



ALSPs and AFAs

Future-proof your
firm, deliver maximum
client value



Contents

01 The client-firm relationship is changing, fast 3

02 Adapt at speed with alternative solutions 11

03 3 things to remember about ALSPs and AFAs 19





01

The client-firm relationship
is changing, fast

The client-firm relationship is changing, fast

The client-firm relationship is evolving at an ever-increasing pace, with several macro-level trends combining to create conditions of continual disruption and change.

Businesses of all sizes, and in all markets and industries, are being buffeted by major headwinds, including:

- ✦ The volatile **economic and geopolitical climate**
- ✦ A changeable, fragmented and complex **regulatory environment**
- ✦ Significant shifts in **societal expectations of businesses**, and in **employee values and behaviours**
- ✦ Accelerating pace of **tech-driven innovation and transformation**



Strengthening foresight in the face of heightened risk

In response, corporate legal functions are being called upon to shift from event remediation towards more proactive risk anticipation in support of business agility and resilience, and to do so quickly.

But they're facing some major headwinds of their own, which are in turn feeding through to their external partners and law firms (Figure 1).

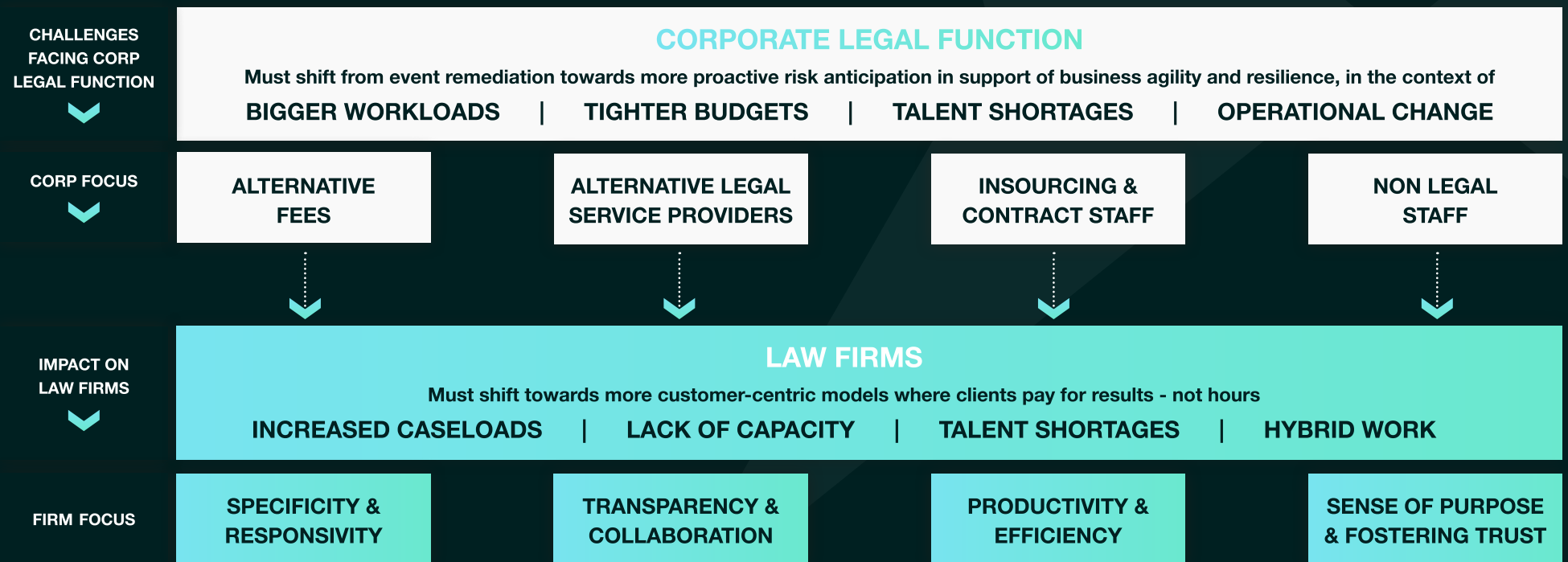


Figure 1. The challenging business environment faced by corporate legal teams is feeding through to law firms





Law firms must respond by becoming more efficient, effective, and tech-enabled

Against this backdrop, law firms, regardless of size or location, will need to **sharpen their services and operations if they're to remain profitable and competitive**. This means investing in legal ops improvements to eradicate manual processes and tedious tasks.

