

# A New Model Law Firm – A Closer Look at Clearspire

## STRATEGIC LEGAL TECHNOLOGY

Traditional mainstream media have shown much interest in the legal market this year with articles on legal outsourcing, law school issues, and contract lawyers. The legal press and blogs had already mostly covered these developments in detail. One topic MSM covered, however, was news to me and piqued my interest: a new model law firm. I first read about Clearspire in the *Washington Post* and, subsequently, the *Economist*. Intrigued, I arranged to meet co-founder Bryce Arrowood to learn more.

I prepared for my discussion with Bryce by reading the website. I start by sharing with what I learned from the web, then move on to report on our conversation. I also add my own observations.

### The Website Tells a Compelling Story

The website impresses with its elegant design and clear content. Most BigLaw sites fail to articulate a value proposition or competitive differentiators. In contrast, Clearspire explains how its new business model offers value and differs from other law firms:

- *Lawyers Practice Law; Business People Run the Practice.* Clearspire created two related business entities, a law firm and a business services company. This structure lets lawyers practice law while business and technology professionals focus on sales, finance, IT, and other support functions.

- *Fees 50% Less Than BigLaw.* Clearspire delivers AmLaw 200 quality at fees roughly 50% less than BigLaw. It does so by slashing three legacy BigLaw costs. First, because Clearspire lawyers work virtually, the firm occupies less real estate and therefore pays less rent. Second, tools and technology built from the ground up let lawyers work efficiently, which means

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they spend less time per task than BigLaw lawyers do. And third, because all attorneys are employees, Clearspire has eliminated the partnership pyramid.

- *Predictable Fees and Transparent Work.* An engineered intake process, project planning and management discipline, budgeting and reporting tools, and a team that consists exclusively of senior lawyers enable the firm to offer clients predictable fees and clear visibility to work in progress.

- *Lawyers Earn Competitive Pay and Work Collaboratively.* Clearspire saw that AmLaw 200 lawyers face a billable hour pressure-cooker. On top of this, the large firm environment isolates many lawyers. So Clearspire offers 80 to 100% of BigLaw pay for more reasonable hours and an environment that, though virtual, fosters collaboration. (Clearspire does have a downtown office for client meetings, business operations, and lawyers who prefer an office.)
- *Technology Drives the Practice and the Business.* The firm has built its own technology to support law practice, client management, lawyer collaboration, active matter management, knowledge management, and business management. It simplifies information access, experience tracking, and staff allocation.

## The Impetus Behind Clearspire

Clearspire co-founder Bryce Arrowood, a Harvard Business School graduate and entrepreneur, has deep legal market experience. He founded and built LawCorps, one of the earliest and ultimately largest contract legal staffing companies in the US when he sold it.

He saw that BigLaw and its clients' interests aligned poorly. Bryce likens large firms to a guild, designed to benefit masters (partners) first and foremost. This has arguably been true for a long time so I asked if a specific event catalyzed Clearspire. Bryce said that a 2008 *Financial Times* article about UK legal market deregulation made him wonder what might be possible in the US. Subsequently, he read about the ACC Value Challenge and the proverbial light bulb lit up.

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Bryce realized that by applying ACC Value Challenge principles, an entrepreneur could, even without US deregulation, attack the guild walls with a new-style law firm. He partnered with ex-BigLaw partner Mark A. Cohen to found Clearspire. Both worked closely with Sheldon Krantz (former Criminal Justice Chair of the ABA, DC Ethics Bar Chair and Senior Partner of DLA) to fashion the ethical foundation to the firm's model.

Aligning interests was a key Clearspire goal: For clients, offer value in the form of predictable and lower fees with transparency into the work process. For lawyers, offer pay in the same range as BigLaw but allow more choice to strike a better work-life balance (e.g., no pressure to bill 2000 hours, bring in business, or make partner). And for the firm, earn a reasonable profit.

## "Bread and Butter" Legal Work at Predictable Fees and 50% Off

To align interests, Clearspire needed a new model and a compelling value proposition. The founders realized that marquee lawyers are overkill for most matters. I shared with Bryce a discussion I helped initiate last year—"Bet the Farm" versus "Law Factory"—which breaks the world into two camps. In one, high stakes mean price makes little difference. In the other, outcomes are important but are easier to achieve. This more routine work can be automated or highly proceduralized.

Bryce calls this a false dichotomy, saying it misses the vast middle ground of "bread and butter work" that neither requires "brain surgeon lawyers" nor can be easily automated or delegated to non-lawyers. This work, which he estimates at upwards of 80% of BigLaw revenue, requires the experience of ex-AmLaw 200 lawyers like the ones Clearspire hires.

To win this work, Clearspire offers a compelling value proposition: "bread and butter work conducted transparently at predictable fees that average 50% less than what BigLaw charges." Achieving this of course took much work.

