



# Trimming the fat

As the financial crisis bites, in-house counsel are increasingly turning to legal process outsourcers to cut costs and increase efficiency

*Lesley Sutherland investigates*

**E**arlier this month, Russell Smith, president of Mysore-based legal process outsourcer SDD Global Solutions, was on the phone handling a complicated negotiation with a film studio. “To my surprise, there were no lawyers on the other side,” says Smith. “The company simply could not afford them.”

It is perhaps ironic that at a time when the legal workload associated with the financial crisis is increasing in quantity and complexity, companies are being forced to rein in their spending on legal advice.

“There is probably an even greater need for legal services [now],” says Smith. “The problem is that companies can no longer afford to pay the high legal fees of Western law firms.”

In such cost-conscious times, the business proposition of legal process outsourcers (LPOs) is newly compelling. “There is a lot of legal support work that does not have to be billed to the client at US\$200-300 per hour,” says Kunoor Chopra, president and CEO of LawScribe. “The same work can be done competently by LPOs for US\$50 per hour.”

## Counter-cyclical boom

Not surprisingly, LPO service providers report a significant increase in work. “The LPO industry is witnessing a counter-cyclical spike in the demand as a result of the current economic situation,” says Teju Deshpande, vice

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Kunoor Chopra  
President and CEO  
LawScribe



president of client services at Mindcrest.

“Our clients are increasingly looking at ways to trim legal costs,” says Arihant Patni, CEO of Bodhi Global. As a result, “business has grown significantly in the past year”.

Mindcrest and Bodhi are not alone in experiencing a growth in demand.

Manisha Singh-Nair, a director at intellectual property outsourcer Clairvalex, has witnessed “a surge of interest in

outsourcing among foreign entities”. Tariq Akbar, CEO of LegalEase Solutions, reports “a steady increase in volume as a direct result of the crisis”, while Chris Veator, executive vice president of CPA Global, says his company has seen “a significant increase in demand ... predominantly from corporate legal departments”.

Vivek Hurry, COO and co-founder of Exactus Corporation, believes that the attitudes of in-house legal departments and law firms towards outsourcing have shifted. “Interest levels are much higher than they were a couple of years ago,” he says. “Five years back, the mantra was ‘Outsourcing? Interesting, but I don’t think we need it’. Today it’s ‘How do we start?’”

Other service providers agree. Rocky Dhir, president and CEO of Atlas Legal Research, observes that “clients are much more open to the concept of LPO services.

“Earlier, they were sceptical,” he says. But now, “they understand the potential for achieving value.”

Many blame the previous scepticism on the conservative nature of the legal profession and its reluctance to embrace the concept of outsourcing. The economic downturn, however, may have changed this attitude and helped the LPO industry to gain the widespread acceptance it has long craved. “As the economy has become less predictable, the willingness of law firms and corporates to embrace the LPO model as the future of the industry is staggering,” says Veator.

Patni agrees: “In this environment customers are more willing to think out of the box and consider new ways of addressing their requirements.”



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Manisha Singh-Nair  
Director  
Clairvolex



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Vivek Hurry  
COO  
Exactus Corporation



### The cost factor

There's no doubt that financial imperatives are driving this change. "Is this about cost?" asks Chopra. "Definitely, no matter how you slice it. Right now these companies need to survive."

Aaron Lawlor, vice president of project management at Aphelion Legal Solutions, says that in the face of "stagnant or shrinking legal budgets ... legal departments are increasingly open to pursuing LPO options in a way that is markedly more enthusiastic than in the past".

Sanjay Kamlani, co-founder of Pangea3, shares these sentiments: "With legal costs being so high in the US, there is a significant shift in the marketplace with an increased focus on outsourcing legal work that may not have been outsourced even six months ago."

At CPA Global, Veator notes that "in the US particularly, there has been a dramatic shift in the way litigation is conducted. Corporations are no longer willing to pay the high fees that are traditionally associated with the review process, which accounts for around 60% of litigation costs".

The drive to reduce costs is also accelerating the trend away from hourly billing towards fixed-price services. "In the heyday of the dot-com boom, law firm associates saw their annual salaries double in less than five years," says Deshpande. "Hourly billing rates spiralled into the stratosphere. However, clients are putting a stop to it and demanding that law firms find a better way to service them."

Kamlani believes that the very survival of some law firms will depend on their ability to respond to the financial pressures on their clients. "The only legal service providers that will remain competitive and survive in this environment will be the ones that are prepared to share the risk of fixed budgets," he predicts.

### Process efficiencies

While cost may be a key driver in many decisions to outsource, LPO providers go to great lengths to stress that their business propositions extend well beyond monetary factors.

"The benefit of cost is always there," says Singh-Nair, but other reasons for outsourcing include "ease of work flow and reduced burden on management".

Hurry agrees: "Once a project is underway, clients see other benefits like process efficiencies, quality improvements and increases in available bandwidth, and that brings them back to explore other possibilities," he says.

Ram Vasudevan, CEO at QuisLex, believes that cost "is never the only, or for that matter the most important factor.