By maximising available resources more effectively, firms can deliver more **value to clients** by accelerating time-to-market on new services and offerings, as well as **delivering more strategic advice** based on commercial acumen.

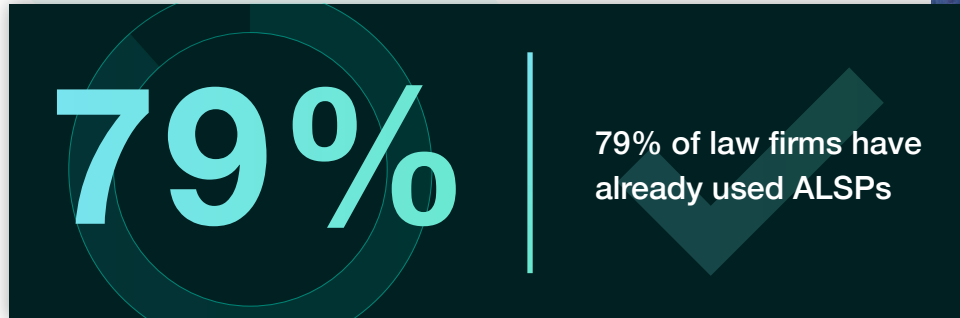
Law firms of the future will be expected to have **efficient, flexible, tech-enabled services** that have highly specific functions and support result-oriented commercial models.



Solution: A tale of two alternatives

Two changes to traditional operating models have emerged as key ways for law firms to respond to these challenges with more client-centric offerings: **Alternative Legal Service Providers (ALSPs)** and **Alternative Fee Arrangements (AFAs)**.

In fact, the majority of legal teams — **79% of law firms and 71% of corporations**, according to Thomson Reuters' Alternative Legal Service Providers 2021 report — have already used ALSPs.



And yet additional research indicates that their use is **expected to grow significantly in the coming years**.

Wolters Kluwer's Future Ready Lawyer report found that **81%** of law firms were expected to make greater use of third-party or outsourced resources in 2022, compared to **56%** in 2020. The same report also found that **81%** of legal firms and **86%** of legal departments expect to make greater use of AFAs in 2022 compared to **74%** and **72%** respectively.







Benefits of ALSPs

In the past, many firms viewed ALSPs as direct competitors as they were able to perform the same routine services as their lawyers for lower cost. However, this attitude has changed over recent years with many now viewing them as **collaborative partners who can alleviate manual tasks** and give firms more **time to focus on delivering value-led outcomes**.

By providing, in the words of Gartner, “purpose-built delivery services that perform legal support work at a lower cost than traditional law firms and corporate legal departments,” ALSPs enable law firms to:

- 01** **Outsource time-consuming, low-value tasks and routine compliance**, in order to utilise in-house talent more efficiently and strategically and, ultimately, maintain or increase margins.
- 02** **Ease recruitment and retention challenges**, by dialling up and down access to specialist expertise or extra capacity, on demand.
- 03** **Accelerate access to efficiency-driving, advanced technologies**, since ALSPs have made technology a key part of their offering. Contract management and process-mapping tools are among the most common solutions deployed by ALSPs, but many are beginning to leverage AI to automate more complex tasks, driving even greater value and efficiency.



Benefits of AFAs

Meanwhile, the increasing appeal of AFAs spans across the interests of both clients and law firm, to include:

01

Greater billing transparency and predictability, allowing clients to better forecast budget requirements. In tightening economic times, this could be the deciding factor between law firms with similar skill sets and reputations.

02

AFAs allow law firms to **better predict work volumes and income month to month**, compared to fluctuating monthly billable hours. This provides a steady cash flow and makes resource planning easier.

03

More predictable and transparent billing also **minimises the likelihood of time-consuming disputes** over discrepancies and clarifications.





02

Adapt at speed with
alternative solutions

Adapt at speed with alternative solutions

For legal firms of all sizes and in almost every market, developing more customer-centric business models means augmenting their core competencies and offerings with communities of partners in order to deliver holistic solutions to clients.

As such, the value that ALSPs and AFAs can bring to law firms is best viewed through the lens of the legal ecosystems that will become more prominent over the next few years.



Emerging legal ecosystems

Figure 2 shows how ALSPs and AFAs can play a role in **creating legal ecosystems** that encourage **stronger client engagement, smarter resource utilisation** and **increased knowledge sharing**.

