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Law Firms and ALSPs Share the Same Destiny

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This article first appeared in the [March 06, 2024 issue of ALM Law.com](#).



If you were going to create the law firm of the future, what would it look like? Would you hire a group of associates out of law school? Perhaps you could partner with a couple of senior attorneys and create the classic three-named firm. However, chances are that in 10 years law firms and Alternative Legal Service Providers (“ALSPs”) are going to converge under a technological strategy that ALSPs are already leveraging. Increased legal complexity, budget pressure, staff shortages and advances in technology will catalyze this eventual consolidation. Top-tier expertise fused with technology-driven legal services will ultimately deliver greater value to clients. This shift will ultimately have huge implications and upend what we now think of as “traditionally legal” - from education, to the types of jobs and support necessitated in the new realm of client-service delivery.

Alternative Models

Currently, many law firms operate using the same service models they have relied on for decades. Research, document review, due diligence, and initial contract and motion drafting are handled by a large team of junior attorneys and paralegals, which are then delegated to mid-level staff. If valuable enough, these tasks are sent to the firm’s partners who are billing \$1,000 or more per hour for their review and approval. With the amount of manual effort required for the initial research and drafting, law firms have leveraged this model in order to maximize both profit and client-service delivery. However, what happens when there is a dramatically lower-cost alternative to thousands of expensive billable hours? Clients are increasingly recognizing that so many legal service delivery mechanisms are similar to those which they have been receiving for years, if not decades. Despite this, the costs keep rising.

Clients looking to reduce costs while simultaneously improving processes and technology are the main contributors to the rapid growth of the ALSP market in the last decade. In-house legal departments seek ALSPs comprised of a blend of lawyers and those that possess effective project management, technology and process optimization expertise. ALSPs help clients leverage technology to automate the legal workflow. Tasks such as drafting, review, markups and eDiscovery are often completed in a fraction of the time. Because ALSPs can integrate these technologies seamlessly into their product offerings and delivery models, they are able to rapidly scale up and down to meet the changing needs of a client’s business. The lean ALSP model is customizable and nimble. While law firms move towards becoming more tech-enabled, in-part by bringing in internal eDiscovery and contract platforms, they can partner with ALSPs to adopt these technologies more cost-effectively rather than taking on the full investment. ALSPs also understand the rapid pace of technological advancement, which is reflected in how they approach the practical aspects of technology implementation: more client-centric cost models, increased client feedback cycles, and an emphasis on the user experience.

ALSPs are mainly leveraged today for larger-scale, lower-complexity work, such as NDAs, first-pass reviews, and eDiscovery. In many cases, this does not utilize their full potential. More than ever, in-house teams are feeling the squeeze of downward budget pressure, increased law firm billing rates, and the scale of complex legal problems. Legal providers will not solve this problem with traditional delivery models. They will need to embed themselves more deeply within the business, integrate domain-specific knowledge, and lean into the latest advances in technology to take on tasks of increasing complexity. The old school ALSP model – a black box solution where easy work requests go in and a passable output is produced – is no longer fit for the modern legal landscape.