## Building a New Business Structure, Investing Heavily, and Rolling Out Slowly

Building a firm to align interests and succeed in bread-and-butter work at low cost pushed Bryce to come up with a structure that separated practice and business management. Clearspire Law, PLLC, is a multidisciplinary law firm of senior attorneys. Clearspire Service Company, LLC is an experienced business services company that specializes in business process management, including building and operating technology systems to support lawyers.

This structure allows the law firm to focus on law practice and the service company on business operations. With my legal outsourcing day job that includes selling business services to law firms, I agree wholeheartedly with this approach. Simply setting up two structures, however, was just the beginning.

Clearspire also needed to reduce cost. This meant questioning the usual assumptions. And it also meant a significant investment. The firm spent \$5 million dollars to develop its own technology, research the ethics rules, and hire enough lawyers and staff to get started.

The firm was in the making for 2.5 years. In October 2010, it “soft launched” to test its approach, systems, and client reactions. In May 2011, it launched three practices areas (labor and employment, litigation, and corporate). Since then, it has won three Fortune 150 companies as clients.

## Efficiency via Smart Processes and Technology

Clearspire recognized that the key to aligning interests and offering higher value was better processes supported by the right technology. The ACC Value Challenge articulates many process considerations that drive Clearspire:

1. Focus on outcomes and results
2. Provide clients with transparency and control
3. Use budgets and offer fixed fees

4. Staff matters appropriately
5. Track matters against benchmarks and projections
6. Utilize knowledge management (KM)
7. Leverage technology to increase value
8. Assess performance regularly as part of a continuous improvement plan

Before discussing two core processes, collaboration and matter management, I will focus on the technology itself.

The firm created its own information technology stack to support efficient and collaborative work. The bottom layer consists of several practice management applications, a combination of highly-customized, third-party products and proprietary systems. The custom-built middle layer integrates and aggregates data from the bottom layer. And the proprietary top layer is the user interface. This was an ambitious project and required top talent (see the IT team credentials). Bryce reports the platform can scale to an unlimited number of users.

The stack runs in secure, hardened data centers with real-time mirroring to a back-up center for disaster recovery. Lawyers and staff can access the system securely anywhere in the world on both notebook computers and multiple brands of mobile devices. Access to data and software features depends on device security and configuration. Users with Clearspire-provided and -configured equipment have maximum access and can use the most features.

The firm has already successfully used this platform with lawyers and clients around the world. It was built from the ground up to respect varying global data privacy requirements.

The technology sounds great and I hope to see a demo and write about it in a future post. Hearing the components and investment, I asked Bryce if the firm plans to productize and license it. He did not pause before answering “no.” Beyond concerns about sharing a key competitive differentiator, Bryce’s view is that without

the human systems and process approach, the technology alone has limited value.

To offer clients billing transparency and predictability at 50% of typical AmLaw 200 fees, Clearspire took several steps described below.

### Approaching Value and Pricing by “Chunking” Work

Recall that Clearspire was driven in part by the ACC Value Challenge. Several elements of it – transparency and control, budgets and fixed fees, appropriate staffing, and tracking to budgets – require what I call “chunking matters.” Most law firms and lawyers treat matters monolithically. My BigLaw friends who work on alternative fee arrangements and budgets tell me that they face constant battles persuading lawyers to create budgets and estimate resource requirements.

Clearspire thinks differently. It breaks work into discrete phases. Doing so is a function of both a new mindset and the firm’s technology, which not only allows but requires doing so.

I can relate. In the early 1990s, I suggested to some litigators that they create simple case budgets. They looked at me like I was from Mars and gave me the litany of reasons why doing so would never work and, in any event, was a pointless exercise. Similarly, when I suggested putting a project manager on a big case, the lead partner’s response was “Oh, so that would be like having an extra secretary.” In most markets, my little war stories would be ancient history but I fear this reaction remains widespread.

Clearspire thinks differently. It breaks work into discrete phases. Doing so is a function of both a new mind set and the firm’s technology, which not only allows but requires doing so. By chunking appropriately, Clearspire can offer a fixed price for each part and then track performance. Developing this matter-centric model required 10 months of work and took \$1 million of the total \$5 million investment. The firm supports this approach by carefully evaluating each new matter and allocating lawyers based on closely matching lawyer competency with matter requirements. (Knowledge managers take note: an experience location system is at work here.)

### Collaborating More while Reducing Real Estate Cost

Reducing the cost per “work chunk” requires many measures: knowledge management, a variety of tools, and perhaps most importantly, effective collaboration. AmLaw 200 firms seem to believe in the equation: “in the same office” = “collaboration.” In my experience, that is no equation, it is an inequality. Shared offices may support water cooler conversations and make collaboration possible but by no means guarantee effective or regular collaboration.

In contrast, Clearspire consciously designed its culture, systems, and processes to foster collaboration. This approach has the simultaneous benefit of reducing real estate costs.

Office real estate accounts for much BigLaw overhead. Long-term leases have even tipped some firms to insolvency and dissolution. The firm has a smallish downtown office for client meetings, business operations, and lawyer office hoteling. To minimize space requirements, Clearspire seeks lawyers who are comfortable working from their homes or other remote locations. (Such arrangements are rapidly becoming the norm in many industries; for example, The *Washington Business Journal* reported on September 14 that Accenture’s virtual nature allows real estate downsizing.)

