The Economist

Business | Aug 13th 2011

Bargain briefs

Technology offers 50 ways to leave your lawyer

CONVENTIONAL law firms charge vast hourly fees and then hand the work to underlings while the partners play golf at clubs their clients are too poor to join. At least, that is how it seems to many clients, whose irritation at being overcharged turned to fury during the recession.

Some clients are switching to unconventional law firms, which claim to offer equally good lawyering for much less money. Take Clearspire. The firm's 20 or so lawyers work mostly from home, collaborating on a multi-million-dollar technology platform that mimics a virtual office. A lawyer checking in on a colleague automatically sees a picture of her on the phone when she is, in fact, on the phone. Clients use the platform too, commenting on and even changing their own documents as they are being drawn up. Conventional lawyers are far less open.

From the start, Clearspire offers cost estimates for each phase of a legal job. Employees who underestimate how long it will take cannot simply jack up the bill—they must take the hit themselves. But if a lawyer finishes his work faster than promised, he gets a third of the savings. The client also gets a third, as does Clearspire. This gives everyone a stake in making the process more efficient and predictable.

Bryce Arrowood, the founder, notes that law firms reward partners who bring in business, and not necessarily the most brilliant lawyers. Yet clients' priorities are exactly the reverse. So Clearspire has an unusual dual structure. American law firms cannot have non-lawyers sharing fees with lawyers. (Britain used to be the same, but will ditch this pointless rule this year.) So Clearspire must be two entities: a law firm, with salaried employee-lawyers rather than partners, and a second company that focuses on bringing in business and supporting the lawyers.

The discount for clients is sweet. George Kappaz is a private-equity boss who recently gave a complex job to Clearspire (structuring an equity package for Astrata, one his fund's firms). He estimates that it cost a quarter of what he would have paid the big firms he used before, and Clearspire's work was just as good. (Many of its lawyers come from top-notch law firms.) Mr Kappaz predicts that the Clearspire model, or something like it, will revolutionise the legal business.

Perhaps so, but for Clearspire it is early days. Can it make money? A company like 11-year-old Axiom proves that clients have an appetite for alternative models. Axiom either seconds some of its hundreds of lawyers to a company, takes on a whole chunk of a client firm's legal work (such as commercial contracts), or performs "discovery" (reviewing documents for litigation). Rather than charging by the hour for each lawyer, it asks for a single flat fee, or charges for a team by the week or the month. Expenses are kept low by having headquarters in SoHo, a chic bohemian bit of New York, and by stashing many lawyers in even cheaper places such as Houston and Hyderabad.

The recession was good to Axiom. After it sent its consultants, recruited from the likes of McKinsey and Accenture, to clients to help them trim their legal spending, the clients gave Axiom more work. Revenue grew from $55m in 2008 to $80m in 2010. This year the firm expects to rake in $120m. Companies were always under pressure to cut their legal bills, says Mark Harris, Axiom's boss. But "fake pressure" before became "real pressure" during the downturn.

Axiom and Clearspire serve some of America's biggest companies. Other entrepreneurs are aiming at small-business clients. These would normally take a chance on finding the right sole practitioner or small firm. But on LawPivot, a year-old social-networking website for lawyers and those who need them, potential clients post questions (up to three a month), and lawyers provide free, brief answers. The lawyers make nothing, but use the service to drum up custom. Clients can test a lawyer's skill before opening their wallets.

LawPivot is a social-networking site, not a law firm—it will make its money initially by charging lawyers to upgrade their profiles (similar to the networking profiles on LinkedIn). Google Ventures is a backer, and Apple's former top lawyer for mergers and acquisitions is a co-founder. This kind of heft will bring it up against LegalZoom, the biggest seller of online forms and easy, repeatable legal services for small businesses and individuals. LegalZoom now wants to put more of its contract lawyers to work directly for clients at a flat rate.

It is more than a decade since the internet made book-buying cheaper and more convenient. If technology now helps cut gargantuan legal bills in America and elsewhere, it will be better late than never. ■