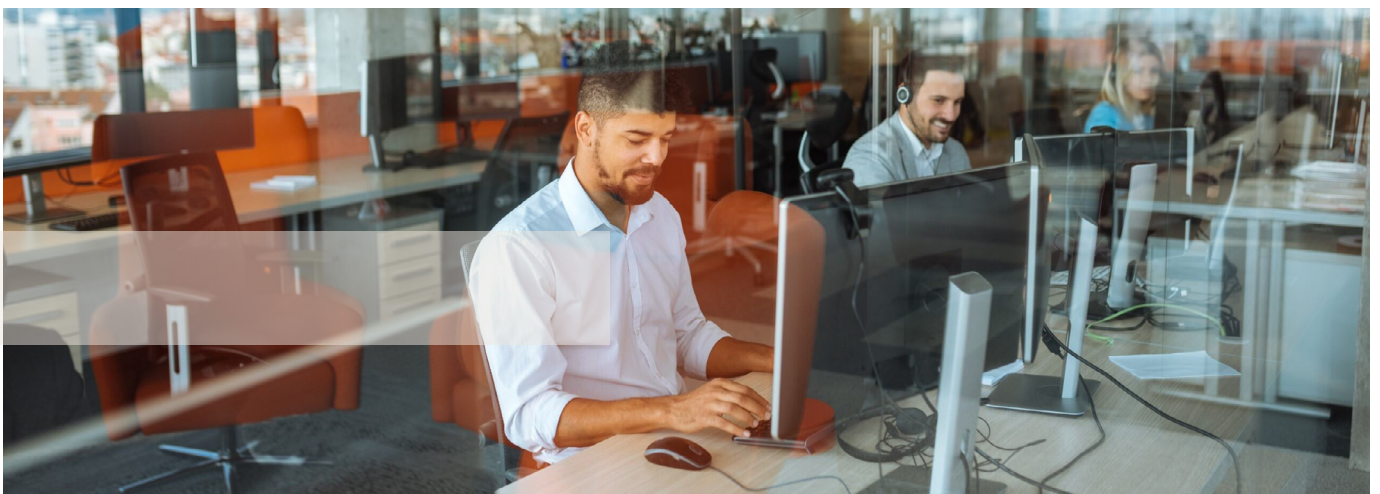
Leveraging Generative AI

Generative Artificial Intelligence (“AI”) creates algorithm-based content and Large Language Models (“LLMs”), which are AI systems that read and create human-like content (like text and images).

Generative AI is a hot topic among futurists but meets skepticism from those wary of past tech hypes like Blockchain and the Metaverse. In reality, industry-wide transformation happens gradually - firm by firm, use case by use case. In a vacuum, Generative AI appears to be a novelty. However, by integrating this engine into the legal field, the situation appears increasingly similar to other recent industry disruptions such as Amazon vs. traditional retailers, Uber vs. taxis, Spotify vs CDs. These are entirely different, yet normalized, delivery methods.

ALSPs are following the same path by identifying repetitive legal tasks, building comprehensive offerings to deliver those services at higher speed and quality, all while maintaining lower costs than the traditional law firm. When corporate clients consider how and where to utilize ALSPs, the ability to deliver cost certainty has become an attractive selling point. It is not perfect, but the technology that exists now like automation, analytics, and generative AI can turn an hours-long manual exercise such as drafting an NDA or writing a legal memo into a two-minute exercise with a prompt like “draft a two-page Non-Disclosure Agreement between Company and Client in the same format as this attachment”. Despite the hype to the contrary, Generative AI will form only part of the solution. Process, data analytics, and workflow automation are just as important, and in certain use cases, more important pieces of the solution stack. Soon Generative AI will be in virtually every legal service provider’s toolkit to enhance the delivery experience desperately needing an infusion of data, metrics, and productivity enhancements. The providers that can balance the potential (and at this stage, somewhat chaotic) application of Generative AI models with real-world client challenges, will remain ahead of the curve. Clients are looking for business-centric answers to their challenges. They need to move expeditiously and expect their lawyers and solutions providers to match their pace.

Thus far, most large law firms have been shielded from these disruptions. The traditional partner profit model incentivizes maximizing paralegal and junior lawyer labor over investing in processes and technology. Where firms have truly leaned into technology and delivered value-based pricing, the results are undeniable. Many practice areas such as real estate, personal injury, insurance claims, and immigration are now offered at a price point and margin that is simply not possible without AI and automated workflows.



What is different now?

Productivity and automation tools have existed in the legal field for quite some time, so why are these topics front and center for the industry right now?

Simply put, there have been ways to organize, file, draft, and manage matters with the enablement of technology, but never before has an automation tool with these capabilities existed. In the last year we have seen computers do what was previously only possible when performed by a human being. Drafting can be performed in a matter of minutes by a completely autonomous program ingesting millions of human artifacts to predict and create the desired outcome with a remarkably high level of accuracy. Disruption of existing technology or industries is not merely an enhancement of what is already out there – it is a complete paradigm shift of the possible. Theoretically, the main effects revolve around the growth and levelling of the competitive marketplace. Firms may be able to take on more clients and widen the services delivered for such clients. Smaller to mid-size firms can leverage their lack of administrative overhead to find a competitive edge against larger, tech-adverse firms. It is expected that smaller, more agile firms start collaborating to compete for work previously reserved for the more capacity-rich large firms. When these future-focused firms partner with ALSPs, we expect to see the rise of truly scalable delivery collaborations that combine technology, subject matter expertise, and client-focused billing models.

The disruption has already occurred, and what follows are the iterative enhancements of the accuracies and quality of these tools. Now that the potential can be articulated and implemented in a clear roadmap, the industry should start planning exactly how these technologies will be deployed in tandem with the talented pool of legal professionals. It might seem like a reasonable reaction for law firms or ALSPs to hold off on Generative AI integration into their client-service delivery models if the programs we are currently tinkering with only have a 50% accuracy rate. However, these programs are becoming more accurate at an unparalleled rate. In 2023, we have seen rapid development in so many different LLMs and Generative AI systems, that we need to be ready to deploy delivery models incorporating these as soon as they hit the accuracy level of paralegals or first-year associates. Even if the legal industry continues to leverage the first-pass reviewers and only leverage Gen AI and LLMs internally, it will still save them tens of thousands of hours and improve margins for ALSPs and law firms. This does not mean the complete erosion of employment for paralegals and junior attorneys as ALSPs can effectively utilize them for performing a variety of tasks outside of drafting as part of a multi-disciplinary approach.