But working virtually requires management. On the one hand, Clearspire recognizes that remote working can isolate lawyers. On the other hand, they also understand the myth that co-location means collaboration. I wrote one of the earlier articles advocating lawyers work virtually (*The Future Law Office: Going Virtual*, *Law Practice Magazine*, January 2004), so I too have thought about what it takes to really collaborate.

Clearspire invited Professor Lynda Gratton, a leading authority on organizational behavior, to join the firm as an advisor. She guided the software development team to create a virtual environment (onscreen interface) that provides the “contextual cues” and communication tools to foster collaboration. For example, a series of “hallways” and icons signal each lawyer who is available and the software allows a combination of chat, forums, and video conferencing.

The firm also schedules regular practice group and business meetings, some of which are mandatory. These meetings ensure that lawyers communicate with each other. Furthermore, when onboarding new lawyers—a more substantial process at Clearspire than at BigLaw—the firm provides significant training to make sure lawyers are “re-oriented” to the virtual environment and a more conscious approach to collaborating.

### Competition and “Crossing the Chasm”

I asked Bryce both about the competition and if the firm faces a “crossing the chasm challenge.” Bryce sees the legal market as a spectrum of providers, with Blue Chip firms and alternative service providers at opposite ends. The alternatives include legal process outsourcers (LPO) and companies like Axiom, which Bryce characterizes as “high end staffing.” (Axiom’s website sounds like a law firm’s but its disclaimer states, “Axiom attorneys are independent and do not constitute a law firm among themselves.”)

In the vast middle ground, Bryce sees most of the AmLaw 200, regional firms, and the emerging class of boutiques “spun out” of larger firms. With Clearspire’s seasoned AmLaw 200 lawyers, Bryce places his firm above the regional players and boutiques and below the Blue Chip.

While he suggests that Clearspire has carved out its own niche, in my view, it will compete with mid-tier AmLaw firms, many boutiques, and Axiom and similar high end staffing companies. I do agree that Clearspire has a business model that distinguishes it from competitors. The question is how the larger market will respond to the model.

A unique business model cuts two ways. *Crossing the Chasm* author Geoffrey Moore explained that most markets have a few “visionaries / innovators” who buy new ideas because they are new. Once the visionaries have bought, the provider must persuade “early adopters,” those who do not embrace change for its own sake but have pressing business problems to solve and see no other solution. That can be hard, but not as hard as selling to the “mainstream” buyers (“early majority” and “late majority”).

In most markets, unless mainstream buyers are persuaded, the provider remains a niche player. Bryce does not think Clearspire faces a “chasm” challenge. He thinks that mainstream general counsels will quickly understand the value and buy the firm’s services.

I am excited about the Clearspire model. I also remain astounded that general counsels continue to whine far more about legal fees than they exercise their market power to change how and from whom they buy. Fortunately, in the legal market, law firms can prosper even if they do not penetrate mainstream customers. My hope is that Clearspire will do well with early adopters and that mainstream buyers will come around as they face relentless control cost pressure from boards of directors and CEOs.

## What's Next?

It seems too early to say if Clearspire will successfully cross the chasm. If it does, then what? I can see multiple ramifications. Especially as other firms try to imitate the model, much of BigLaw could be at risk. I suspect at least 50 firms think they will survive as top 20 Blue Chip players. We can guess who some of the survivors will be, for example, Wachtell, Cravath, Davis Polk, Sullivan & Cromwell, Wilson Sonsini, and WilmerHale. But firms without secure and already-stellar market positions should worry about their futures.

What happens to the many firms excluded from the exalted few? I recently read the website of an AmLaw 100 firm that is probably on no one's list of the exalted. Its lack of differentiation, boring content, and outright grammatical errors in "About Us" shocked me. I just do not see how such firms will survive if general counsels get over the notion that buying AmLaw 200 is always safe and smart.

I am not predicting demise or disaster, just suggesting that with some change in buyer attitude, Clearspire and other non-traditional providers that offer better value and clearer differentiation likely will gain substantial market share from incumbents.

A problem Clearspire should want to have is that market forces do result in the "AmLaw 20" replacing the AmLaw 200. Ah, but if the AmLaw 200 disappears, from where would Clearspire recruit experienced, high-quality lawyers? In this scenario, I suspect Clearspire will have grown substantially and be well positioned to develop an engine that actually trains new lawyers in an economically sustainable way.

Personally, I find the Clearspire model very exciting. I started in the legal market over two decades ago focused on legal technology and practice support. My goal then and now has been to find ways to make law practice and legal business more effective and efficient. Over the last decade, I broadened my focus to include legal outsourcing because I see its ability to help fix the system. And today, I see the potential the Clearspire, Axiom, and other alternative models have. In fact, I see so much promise in these approaches that I could see eventually broadening my focus once again. ■