"The benefits our clients get from our services are improved efficiencies, transparency in support for mission-critical legal matters and improved measurable quality," he says.

Even the issue of cost itself has become more complex. "Clients have become much more sophisticated about measuring cost savings," says Dhir. "They used to simply ask about hourly rates and the number of personnel. Now, they actually measure and compare the loaded per-unit cost of LPO versus domestic models. Because some LPO providers do not meet quality requirements, clients find that LPO can actually cost more than doing the work onshore.

"I think we will see more and more clients looking for quality over quantity, and true savings over a deceptively low hourly rate," Dhir predicts. "In short, this industry has begun to mature."

The willingness of law firms and corporates to embrace the LPO model as the future of the industry is staggering

Chris Veator  
Executive Vice President  
CPA Global





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**In this environment customers are more willing to think out of the box**

Arihant Patni  
CEO  
Bodhi Global



**Climbing up the value chain**

Faced with growing pressure to reduce costs, and the increasing range and sophistication of LPO services on offer, many corporate decision makers are directing both their in-house and outside counsel to seek outsourcing opportunities. Much of the new work being transferred to LPOs relates to functions already well-established and proven suitable for outsourcing. But there is also a trend towards outsourcing new functions that are much higher up the value chain.

“Our role has evolved from that of a vendor ... to that of a trusted partner,” says Abhi Shah, CEO of Clutch Group. “Clients increasingly call on us to provide support for sensitive and complex matters.”

“Over the last year we have seen an increase in document review and patent work,” notes Chopra. “The amount of work is slowly increasing, but we should see more significant growth over the next couple of years.”

“From work which is purely rule-based, we have seen an increase in work which combines exercise of judgment with rules,” says Anup Bhasin, CEO of UnitedLex, referring to the widening spectrum of services being offered by his company.

Vasudevan has also noticed “a gradual transition to more high-end services”, and notes that “once clients are comfortable that the quality of outsourced work is not compromised, it allows them to transition significantly more work both in terms of value and quantity”.

Smith at SSD Global is clear: “The economic downturn has only strengthened our commitment to focus on the higher-end, knowledge-based services ... we’re convinced that the time is ripe for higher-value offshoring.”

**Crisis-driven demand**

Much of the new work is related to the effects of the financial crisis. “The events occurring in the global economy are unprecedented ... they are forcing companies of all sizes in all industries to ensure that they are spending every penny wisely,” says Shah.

“Our financial services and banking clients are fuelling demand for legal, regulatory and compliance solutions,” adds Matthew Banks, senior vice president of legal services at Integreon.

“We are witnessing an extraordinary influx of work both directly and indirectly related to the sub-prime crisis and more generally to the US recession,” confirms Kamlani at Pangea3. “With respect to the sub-prime crisis itself, we are seeing a surge in electronic discovery work relating to disputes among investors, lenders, borrowers, homeowners and banks. In addition, our risk assessment and management department is gearing up for what appears to be a global focus on increased scrutiny and compliance around financial transactions and general corporate governance.”

SK Chowdhry, a director of G Lexsys Legal Systems, has also noticed changes stemming from the financial crisis: “Before the turmoil there was heavy demand for support for IP activities, which has reduced drastically, and at the same time demand for litigation support has increased,” especially from the US market.

Vasudevan, meanwhile, reports that QuisLex has experienced “an increase in work relating to regulatory investigations and litigations arising as a result of the changing financial environment”.

Such is the confidence in the LPO sector that Delhi-based law firm Singh & Associates is pressing ahead with plans to launch a new 500-seat LPO despite the global downturn. “Singh & Cosmos LPO is launched to render multi-dimensional cost- and time-effective legal and legal outsourcing services,” explains Sumita Singh, a partner at the law firm. “While boom periods see the rise of precautionary work such as compliances, negotiations, preliminary documentation and joint ventures, recession is synonymous with contentions, disputes, claims, non-payments, retrenchments, service compliances, etc., which require different kinds of legal support services.”

**Outsourcing decision makers**

While the decision to outsource may once have been made at the discretion of in-house or outside counsel alone, other senior corporate managers are now getting more involved. “Decisions related to costs are generally being pushed by CFOs, and those related to quality of deliverables by general counsel,” notes Bhasin.

Lawlor has observed that “mid-level corporate gatekeepers are no longer allowed to prevent discussions

**Our financial services and banking clients are fuelling demand**

Matthew Banks  
Senior Vice President  
Integreon



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**Mid-level corporate gatekeepers are no longer allowed to prevent discussions regarding LPO**

Aaron Lawlor  
Vice President  
Aphelion Legal Solutions



regarding LPO from going forward. In many corporations, there are clear directives from C level executives to pursue LPO as a viable alternative for reducing legal costs," he says.

According to Soumitro Chatterjee, the CEO of Legal Circle, "the major decision makers are the end clients of the law firms – the corporate legal departments who now want a lesser burden on their resources".

Some in-house counsel are sending work offshore themselves; others are instructing their law firms to

outsource aspects of certain assignments in order to reduce the legal bills. "What I find very interesting," says Chopra "is that corporate clients are not introducing us to their panel counsel because they want the law firms to seriously build offshoring into their business model."

