
MARK HARRIS  
SAYS, “WE THINK  
WE COULD BE  
ONE OF THE TOP  
20 PROVIDERS OF  
LEGAL SERVICES.”



PHOTOGRAPH BY *Drew Kelly*

At the other end of this evolving spectrum are legal process outsourcers, who highlight their ability to staff contract processing and document review assignments with cheaper, sometimes foreign-based workers. “There are big implications [for firms from these companies],” says William Henderson, professor of law, Indiana University School of Law. He adds, “They are speaking the language of value, not necessarily professionalism. It is not a profession. It is something different.”

Legal process outsourcers are claiming more of the low-end but at times profitable work that some Am Law 200 firms do. Axiom’s managed services arm takes on a limited amount of lower-tier work (usually tied to larger projects) like document review assignments. (It is in the early stages of establishing a presence in India to handle some of this work.) But it is also attempting to pave a middle ground between legal process outsourcers and law firms (both traditional and alternative) by providing solutions to legal challenges that may rise above mere document review tasks but don’t require the bench strength and extensive talent infrastructure (read: cost) of an Am Law 200 firm. Based in part on knowledge gleaned from placing temporary attorneys at major corporations, Axiom concluded that there was a range of legal tasks, currently being handled in-house and by outside counsel, for which it could offer equal quality and lower cost. “There is a lot of legal work which is semirepetitive, where if you apply a process lens, technology tools, and work flow management [to it], you can

deliver much better performance,” says Paul Carr, Axiom’s chief operating officer.

**I**N LATE 2008 A “GLOBAL BANK,” which Axiom declined to name, called to complain about the rates it was paying for the company’s temp lawyers. The client told “us to drop our rates by 25 percent or have our people out of the building by Monday,” says 42-year-old Axiom chief executive and cofounder Mark Harris. (He is a former Davis Polk & Wardwell associate.) Axiom’s leadership seized on the bank’s demand as an opportunity to diversify and expand its business. “We went down there and said, ‘We are happy to do our part, but that’s a small piece of the pie, and it’s not going to move the needle,’ ” Harris says. That began a dialogue in 2009 that resulted in Axiom reducing its rates for the bank, but also securing a greater percentage of the company’s legal spend, according to Axiom. The relationship also changed from supplying the bank with temp lawyers as needed to the bank’s retaining an Axiom-organized team of temp attorneys (housed a floor above Axiom’s New York offices) to work on matters such as negotiating, drafting, and finalizing contracting agreements—everything from simple consulting agreements to more complex software licensing and telecommunication services deals—for three of the bank’s business units.

Axiom’s leaders weren’t winging it when they turned the bank’s demand for rate cuts into more work. The company’s leadership

had been strategizing about how the business could evolve into something more than just a temp agency. “We came to the conclusion that [the temporary staffing] model works well,” says Carr, referring to those strategy sessions, “but if we wanted to be transformative, we have to do more than that. We have to be scalable.” The company’s managed services division officially launched in 2010.

Axiom has also been able to draw on some of its 450 temp attorneys. The company has relied on the most seasoned temps for their expertise in developing protocols for outsourcing engagements as well as their management experience and legal knowledge. (These experienced lawyers essentially temp for Axiom when they are not temping for Axiom clients.) In the past Axiom often bragged about the average \$225,000 salaries of its temp lawyers, who typically have 15 years of work experience and bill out at \$150–\$350 an hour. Still, most of the outsourcing legal work is handled by the 330 full-time staff attorneys that Axiom hired specifically for those roles and includes more junior attorneys. It’s not clear how much money these attorneys make. “We no longer discuss employee compensation publicly,” the company said in an e-mail.

For some legal industry observers, the focus on alternative legal service providers over law firms glosses over what is likely an unfavorable deal for attorneys. “What this means for lawyers in general is not so good,” says Robert Gordon, a legal historian and professor at Stanford Law School. “When you have efficiencies produced in this way, you tend to

get workers who are somewhat more exploited, somewhat more overworked, and somewhat less well paid.”

Still, the business model seems to be working well. Take client Hewlett-Packard. Two years ago, the computer giant was looking for an efficient and cost-effective way to negotiate, draft, and execute sales-related contracts, licensing deals, and follow-on agreements (that in

**NICE WORK IF YOU CAN GET IT** *A sample of Axiom’s managed services assignments.*

CLIENT	TYPE OF WORK	PLACE	NUMBER OF AXIOM ATTORNEYS	DATE WORK BEGAN
Vodafone Group plc	Procurement contracts	Belfast, Northern Ireland	5	February 2012
Kraft Foods Inc.	Contracts related to company’s split	Chicago	69	October 2011
Hewlett-Packard Co.	Sales contracts	Houston	11	May 2011
Hess Corp.	Trading agreements	Houston	6	February 2012

some cases would be for as much as \$10 million) for some of its business units. Much of the work, which at the time was being done in-house, would be routine. Hewlett-Packard was familiar with offshoring, but wanted these contracts handled on shore to allow for greater interaction between the lawyers handling the matters, HP's staff, and customers. HP also wanted flexibility to scale up and down, given that software-licensing agreements typically get done during the last three weeks of the quarter.

