Alternative Power Source
How Law Firms Are Leveraging ALSPs to Make Themselves Better, Faster, and Cheaper
While many legal industry observers have worried that the rapidly evolving market for alternative legal service providers (ALSPs) may leave many large law firms scrambling to catch up, in fact, many firms are seeing the rise of the ALSP field as an opportunity.

According to a recent report, large law firms are being more aggressive in their attempts to take advantage of the ALSP model by employing a variety of tactics, such as managing multiple ALSPs for a client, establishing partnerships with existing ALSPs, or even creating their own ALSP in-house to handle certain matters.

The overall market for ALSPs is growing at a rate that exceeds past expectations, driven in part by large law firms expanding their legal service strategies to compete with, include, and even incorporate ALSPs. According to the report, ALSPs now represent roughly $10.7 billion of the overall market for legal services, representing a compounded annual growth rate of almost 13% compared to just two years ago.

Lisa Hart Shepherd, CEO of Acritas, spoke to the leaders of numerous ALSPs as a part of her firm's recent research. She found that about 50% of ALSPs surveyed already are strategically partnering with law firms, and a further 20% have informal relationships with them. “At the moment I think ALSPs feel there is plenty of headroom for growth for all existing players,” she says.

As the use of ALSPs becomes more common, large law firms are finding new and expansive ways to use ALSPs to improve efficiencies, provide better value, or even access legal expertise that may be outside the firm's specialties. This willingness on the part of large law firms to trust ALSPs with a wider range of work comes as firms get more comfortable with the ALSP model in general — a comfort that has grown rapidly over just the past few years.

In fact, if anything is changing in the relationship between large law firms and alternative legal service providers, it's how and why large law is using them, and in what ways this relationship will evolve in the future.

**How Large Law Firms Are Using ALSPs**

Thus far, large law firms are most commonly employing ALSPs for five distinct uses — e-discovery, legal research, litigation and investigation support, and document review.

Not surprisingly, the percentage of large law firms using ALSPs for these five core functions is up significantly from just two years ago, and in a few of these use-cases the percentages have doubled. For example, around 50% of large law firms that employ ALSPs do so to conduct legal research, up from 21% in 2016.

Today, about 65% of large law firms that use ALSPs do so for e-discovery, compared to 42% in 2016. Further, litigation and investigation support jumped to 52% from 33%, and ALSPs are given work in document review by 52% of large law firms that use ALSPs, up from 38% in 2016.

Even beyond the top five use cases, large law firms continue to try new ways of utilizing ALSPs to improve their own efficiency or save costs that can then be passed on to clients. For example, more than one-third of large law firms are using ALSPs for specialized legal services provided by licensed lawyers; 21% employ ALSPs to do regulatory risk and compliance service work; and 17% go to ALSPs for project management. Interestingly, many of these less-common uses reflect highly specialized work that at one time law firms wouldn't have dreamed of even partially outsourcing, fearing that clients might see it as a sign that the firm couldn’t handle these matters or didn’t have the special expertise to do so.

“Legal work is increasingly being disaggregated,” says Hart Shepherd, adding that this points to how important it is for the different players in the market to work holistically and collaboratively. “That was something that the ALSPs I spoke to were very open to, and a lot of them are already doing it.”
While law firms may be equally eager to partner with ALSPs where they see an advantage (or get a client directive) to do so, that landscape could change quickly if law firms begin to feel they could add the technology or reduce the pricing enough to edge out ALSPs entirely in the client’s mind. “Law firms are now fighting back by adapting the right technology and starting to build their own competitive advantage,” says Hart Shepherd. “Will this squeeze out ALSPs in the longer scheme as well?”

While she doubts that, Hart Shepherd says she does expect to see consolidation between law firms and ALSPs. “However, ALSPs are gaining momentum and are free from the cultural resistance that law firms have to fight against.”

The Cost of the Matter
As to the why of using ALSPs, large law firms are most likely to cite cost savings as the most common reason, although other reasons are starting to enter into the conversation.

For example, “access to specialized expertise” is the single most important driver of ALSP use within a core task such as litigation and investigation support; however, even there, large law firms are recognizing that ALSPs can save money. Indeed, 47% of law firms surveyed said that using ALSPs for litigation and investigation support work offers an alternative way to control costs that can be then passed on to clients, and 39% said it was simply more profitable to outsource this work. Indeed, Hart Shepherd says law firms could reap further advantage in cost savings by learning from ALSPs how to better measure, document, and demonstrate to clients exactly how and where cost-savings are coming from. Law firms are often more reluctant to play this game of show and tell, she observes, and even when able to accurately quantify where they are saving the client money, they may resist showing their work out of fear the client will be angry over past higher billings, or will now expect a lower, locked-in rate.

Hart Shepherd said when she compared independent ALSPs with “Captive” ALSPs — those operating in-house at a law firm — there was a stark difference in how cost was measured and demonstrated to clients. “The independent ALSPs were very upfront, and I think they have really got their price-saving and cost-effectiveness proposition well-articulated,” she explains. “Whereas those ALSPs inside law firms perhaps don’t want to talk about it as much because they don’t always want to pass on that saving to clients. There’s always an argument for keeping more profit inside the firm.”

Tomorrow’s Collaboration Question
Right now, about half of all law firms say by using ALSPs the firm is better able to scale and expand its business. Further, 53% of large law firms said they use their relationships with ALSPs as a point of competitive differentiation, touting their collaboration in pitch meetings with clients. This is up from just 38% citing this as one of the advantages of working with ALSPs two years ago.

As law firms continue to look for ways to embed the kind of innovation and efficiency that ALSPs represent in the minds of many clients in their own services, they are forming partnerships with ALSPs, and even creating ALSP affiliates to work in-house.

Obviously, seeking partnerships with ALSPs to fill in any perceived gaps in technology, innovation, and process efficiency is the much easier path for law firms. For example, about half of the law firms that use ALSPs for intellectual property management or specialized legal advice do so through a partnership. Indeed, partnerships are more common in tasks such as litigation and investigation support, legal drafting services, and e-discovery, with more than 40% of law firms saying they utilize ALSPs for these matters via a partnership.
At large law firms, another role that is expected to increase in prevalence is that of “ALSP manager”, in which a firm will set itself up with the end-client to oversee and manage multiple ALSPs to undertake a variety of legal work. Since corporations generally like to work with single providers, this is seen as an attractive opportunity for law firms — and one that also allows them to keep their name in front of the client even when the work is being done by others.

Yet another way that large law firms are trying to stay ahead of ALSPs is by creating their own within the firm. However, this idea faces significant hurdles, not the least of which is resistance from partners who may resent new entities elbowing in on what they see as their proprietary client relationships. “I think that many law firms find it quite challenging to radically change the way established practice areas work,” she says. “But by creating a new separate division that is free from the constraints of ‘how things have always been done,’ it means that a firm could press ahead and try new things.”

Among these Captive ALSPs created by law firms, the most common ones have been general consulting and accounting affiliates, legal process outsourcers, or managed service providers. Interestingly, the idea may be catching on as a large number of law firms reported that plans were being considered for the firm to create an internal ALSP within the next five years.

Overall, as large law firms’ experiences with ALSPs continue to be mainly positive and allow firms to continue passing on the benefits of partnering with an ALSP to the firms’ own clients, then these relationships between law firms and ALSPs are likely to continue to flourish and deepen in the future.

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