

How Corporate Counsel Can Benefit From Growth and Consolidation of Managed Legal Services

By Bob Rowe | May 07, 2019 at 11:40 AM

If there was any doubt before that legal managed services was the fastest-rising giant in the legal market, that uncertainty was recently erased by EY's early April announcement of its plan to purchase Pangea3, an alternative legal service provider (ALSP). Once the EY acquisition is complete, in 2nd quarter 2019 says EY, the company will have massive resources in the legal arena. The EY acquisition of Pangea3 reaffirms that the rapid growth of managed legal services is here to stay.

Many GC's offices will be heavily impacted by shifts of similar magnitude to the EY/Pangea 3 acquisition, if they haven't been already. There is both opportunity and fallout for many in the wake of M&A transactions.

Corporate counsel is the chief purchaser of legal services. Outside counsel law firms and ALSPs are competing neck-and-neck for their business. As educated consumers, corporate counsel must thoroughly understand their suppliers' market and its evolution. This knowledge will serve them well if their suppliers are suddenly bought or sold. In-house lawyers may only get a few months' or even weeks' notice of an impending sale among their legal suppliers. They must act fast to keep the legal work flowing and output quality high, despite these changes. The show must go on.

Having practiced antitrust law for 10 years early in my career, I have seen the arc of a market's growth up-close. What we are seeing in managed legal services is a period of vertical integration, defined as the combination in one company of two or more stages of production normally operated by separate companies. As manifested by today's ALSPs, we are seeing the combining of traditional law practice with managed services.

The managed legal services market is still coming of age, following on the heels of its older sibling, eDiscovery, which traces its roots back to the early 2000s. Managed services are primarily long-term multi-year contracts between corporations and legal services providers using mostly dedicated teams that tightly integrate with legal operations. The deliverables are generally comprised of high-volume, repeatable and scalable legal-related services such as contract management, negotiation and drafting of lower-risk contracts (such as non-disclosure agreements), compliance activities, presentation graphics creation and immigration, to name a few. This scope is broadening, though, opening up more opportunity for ALSPs.

In February 2019, McHugh and Romeo of William Blair Global Investment Banking & Asset Management published "Significant Changes to Legal Industry Creating New Growth Opportunities." Their report noted that "legal barriers to competing against law firms are starting to lessen" and that "law companies" are picking up more high-level legal work that was traditionally done by law firms, leading to huge upside potential for ALSPs. The report states that "the growth of alternative legal service providers is providing corporations with new ways to procure legal services ... corporations are

increasingly looking to non-law firms to perform many of the tasks that they historically procured from law firms.”

Thomson Reuters (TR), which ironically is the party selling Pangea3 to EY, estimates that the global market for alternative legal service providers (ALSPs) is \$10.7 billion in its 2019 ALSP Report. TR points out that independent LPOs (mainly electronic discovery services providers) represent about two-thirds of the staggering total spend. As an aside, one wonders how TR could bear to part with Pangea3 with such huge opportunity at stake.

EY already has its own in-house “law company”, EY Legal Services, which rivals the size of Am Law 100 firms. Now, EY will incorporate more ALSP heft by adding Pangea3 to its substantial technology and services assets. EY is clearly making strident moves to capture more of the legal services market, but it is not alone. There is significant ongoing M&A and private equity investment in the industry—more investment and consolidation will be coming.

All of this should be good news to corporate counsel. One of the advantages to corporate counsel is that since many ALSP providers have joined the field, intense competition between them has driven and will continue to drive costs down. Greater investment dollars are flowing into managed services companies, creating innovation and technology development. And, as the McHugh/Romeo report makes clear, ALSP providers are expanding into higher-level work and additional services. ALSPs will still have to compete with outside counsel law firms so this healthy competition will continue to keep prices down for GC consumers.

On the flip side, escalating M&A activity leads to fewer providers which can sometimes reduce viable options for consumers among ALSP providers. And larger providers face potential conflicts that may hinder the choice of providers by law firms and corporate counsel. The EY/Pangea3 acquisition highlights these conflicts. EY is almost certainly conducting audits for some Pangea3 corporate customers and will have to discontinue providing legal services under applicable accounting principles in order to maintain objectivity for the audit. In addition, Pangea3 has some law firm customers, some of which will now be in direct competition to EY Legal Services. As with any acquisition, only time will tell as to what the fate of the EY/Pangea3’s customers will be but it’s clear that they will face some crucial decisions in the coming months as the acquisition becomes final.

The upcoming CLOC 2019 Vegas Institute will present the latest developments and thought leadership in the corporate legal operations space. This year’s CLOC speaker lineup is an intriguing collection of in-house corporate legal “ops” professionals, GCs and in-house attorneys, ALSP providers, outside counsel law firms, executives from Big 4 firms, and other legal industry denizens. For example, Integreon’s Mark Ross will be addressing specifics on how to optimize contract management without AI and robots. The CLOC conversation is always dynamic and educational, and this year, issues of stability and continuity in legal services providers will certainly be part of the discourse.

Whether they are attending CLOC or not, corporate counsel can adopt new strategies to maintain stability, and mitigate M&A-driven volatility among legal service providers.

Consider adopting these best practices to weather the storm:

Understand the expanding legal services market better, including weighing the benefits and downsides of ALSPs and law firms for your unique needs.

Increase your degree of due diligence on your legal services providers. Assuming that their proposal and costs are appealing, look beyond the deal terms to examine the leadership and ownership of the company you are working with.

Require substantial reporting and documentation from your legal suppliers showing their specific actions and measurable achievement. Having these processes and metrics in writing will make it easier to continue the work without interruption, should a change in the vendor's leadership or ownership become imminent.

Have a Plan B if your ALSP or outside counsel law firm becomes conflicted. Keep your network of contacts refreshed so you have some go-to resources to call upon if conflicts arise from M&A activity.

Two things are certain: More high-profile ALSP acquisitions will likely follow on the heels of EY's purchase of Pangea3; and, recognizing huge opportunity, ALSPs will broaden their services and delve further into higher-level legal services that once were undisputed turf for law firms. Proactive measures will help corporate counsel to retain greater control and predictability, even as their legal services providers expand or contract. Solid grasp of the legal services market, increased due diligence, greater emphasis on process documentation, and planning for unexpected changes provide valuable strategies for in-house counsel to successfully navigate through today's legal services market and come out on top.

Bob Rowe is CEO of Integreon, a trusted, global provider of award-winning legal and business solutions to leading law firms, corporations and professional services firms. Bob has led organizations in the managed legal services, electronic discovery and litigation support industries for the past 15 years. He received his J.D. from Vanderbilt School of Law. Email him at bob.rowe@integreon.com.

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