HP put the work out to bid and ultimately selected Axiom out of a pool of 17 entrants, which included firms. "Law firms would say you can use my partners in this regional office that bill at a lower rate," says Gabriel Buigas, a vice president and deputy general counsel at HP, "but they were a little behind on the use of process and technology and that this was a different kind of labor force."

Axiom, in consultation with HP but using its own money, opened a facility in Houston to service the work in a single location. The facility has been up and running since July 2011 with 11 Axiom staff attorneys working on HP matters. To date it has processed Hewlett-Packard contracts with a total value in excess of \$1 billion.

This scaled but customized approach was key to landing managed services work for London-based Vodafone. Axiom had been providing temp lawyers to Vodafone, but last year it was put on the company's new legal services panel along with 10 law firms. (Axiom was the only alternative legal service provider placed on the panel.) Vodafone wanted a law firm or other legal service provider to handle procurement-related contracts, which vary from uniform deals to network infrastructure agreements.

Adding attorneys to the telecom's own in-house law department was not an option. "We didn't have enough lawyers, given demand, and not much leeway in increasing head count," says Rosemary Marin, Vodafone's general counsel. Axiom proposed setting up its own facility in Belfast with Axiom attorneys who would handle Vodafone's agreements. "We selected Axiom. It was not a difficult decision," says Martin of the

outsourcing arrangement, which has been operational with five Axiom lawyers working on Vodafone matters since March. "They weren't an outsource operation with an army of lawyers and a very systematized set-up. It was more tailored than that," she adds.

Over the past two years, in addition to setting up facilities in Houston and Belfast, Axiom gained an outsourcing presence in Chicago with the acquisition of a patent discovery company. (The company declined to provide attorney head counts for each facility.)

Axiom's Chicago facility is the hub of activity for one of its larger current engagements, an outsourcing deal with Kraft Foods. Currently 69 Axiom attorneys are involved in the deal, which includes reviewing as many as 40,000 contracts that may have to be revised, and in some cases renegotiated, because the company is splitting into two entities. The work requires Axiom attorneys to identify operative contracts to which Kraft is a party, propose changes to those contracts to reflect which one of the two companies is the appropriate party in the future, negotiate with other parties to the contracts regarding these changes, and execute a valid, new contract. Gerhard Pleuhs, Kraft's executive vice president—legal affairs and general counsel, said that his company chose Axiom because "we were thinking about how can we do this in a cost-efficient manner, where you have resources that we can pull from as the work increases." He added that he also went with Axiom for this lower-tier type of work because he thought it would be less threatening to the law firms that were involved in the transition.

**A** XIOM MAY HAVE HUNDREDS of lawyers on its payroll, but it isn't a law firm. It's a C-class corporation, which gives it more flexibility than an LLP. For starters, it can take on external investors. Since its inception, Axiom has been the beneficiary of more than \$30 million in venture capital. One of the most recent infusions came in 2008, with an \$8 million investment from DAG Ventures.

Still, there is much Axiom can't do because of legal and regulatory restrictions. It can't offer a legal opinion. It can't represent a client in court. It can't take a company public. It also can't lead a major corporate transaction. Axiom's leadership isn't crusading for a change in the rules. "We don't see where we could do those things better than a law firm," Harris says. (However, he says that the company might become a law firm in the United Kingdom for marketing reasons.)

Nevertheless, Harris is bullish about the long-term potential for the company's managed services arm. He says, "We think we could be one of the top 20 providers of legal services. If we are in the top 20, we would be able to say we are beginning to succeed on our objective."

Currently, if Axiom were a law firm, its revenues would put it at 172nd place on The Am Law 200, below Fitzpatrick, Cella, Harper & Scinto and above Dickinson Wright. To be among the top 20 firms for 2011, Axiom would need gross revenues of nearly \$1 billion. The twentieth spot on this year's Am Law 200 list was a tie between Morrison & Foerster and Simpson Thacher & Bartlett, which both reported revenue of \$963.5 million. For those two firms, leading highly profitable litigation matters and corporate transactions was key to generating nearly 10-figure revenues. Axiom isn't able to play such roles, making Harris's goal for the company a tall, some might say unrealistic, order.

Bob Kagle, a partner at Benchmark Capital, which has invested in Axiom, thinks otherwise. "Axiom has an opportunity to disrupt an industry that hasn't materially changed in a century," says Kagle, who sits on Axiom's board. "With a worldwide legal market that is a trillion dollars each year, there is plenty of running room to build a successful business," he adds. One thing is for sure: Law firms will be watching to see if he's right.

---

*E-mail: [dcombs@alm.com](mailto:dcombs@alm.com).*

---