The usual (and frankly, antiquated) objections around the full-scale leveraging of ALSPs such as oversight, data privacy, and legal expertise have also been raised against the deployment of LLMs in the legal space. This is rapidly changing as the large-scale adoption of LLMs and learning models is approaching. Several key benefits driving adoption in the legal sector include LLMs' ability to learn contracting best practices from analyzing thousands of contracts, the participation of the data powerhouses like Amazon, Microsoft, and Google, and the increased awareness of LLMs through training and use cases being published.

Meritocracy and Education

Historically, billable rates for attorneys have been based on seniority and tenure - not the task being done or the value added.

ALSPs operate in a much more merit-friendly way, as they are not bound by the hierarchical revenue model of the traditional law firm. If clients begin paying for output and value rather than time, subject matter experts and true value-add individuals will be at a premium, as opposed to sheer man hours to cover the demands of the role. This will have large implications for the entire legal education field as it will no longer be sufficient to just teach Property or Civil Procedure. Law schools will start teaching and empowering students to

leverage automation and AI including output validation and more business-focused efforts. As with all great change, it will be daunting for many but exciting for those who are willing to embrace the tools currently at our disposal.

The impact of Generative AI on legal education cannot be underestimated. Automation, document transformation, and areas of technical expertise such as data analytics, document extraction, and assisted drafting will form an integral part of any future lawyer's skillset.

Convergence

Law firms of the future and ALSPs will ultimately converge under a unified ideology, even if the terminology remains the same due to ownership laws.

We have already seen this convergence occurring with many law firms now having CIOs, internal legal ops groups, lower-cost staff attorneys, and more robust legal support teams. Mergers and acquisitions will increase in our industry, as well as the differentiation of entities who choose to embrace emerging technologies versus those who do not. The partners and firms that adapt most quickly will survive and thrive, while the ones that change too slowly, or not at all, risk losing their place at the table. This is evidenced by the rise of so many legal innovation and technology roles within law firms and even corporate legal departments. Just as ALSPs have continued to identify routine legal work and build high-efficiency delivery models, law firms must take advantage of legal technology and process improvements to overhaul their existing delivery approach.



This includes:

- Identifying the highest-impact technologies that will immediately drive changes in speed, accuracy, and consistency
- Implementing end-to-end client-service delivery around AI, automation, and analytics
- Allowing non-lawyers to take a greater role in delivery, creating an inclusive team of legal professionals, technologists, consultants, and project managers
- Leveraging on-demand legal talent to staff up or down as needed
- Eliminating the staff-overload approach with billing that is based on output, value, and quality
- Have mid-level and senior attorneys focus on high-value advice and guidance that drives outcomes
- Collaborating (instead of competing in a zero-sum game) to build commercially successful partnerships with ALSPs, mitigating both risk and cost for change management efforts

It stands to reason that should law firms engage in the above-listed activities, they will closely resemble, if not completely adopt the current ALSP model. Law firms are staffed with some of the greatest minds in the legal industry, and there is no reason why we cannot all converge towards the same end goal: delivering the best client-service experience in the most cost-effective manner and of the utmost quality. The smartest and most adaptable Blockbuster employees most certainly went to work for Netflix or other disruptors, leaving those resistant to change in the past. Firms that fail to strategically harness legal technology and Generative AI will open the door to more flexible competitors. The rising tide of technological advancement in the legal industry will ultimately float all boats, and the legal innovation leaders of the future will be the ones who can convert the opportunity into a value-based, outcomes-focused, client-centric business model. The options are clear: law firms must either team up with an ALSP, become an ALSP, or compete against them on their terms.

About the authors



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Kenzo is a Managing Director at Morae, overseeing US operations for the Legal Managed Solutions division. During his tenure at Morae, he has engineered and managed large-scale engagements that focus on the holistic needs of corporate legal departments, allowing clients to realize over 50% in annual ROI and improvements in legal delivery with the inclusion of robust process optimization and quality controls. His passion for technology has persisted throughout his career, currently serving on Morae's AI Steering Committee, and in his previous roles, helping clients assess their technology needs and designing implementation roadmaps.

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