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Cab Companies and Law Firms Are Taking the Same Route

Mies van der Rohe, the noted architect, remarked: “Architecture depends on its time.” The same can be said about business structure — it depends on its time. A paradigm shift is occurring. Technology has enabled the creation of new business structures. It has facilitated a decentralized delivery structure, creating communities that connect sellers with buyers. This is sometimes called the collaborative or sharing economy, where individuals deploy underutilized assets — everything from cars and apartments to lawyers — to “share” with buyers. This eliminates centralized institutions that control supply and stifle competition by protectionist self-regulation. It has produced

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"faster, cheaper, better" delivery of goods and services available on an as-needed basis.

Two examples of this phenomenon are the taxicab and legal industries. Each is in the throes of what Clayton Christensen calls "disruptive innovation."

While change in the cab industry is farther down the road than law, the similarities in the "before and after" of each is striking.

A Quick Look in the Rearview Mirror: Cabs and Law Firms Pre-2008

Lawyers and cabbies have several things in common: (1) if their meter is not down, they are not generating revenue; (2) most cabbies don't own their medallions, and the vast majority of attorneys are not equity partners in their law firms; (3) both groups operate in economic models that are strikingly similar: Owners benefit when their ranks of cabbies — or lawyers — are working "with their meters down"; (4) statistics show that lawyers and cab drivers have disproportionately high rates of drug abuse, alcoholism, depression, and a host of other maladies; (5) until recently, both worked for providers with largely undifferentiated brands — cab companies and law firms — operating in self-regulated environments that discouraged outside competition; (6) both will soon be rendering services from different delivery models that are customer-centric, cost-effective, and more efficient than the incumbent models they unseated; and (7) both will soon be affected by AI that will circumscribe and redefine their roles.

Cab companies and law firms were riding high a decade ago. They faced little competition, steadily jacked up already high rates, and still experienced an increase in demand. Provider focus tended to be on profit rather than customer satisfaction since buyers had no scalable alternatives. Would-be drivers worked for cab companies the same way most lawyers toiled at law firms.

Owners thrived. Medallions — a requisite for operating a cab — outpaced the stock market as an investment. Law firm profit-per-partner (PPP), likewise, outpaced other industries. Neither perceived a need to invest in research and development or to focus on customer satisfaction. And each had a long run until the financial crisis of 2008.

The financial meltdown caused belt-cinching across the globe. Individual and corporate consumers alike questioned how they could "do more with less." This galvanized entrepreneurs to launch new business structures with delivery capability that relied upon technology, process, and reallocation of existing resources to provide scalable alternatives — and competition — to incumbent providers. The process of unseating long-standing incumbent providers required not only creating a "faster, cheaper, more accessible solution" but also, in many instances, meant taking on protectionist regulatory barriers. This required new provider to have two key elements: (1) a critical mass of customers that made the new providers "too popular to fail"; and (2) capital to fund regulatory challenges.

Cabs and Law Firms Today: Traveling Down the Same Road

Uber did not attempt to create a variation on the traditional cab company by, say, painting its cars crushed orange or discounting cab rates by a certain percentage. Instead, it utilized technology — upon which it made a huge initial investment — to alter the way people utilize car-for-hire transport. In the process, Uber did away with the existing taxi fleet model, replacing it with resources it neither owned nor maintained. It changed the way drivers work — an "agile" model — as well as the way customers hail rides: via smart phone. It also recast the economics for riders and drivers alike: Riders paid substantially less than cab rates and drivers retained a higher percentage of fares than cabbies. Uber made "hailing" a ride more accessible, predictable, and cost-effective and brought many new customers into the market. It upended the taxicab industry and became the poster child for disruptive innovation.

Law firms are its industry's cabs in the age of Uber. For decades, they have been the predominant provider of legal services. But they have recently lost significant market share to in-house legal departments — which now garner an approximately 40 percent share — and service providers — which have enjoyed 30 percent annual growth rates for the past few years. The trend lines point to a continuation of this pattern. During the past three years, global demand for legal services has increased steadily; however, law firm time has been flat. How to explain the delta?

In-house departments and service providers have different delivery structures than law firms. They integrate technology and process management with legal expertise in ways that law firms don't. They also have different advancement criteria, pay incentives, and a more diverse workforce, especially at the senior management level, than law firms where business origination is the *sine qua non*. By contrast, the key indices in-house are the ability to defend the company zealously while, simultaneously, "playing offense" — collaborating with the business side to advance the enterprise's objectives.

This helps to explain why all but a handful of brand differentiated "elite" law firms — law's one-percent — are already feeling the impact of a rapidly changing market. The response? Rather than focus on change designed to enhance customer satisfaction and differentiation, most firms make internal adjustments including: "de-equitizing" under-performing partners; hiring fewer newly-minted law school grads; and taking steps to insure that profit-per-partner is preserved. This is a palliative but not a cure to the fundamental structural problem that traditional law firms have.

Tellingly, the smart money (lots of it) is investing in tech and process-savvy service providers that are developing legal products that replace services and drastically reducing the cost and improving efficiency of legal tasks. LegalZoom, a technology company operating in the retail end of the legal market, is a prime example. It has quickly become the nation's best-known legal brand and is disrupting the retail segment of the legal market. It has provided cost-effective, easy-to-access, and effective legal service to more than 3.5 million customers previously priced out of the market. It has also helped launch more than one million small businesses. LegalZoom has also developed a robust set of client satisfaction and attorney performance metrics for panel counsel that provide answers to customer legal questions on a contract basis. Customer satisfaction is *the* company priority, and that explains why LegalZoom enjoys such high

approval ratings. It has created a new, scalable model for legal delivery, one that could certainly converge with the corporate segment.

LegalZoom, like Uber, has met stiff resistance from regulators. It has prevailed in nearly a dozen attempts by regulators to prevent it from conducting business. But for its substantial war chest, popularity with customers (it has become “too popular to fail”), and compelling business model, it would have been sidelined. It’s not easy or cheap to take on an entrenched, self-regulated industry.

Conclusion

Uber has created a paradigm shift in business structure. It has changed the way providers work, customers buy, and technology is used. It connects buyers directly to providers and decentralizes control of delivery. And it aligns the interests of buyer and seller. Law is headed down the same road. LegalZoom has demonstrated — to scale — that this can be done in the retail segment of the legal market. The corporate segment of the market is keen for a “safe,” scalable provider that combines legal, IT, and process expertise, a viable alternative to the traditional law firm structure. Clayton Christensen’s theory of disruptive innovation posits that disruption typically begins at the lower end of a market and migrates up. My bet is that law is headed down that road, and its Uber will appear soon.