

LPO - Legal outsourcing business is on the upswing

Written by Ambrish Jha

Dare Magazine

Sunday, 01 February 2009

The legal process outsourcing (LPO) business is witnessing a surge, thanks to the rise in the number of legal cases in developed countries hit by recession

Recession might have come as a blow globally, but for the LPO industry it's an opportunity never seen before.

Bankruptcies and litigations have increased manifold, and so has become bailout packages from governments leading to significant rise in regulations. All these have fueled the need for legal works, and the direct beneficiaries are the LPOs.

The LPO business, however, is not just about employing lawyers. It does involve technology and marketing in the base countries, namely, the US, the UK, Japan, etc. With an advantage in technology and knowledge of how the outsourcing industry works, BPOs and ITOs have turned out to be the worthy forerunners to the LPOs as far as technology is concerned. Some BPOs have actually taken to it on seeing the huge gains waiting to be tapped. Some of the big names of the LPO industry include Pangea3, Clutch Group, Integreon, CPA Global, and Mindcrest.



LPOs have emerged as a perfect solution to the in-house legal departments of large multinational corporations and law firms looking to cut on their legal costs. They employ highly qualified, skilled, and motivated legal professionals in India to accomplish low-end, standard, and less sensitive legal tasks outsourced to them. The benefits are mutual. While the US- or UK-based legal firms and multinational corporations manage to reduce their legal expenditure by almost 50 to 80 percent, Indian lawyers employed with the LPOs earn much more than they would if they practice in Indian courts on their own.

What has helped the cause is that legal systems of both the US and India have their origin in the UK legal system. Most of the LPOs do employ or work in association with British and American lawyers. They are the ones who provide additional training, most often in legal writing style, to the lawyers employed by the LPOs. For senior lawyers from the US, this association has come as a huge relief from the grueling task schedule, ensuring better remuneration at the same time.

Most of the legal outsourcing takes place from the US and the UK, though other European countries and Japan have also stated doing the same. India has managed to emerge as the biggest destination of legal outsourcing, but countries like the Philippines and South Africa are also trying to take a pie out of the business, thanks to their comfort with the English language and the similarity of their legal systems with American and British ones.

The market size of the LPO business is anyone's guess. Estimates vary from \$40 million to \$150 million. However, there seems a perfect consensus about one aspect — bullishness of the industry. By 2010 it is expected to reach anything between \$640 million and \$1.5 billion. Some enthusiasts say that by 2015 the size of the industry could be as big as \$15 billion.

Reasons for increase in business

Recession and the desire on the part of legal firms and multinational corporations, particularly based in the US, to cut costs has turned legal outsourcing into an industry. It was encouraged by resolutions passed by some of the state bar councils in the US supporting such outsourcing.

Abhi Shah, co-founder and CEO of Clutch Group — the company named as the number one among LPOs in the 2008 version of The Black Book of Outsourcing — says recession has opened new vistas for LPOs in four different areas — litigation, compliance, bankruptcy, and foreclosure. For instance, bankruptcy of Lehman Brothers alone has led to litigation worth \$1 billion.

Indian LPO companies have managed to impress outsourcing companies by embracing professional management skills and providing services matching American standards. Sanjay Kamalani, Co-CEO, Pangea3, says, "Legal talents in India have learned to implement Six Sigma tools and other methods to ensure consistent quality delivered in the most efficient manner."

Corporate clients seem to be in the process of adopting backend legal outsourcing into their business models, as Kunoor Chopra of LawScribe says, "What I found very interesting is that corporate clients are now introducing us to their panel counsel because they want the law firms to seriously build offshoring into their business model."

Outsourcing of lowend legal tasks is reducing the costs of LPOs by as much as 50 to 90 percent. Shah says the top 200 associates charge more than \$300 an hour, whereas partners and senior lawyers charge close to \$1,000 an hour in the US. LPOs, on contrary, charge anything from \$32 to \$100 an hour. Outsourcing to India provides higher savings as one moves up the value chain in the type of work outsourced, Chopra reveals. For secretarial type transcription or data entry work, savings are around 30 percent, she says, but as you move into litigation, corporate, and intellectual property support work like document and contract review, drafting, patent searches, illustrations, and applications, the savings increase from 50 to 70 percent.

Tremendous saving opportunities for legal firms showcase how LPOs can cash on these. For Pangea3 the last three months have been the largest revenue generators ever and the last six months have seen a 100 percent growth in business as compared to the same period last year, Kamalani reveals. Abhi Shah's Clutch Group expects a year-on-year increase of 100 percent in business this year compared to last year.



The market size of LPOs in 2006 was \$146 million and by 2010, the industry would be worth \$640 million.

-- **Abhi Shah**
Co-founder and CEO of
Clutch Group

The size of the LPO sector

Various estimates have been made about the size of the LPO sector by experts. While Shah says the market size in 2006 was \$146 million, Poorvi Chothani of LawQuest puts the figure relatively low at \$40 million, and Kamlani estimates it at \$750 million. Shah estimates that, by 2010, the industry would be worth \$640 million, and Kamlani puts the figure at \$1.5 billion.