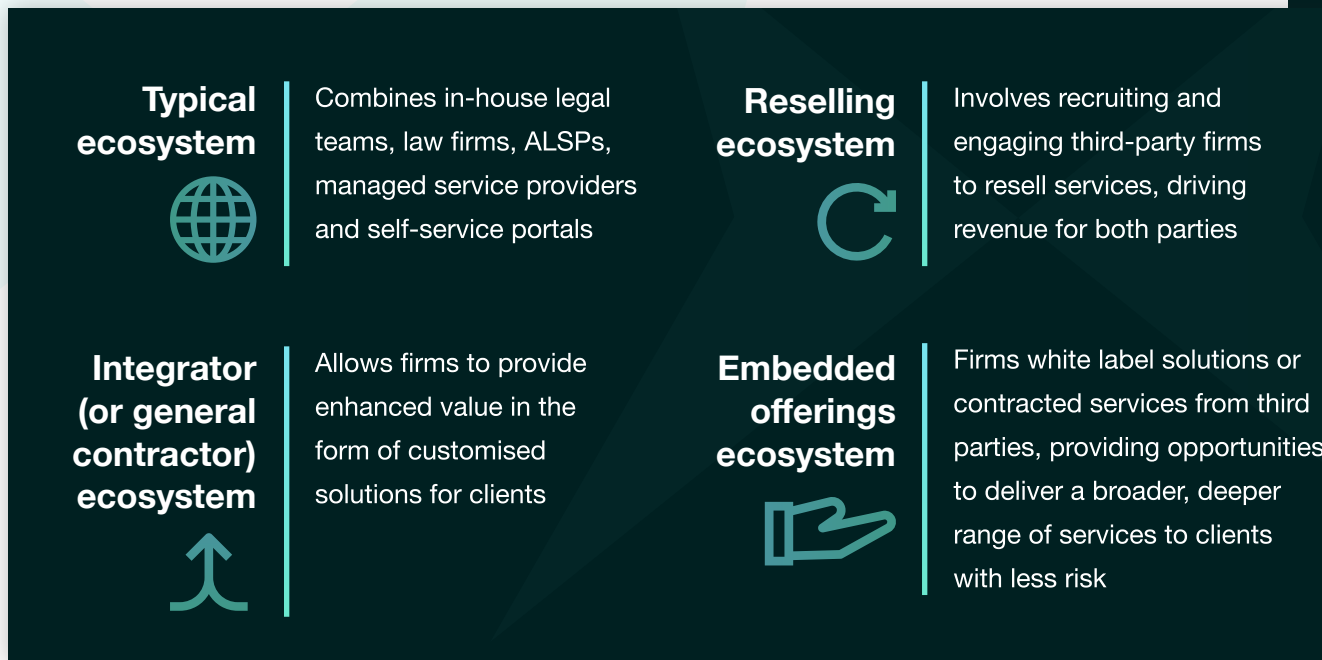


Figure 2. The rise of ALSPs and AFAs is enabling new, more fluid legal ecosystems. These may fall into one of the above categories — or combine characteristics from across all of them.

Legal ecosystem benefits

- 01 Ability to evolve legal delivery model
- 02 Access to a diverse range of expertise and services
- 03 Increased productivity
- 04 Reduced cost/risk
- 05 New routes to market
- 06 Ability to scale at speed





Alternative Services Checklists

Regardless of size or location, any firm can benefit from ALSPs and AFAs.

These checklists include just a few of the many examples of legal teams turning to these client-centric models.

Ideal tasks for ALSPs

ALSPs are key to law firms' abilities to offer **greater strategic value** and become **more agile organisations**.

These example tasks show how they **allow talent to be more effectively deployed**, while also playing well into prevailing operational thinking on the client side around **prioritising cost-effectiveness**.

- ✕ On-demand staffing/capacity:
 - ✕ Highly skilled lawyers for specialist, limited duration projects
 - ✕ Or teams of junior lawyers for litigation document review
- ✕ Risk and compliance reviews
- ✕ Legal research
- ✕ Document review in discovery
- ✕ IP management
- ✕ Litigation/investigation support
- ✕ Contract drafting and review
- ✕ eDiscovery
- ✕ M&A due diligence



Multilaw members on ALSPs...

“ Having established our own ALSP, Clarius, five years ago, we were able to provide clients with **certain standard services at fixed fees**, which not only made existing clients feel that we **take their needs seriously** with regard to reducing costs and receiving an easy to digest legal product; it also gave us **access to new clients**, whom we probably would not have met at all.”

