

Virtual Law Firms May Rise Out Of Tougher Economy

Law360, New York (November 03, 2008) -- Virtual law firms have not reached a tipping point yet, but a poor economy may put pressure on the legal industry to seek out alternatives to the traditional brick-and-mortar model.

While these firms — made up of a web of specialized attorneys connected by telecommunications rather than a physical office — continue to draw skepticism, true believers say they have a higher profit margin than traditional firms and the flexibility to depart from the hourly billing rate.

Companies may be more willing to turn to virtual law firms that offer more reasonable rates in the face of an economic downturn, according to Andrea Chavez, co-founder of Virtual Law Partners LLP, which launched in July and has 25 corporate and intellectual property transaction attorneys in four U.S. states and the country of Colombia.

“Companies in the past may not have had as much pressure to change. They formed relationships with law firms that were outrageously expensive, but because everything was booming, there was no need to scrutinize those costs. That is changing now, and companies may become very receptive to alternatives,” Chavez said.

Virtual law firms are not a new concept. They started cropping up in the mid-1990s, but the firm model is still in the development stage, according to Joseph L. Kashi, a personal injury litigator of Law Offices of Joseph Kashi.

“Virtual law firms are not highly organized yet, but I see market opportunities for virtual employment sources and virtual lawyers and paralegals,” he said.

Because virtual firms are usually staffed with lawyers who have years of legal experience and specialized knowledge in a certain area, they can dive into major cases immediately without having to get up to speed.

“Working virtually gives lawyers the ability to respond on a faster time frame that is expected these days,” Kashi said.

As law firms continue to slash their legal teams, more highly qualified lawyers will be on the market and may opt to pursue a less traditional route, which Chavez says allows lawyers to be more selective.

“I like controlling my workload, and I don’t feel pressure to take on tons of clients. In this way I can provide my clients with fantastic services,” said Chavez, who handles IP licensing and transaction matters.

Virtual Law Partners is one of the larger virtual firms and has an ambitious goal to grow to

hundreds of lawyers throughout the country. One of its three co-founders is Craig Johnson, who in 1993 launched Venture Law Group, which represented Yahoo and Hotmail until eventually merging with now-defunct Heller Ehrman LLP in 2003.

But many of the virtual firms are much smaller, like Vantage Counsel LLC, which consists of seven attorneys who focus on securities, mergers and acquisitions, venture capital and IP matters.

“Billing rates are getting too high, and clients are not getting enough value. Firms ahead of the game will be the big winners, and I hope the rise in legal fees is what forces virtual firms to get to that tipping point,” said Gregory R. Kim, who founded Vantage Counsel in 2004.

Kim’s firm, which does have one office located in Honolulu, represents Bank of Hawaii and Hawaii Medical Service Association and has worked on joint ventures to bring in Starbucks, Jamba Juice and P.F. Chang’s to the state.

Kim works between 50 and 60 hours, as he did as a former high-ranking corporate partner of Goodsell Anderson Quinn & Stifel LLP, but he said he made nearly double last year what he had made at the law firm partly due to the low overhead costs of a virtual firm.

“It takes brick-and-mortar firms until August or September to pay for overhead, while it only takes our firm until March,” he said.

Virtual law firms also allow attorneys to experiment with fee arrangements and work on projects that may not pay upfront, Kim said.

“If you invest the time and are efficient at what you do, a fixed fee can result in a higher return than an hourly fee,” he said.

While more attorneys are likely to start telecommuting within a traditional law firm, virtual law firms are not going to become anything more than an anomaly, according to Peter Zeughauser, founder of consulting firm Zeughauser Group.

“I just don’t think this is a model many lawyers will choose to practice together,” he said.

“There’s a lack of brand name, and when lawyers practice together in teams, there is a glue that holds them together. It is easier to develop that cohesiveness with frequent personal and social interactions and harder to develop that as fully at a virtual firm.”

Kim acknowledged that establishing a culture at a virtual firm still needed to be figured out.

“Some people can’t work outside the office. Finding people who can work independently is not a universal characteristic,” he said.

Chavez said Venture Law Partners tries to build a sense of community by holding a party each

month for all the firm's attorneys and by serving on business committees. Joining business groups can also help a virtual law firm gain more credibility and establish itself as part of the community.

Even though virtual law firms have several specialized attorneys, they also need skilled attorneys who can conduct research and do legwork on cases as they arise.

Kashi said virtual firms still need a centralized employment source like union halls, where they can hire a group of temporary employees who are already certified and vetted.

Kim said many attorneys are drawn to a virtual firm for a better work-life balance, but that means staffing larger projects can get tricky.

"When a critical mass in the firm is not working full-time, you need to make sure you have enough capacity to staff a project," he said.

Kashi said while IP and tax practices may lend themselves more easily to a virtual practice, other areas of the law tend to be more difficult, such as personal injury and real estate.

"Virtual firms are better off dealing with information versus land and human beings' feelings," he said.

But Chavez said any practice area could be covered by a virtual firm, except for litigation.

One of the main challenges for virtual firms remains an issue of trust.

"People need to trust who they are working with. Trust is still a face-to-face meeting, and a virtual firm needs to have a group of people it can trust to do a good job," Kashi said.

Chavez said another complication is trying to scale the practices so they are not just a bunch of attorneys who share e-mail and say they are a law firm.

"You really have to think about how you collaborate, educate and maintain control of attorneys all over the country," she said.

Although virtual firms still have a number of snags to work out, Kim said his firm's goal is to expand to compete for the same business as traditional law firms.

"If we continue to gain the best attorneys and a high profit margin, there is no way we can be challenged," he said.