Despite all optimism, the fact is that LPO business is in its infancy, unlike the BPO and ITO sectors. In comparison with the BPO and ITO industries, the revenues generated by LPO at present are much lower.

According to Chopra, "In the fourth quarter of 2007, there were in excess of 45 BPO contracts with contract value in excess of \$25 million. To date, to my knowledge, there hasn't been a single LPO deal of this value."

Signs of maturity are visible in the LPO industry, as Chopra says, "The deals are moving from project to full-time employee team based, and with this the size of the deals are also increasing."

Market research firm Forrester Research, which Kamlani refers to, has predicted that about 35,000 lawyer jobs will shift offshore by 2010, and this will increase to about 79,000 by 2015.

"If you take the low end of the LPO bill rate,"he says, "say \$30 per hour and assume an average LPO lawyer bills 1,800 hours per year, then 35,000 LPO lawyers would generate approximately \$1.75 billion [by 2010]."

Business prospects

"We are looking forward to more than double our workforce [from the present strength of 300] by 2010," says Shah, whose Clutch Group is set for all kinds of organic and inorganic growth.

Kamlani also believes his company can clock a growth rate of over 100 percent by 2010. The LPO business has, however, its own share of problems. It's not difficult to set up an LPO, thanks to lack of regulatory requirements that need to be fulfilled for an Indian willing to start one, as pointed out by Chothani. In addition, the infrastructure needed is particularly advanced in India. LPOs, thus, proves to be Low capital-intensive industry. One of the leading LPOs, Mindcrest, for instance, started with only five lawyers in 2002, and now it employs over 450 legal professionals and engineers. It is, therefore, no surprise that LPOs have mushroomed within a short span of time. When Chopra started Law Scribe in 2004, there were only five players in the market. Contrast this to the present situation, with over 100 to 150 LPOs already registered, as Shah reveals. This has led to a situation where there are many small, poorly financed LPOs trying to cement their place in the market.

"There are about 15 to 20 serious players in the field with a stable infrastructure," says Chopra.

LPOs also depend on effective marketing and sales teams in the country where their customers are based, and a strong and effective delivery team in India. Chothani says, "It is extremely difficult, almost impossible, to build a viable business without both these arms of the business."

Without a guaranteed client flow from the US or the UK, and the support of a large BPO or ITO organization, or a US corporation or law firm, coupled with good financial backing, it would be impossibly difficult for an LPO to establish itself in the market.

Kamlani suggests innovation and focus on specialized skills as the keys to success of the LPOs. He says, "Always invest in knowledge, and supplement it with sound global management skills."

Countries of origin

Business generated by LPOs originate mostly in the US and the UK, which contributes almost 95% of the \$250 billion industry. The US comprises 77 percent; the UK's contribution is 18 percent; and the rest of the world makes up for the remaining 5 percent, according to Shah.

He says, "It is, thus, obvious from where business will come."

Outsourcing from rest of Europe and Japan has shown significant increase, as Kamlani points out. Some firms are reportedly working overtime to get more share of legal outsourced works from Japan.



Legal talents in India have learned to implement Six Sigma tools and other methods to ensure consistent quality delivered in the most efficient manner.

-- Sanjay Kamlani
Co-CEO, Pangea3

Indian legal firms & LPOs

Indian law firms have generally refrained from the LPO business even though they have an advantage as far as the talent pool is concerned, as pointed out by Abhi Shah. A few are still in the business, but many others closed down. They faltered mainly because of their limited exposure to technology. Some experts like Kamlani point out those legal firms earn as much as \$200 on an hourly basis.

He says, "The LPO price structure of \$20 to \$75 will cannibalize their [Indian legal firms'] legal practice business."

There seems another reason why legal firms in India have not embraced the LPO business. They view the LPO industry as the first step towards ultimate liberalization of the Indian legal industry as Chopra points out. Their apprehension can be understood in the context of the Chief Justice of India's remark some time back, albeit in an informal function, that the Indian legal system will ultimately open to foreign players.

Top 10 LPOs			
2008 Rank	Company	2007 Rank	Company
1	Clutch Group	1	Pangea3
2	CPA Global	2	Integreon
3	Integreon	3	QuisLex
4	Law-Scribe	4	Law-Scribe
5	Mindcrest	5	Mindcrest
6	QuisLex	6	Law Wave
7	SDD Global	7	Atlas Legal
8	Cobra Legal Solutions	8	Ius Juris
9	Bodhi Global	9	Lexadigm
10	iDiligence	10	NeoWorth LPO

Source: The Black Book of Outsourcing (<http://www.theblackbookofoutsourcing.com/vendors-lpo-2008.htm>)

The future

The legal outsourcing industry seems to be going through a process similar to what was seen in the early days of BPO development. Consolidation will take place in the field, and weaker players will be pruned out. Deals would get bigger gradually, and the present trend of project-based deals could give way to full-time employee-based deals, something already accomplished in the BPO sector. The industry is immune to the political environs in the US as well, as the state bar councils in the country have welcomed outsourcing. Some of the experts like Kamlani do see LPOs being players in special economic zones of India. The writing on the wall is clear — whatever be the difficulties, entrepreneurs will continue trying their hand at LPOs.