GREGOR WEDELL, SCHALAST (GERMANY)

“ Clients are demanding something other than hourly billing, and companies and technologies are being established and pushing their usage in order to **obtain the most value for the services offered**... the biggest benefit ALSPs have brought our firm is to offer **low-cost, flexible staffing options to help maximise value to our clients.**”

PRICING DIRECTOR, POLSINELLI (USA)




Checklist: types of AFA

AFA's take many forms, but while they're becoming more common, widely accepted models are yet to be defined. **Here are some of the most common examples found today**, the range of which goes some way to illustrating why **value-based billing is expected to be an important strategy for firms.**

- ✕ **Fixed or flat fees:** predetermined fees for specific services
- ✕ **Capped fees:** traditional hourly billing but with an agreed maximum
- ✕ **Blended fees:** agreed average hourly rate, applied regardless of lawyer seniority or experience
- ✕ **Success or performance incentives:** wins or specific outcomes trigger additional payments on top of agreed-upon minimum fee
- ✕ **Unbundled legal services:** clients choose specific tasks to handle themselves, while only paying firms for the aspects where they need specialist support
- ✕ **Payment plans:** agreed payment schedules that allow clients to spread the cost of their bill over a period of time
- ✕ **Sliding scale fees:** based on a client's ability to pay, for example based on revenue for a business or income for a consumer
- ✕ **Contingency fees:** firms are paid a percentage of any payouts secured in successful cases
- ✕ **Subscriptions:** a standard, recurring fee for access to legal services (similar to a gym membership or a streaming service)





Multilaw members on AFAs...

“ Throughout all practice groups, hourly fees are still predominant, but **AFAs are gaining more momentum**. In most cases it is still client driven when it comes to offering AFAs and using ALSPs. But obviously **the age of hourly rates will end** for areas where the client sees that alternative offerings exist and the resulting competitive pressure will do the rest.”

GREGOR WEDELL, SCHALAST (GERMANY)

“ Polsinelli was driven to leverage AFAs in response to clients’ communications of what’s important to them: **predictability, shared risk, efficiency and total cost.**”

PRICING DIRECTOR, POLSINELLI (USA)





03

3 things to remember
about ALSPs and AFAs

3 things to remember about ALSPs and AFAs

Driven by challenging geopolitical, economic, regulatory and societal factors and accelerated by innovative new technologies, **corporate legal functions are rethinking operational models, reassessing resources and cutting cost and risk** in the pursuit of greater resilience.

As we've seen, law firms can respond to these needs by turning to ALSPs for **specialist skills, increased capacity and access to new technology**, and adopting AFAs to **increase billing transparency and predictability**.

Ultimately, both operating models present a timely opportunity to reposition the client-firm relationship around maximising value; levelling up from providing legal services to business solutions, with **meaningful — and measurable — outcomes**.





To conclude, firms looking to grow their use of ALSPs and AFAs should consider three key things:

01

ALSPs and AFAs play well into client requirements to **maximise strategic value and cost-efficiency**, and the need for firms to grow revenue and increase margins. And here's the proof — the Future Ready Lawyer Report, 2022, from Wolters Kluwer, reveals that when choosing the right law firm to work with, clients cite the following three categories of attributes as a key focus:

- a. **Technology:** to enable more productive, efficient, effective services
- b. **Staffing/organisation:** having the right talent and tools to do the job, productively, efficiently and effectively
- c. **Client focus:** value, capability and specialisation



02

Macro trends around economic volatility are making the business case for AFAs stronger all the time, and particularly value-based fee structures. Firms can use AFAs to **improve relationships with clients**, by demonstrating their commitment to focussing on the results and outcomes that add the most value. Firms can also use AFAs to **optimise their own operations**, as an incentive to reduce inefficiency and increase productivity. But — firms must ensure that **adoption of AFAs truly reflects clients' needs rather than their own**.

Check out the ACC's **6 step framework** for executing AFAs [here](#)





03

Choosing an ALSP is a major decision. It takes serious care and consideration to select a partner that will **integrate well with your team and enable you to keep delivering the quality your clients expect**. So, take the time to: go deep on identifying the **needs of your clients and your firm**; ensure both clients and your staff understand what you're doing and are **fully prepared for any incoming changes**; and make sure you're **clear on what success looks like**.





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