

Law firms offer special deals to lure startups



Fasken Martineau's Unconference brought together entrepreneurs to share information.

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Like most first-time entrepreneurs throwing their life savings into a business, Michelle Kam needed solid legal advice. With capital already squeezed, the Toronto woman was concerned about footing the bill for the topflight law firm she'd need to ensure a smooth road to market.

"We started out with a big firm, then bounced to a lawyer who was an individual one-man-show because the hourly rate was cheaper. We found the skill set we needed wasn't as extensive as in the big firm, so we had to go back to where we started," says Ms. Kam, whose startup, Incryptex, allows users to buy, sell, and trade digital currencies, like Bitcoin, within a familiar banking and brokerage framework.

But today's startups are tomorrow's corporations and with Toronto now mentioned in the same breath as incubation powerhouses like Silicon Valley and Tel Aviv, Bay Street giants are stretching their old, creaky bones to accommodate young, cash-strapped entrepreneurs by offering affordable "starter kit" legal services. It's a new model that's finding traction in the industry, but is not without its critics.

Craig Brown, senior partner at Fasken Martineau LLP in Toronto, began targeting the startup market several years ago. Mr. Brown knew his team could offer startups access to first-rate legal resources and a big network of investors. He also knew a pair of 24-year-olds building their company from a laptop in Starbucks couldn't afford his hefty hourly rate.

"We watched the huge wealth creation of people from humble beginnings with the right idea. They quickly amassed massive amounts of wealth, as did their legal teams," Mr. Brown says, singling out as a model Palo Alto firm, Wilson Sonsini Goodrich &

Rosati, which has accrued a "dream team" client list, including Twitter and Netflix, because they backed these companies from the beginning.

Mr. Brown brought in his former Western law school classmate Jeff Dennis to serve as Faskens' "entrepreneur-in-residence" and built an entire legal team around him. A strategist for small businesses, Mr. Dennis saw the potential to incorporate his expertise into what he terms a "legal startup for startups" – a subscription-based model that offers emerging companies a suite of legal services at a fixed rate in order to get them off the ground.

"If a firm like Faskens doesn't get in the startup game they're going to become a dinosaur. To this firm's credit they recognize it. It's a long game," Mr. Dennis says.

Faskens' 12-month "starter kit" costs \$2,000 and provides a fixed number of hours of mentorship and strategic advice. Also included: Help with the relevant paperwork, whether it's incorporation, foundational agreements, intellectual property protection, or preparation for financing rounds.

As a bonus, Mr. Dennis can help companies rethink everything from marketing to internal organization and can even introduce them to investors. Much of the time, he adds, the geniuses with the technology to disrupt the world don't have the first clue about the legal or functional ends of their business, an oversight that can sink them before they even get in the water.

"A lot of these guys come in and they are brilliant and have these great ideas but they have absolutely no idea what they need," Mr. Dennis says, noting the services offered by Faskens' startup model would cost between \$10,000 to \$15,000 in traditional billable hours.

"But if they start cheaping out on filing a patent or getting good tax advice... that's where they can really run into trouble down the road."

At Faskens, Mr. Dennis organizes what he calls "unconferences," startup events where beer tents and local indie music acts have replaced the fusty, corporate wine-and-cheese affairs favoured by the old school elite.

If one of their startups takes off after the program's year mark, the idea is that their clients will be in a better position to front the costs for future legal expenses. Other firms are offering similar deals for startups, most notably LaBarge Weinstein LLP in Ottawa, and Dentons LLP in Toronto. Meanwhile, in June, Waterloo, Ont.-based innovation centre, Communitech, opened a new legal clinic offering pro bono services to early stage startups, staffed by lawyers from Bereskin & Parr LLP, Miller Thomson LLP and Gowlings LLP.

Despite their efforts, however, some industry insiders are skeptical about the new models. Aron Solomon, senior advisor for education technology at MaRS, a major startup incubator in Toronto, says much of what these package deals offer amount to "empty carbs."

"Firms that do this – it's amazing how some people in the community applaud them – but they're Walmart. Nobody likes Walmart, which goes and gives something at a loss leader to get people into the store," Mr. Solomon says, adding these firms are often "not providing what the startups need" in the same way smaller service providers that deal specifically with small tech companies can.

On June 22, Mr. Solomon launched LegalX, an industry cluster at MaRS, with Jason Moyse, a manager at legal business solutions firm Elevate Services. The idea behind the initiative is to push the legal system forward by serving as a meeting place for tech, high-growth ventures, designers and lawyers. Mr. Moyse believes startups need more handholding in the beginning, which they can't get from the larger firms.

"The true leaders are the ones giving stuff away in terms of legal documents [for incorporation, etc.] and not just taking a flyer where they will service everybody, give them office hours, but as soon as it gets really legitimate from a law firm's perspective, which is like a Series A Round, the rates start to go up," he says. "If that's what's happening, that's a story that's been played out a couple of times in the market."

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