Evidently, there is significant pressure on law firms to share in the cost-cutting imperative. "The biggest change I've noticed is that the previous tolerance for high legal spending is disappearing," says Smith. "This is good news for a legal outsourcing provider."

**Running scared?**

But what is good news for LPOs and their corporate clients may be bad news for traditional law firms. Indeed, most of the large law firms surveyed by *India Business Law Journal* gave the same blunt answer: "We don't use LPOs."

Several international law firms already outsource their own back-end functions, but most have been reluctant to pass these benefits on to their clients. In the eyes of many observers, the reason for this is simple: sending client work offshore deprives law firms of billable hours.

Money aside, lawyers in private practice mention a number of factors to justify their apprehension. Some question whether LPOs have the necessary expertise and responsiveness to provide high-level, time-sensitive input on complex cases and transactions. Others stress the need for face-to-face interaction with clients and for all personnel working on a matter to be highly familiar with the circumstances of the client company.

Another concern frequently aired by law firms and corporates alike, relates to the security and confidentiality of sensitive data and intellectual property that is entrusted to outsourcing companies. LPOs have been quick to acknowledge this issue and most have responded with rigorous on-site security measures to reassure their clients (a move that has yet to be replicated by law firms).

"There has been an increasing focus on security measures implemented by service providers in the areas of infrastructure, network and data security," says Bhasin. "[We] aggressively address security concerns by implementing multiple measures and obtaining appropriate certifications."

Such efforts appear to be paying off. Indeed, there are subtle signs that international law firms are warming to the idea of LPO. Nimi Patel, a senior consultant at Herbert Smith, which has never previously sent client work offshore, explains: "With the current global financial crisis, litigation is clearly increasing in both complexity and quality, and often clients desire to consider alternatives with a view to reducing their legal costs. In this environment, we are now considering looking at legal process outsourcing, but it is too early to say how we will fare in our search."

**An industry comes of age**

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• Aphelion Legal Solutions	• LawScribe
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# LPO Management Strategy

3<sup>rd</sup> & 4<sup>th</sup> June 2009

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Currently the global and domestic economy faces drastic challenges. There has been much focus on legal outsourcing to counter and service effective cost cutting solutions, involve shared services, risk free service, timely managed work and quality end results.

More than US\$ 200 bn is spent annually on legal services, which keeps rising by 5-7% every year. This has resulted the involvement of small & large law firms, LPO's, sole practitioners, attorneys, legal research companies, and legal departments of various corporates who have realized the need and importance of outsourcing.

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- Understand the latest industry trends and developments – including best practice for selecting LPO partners and issues connected with shared practices, quality, ethics and risk.
- Know about existing domestic opportunities for outsourcing
- Have a greater understanding of the industry in the buyers and vendors market
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## WHO YOU WILL MEET AT THE CONFERENCE

- Legal Process Outsourcing Experts
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Vasudevan confirms that the use of LPOs is becoming more generally accepted, even among high-profile law firms. “We have worked over the past year with several of the established *Am Law 10* law firms which, to me, indicates that the idea of outsourcing legal support work is more accepted now than it was a year ago,” he says.

**Expansion plans**

At a time when many law firms are reducing headcount, LPOs are striving to recruit, retain and develop talent, while increasing the robustness and quality of the services they offer to prospective clients.

Discussions about the fragile financial environment offer opportunities to cultivate relationships with new clients. Chopra says: “This change has given us more opportunities to consult and collaborate with in-house and outside counsel ... we are out there talking to more companies and firms and helping them identify how offshoring can work.”

Sensing renewed opportunities, LPOs are investing in marketing and sales operations, and reaching out to potential clients in different industries and geographic locations.

Akbar says that LegalEase has “been a lot more aggressive in focusing not on the core industries which have been involved in the current turmoil, but the peripheral industries which are on a state of high alert”.

“Currently the market is at its peak,” says Chowdhry at G Lexsys. “So we are looking to expand into other markets such as Australia and parts of Europe.”

**Consultation is crucial**

Despite the boom, clients should not rush into outsourcing arrangements with their eyes closed. As Deshpande explains, “a huge gap exists between identifying offshore outsourcing as a potential solution and successfully implementing it.

“In fact, we have experienced a fervent desire from many of our clients and would-be clients to help them figure out whether, when and how to use an LPO.”

Akbar believes that LPOs have a key leadership role to play in this area. “Clients have become a lot more educated about the legal outsourcing market over the past few years”, he says. “This, however, has not bridged the gap in knowledge.

“We still find ourselves at the forefront in laying down expectations, timelines, review and progress measurement metrics, and learning curves for the team in India, as well as for the client.”

Others agree. “We are not just providing a service,” says



**IN OR OUT?** Clients are warming to the idea of LPO.

**We are now considering looking at legal process outsourcing**

Nimi Patel  
Senior Consultant  
Herbert Smith



Chopra, “but need to help companies identify what, when and how to offshore.”

Singh-Nair at Clairvolex suggests that LPOs should undertake “enhanced discovery from the client regarding the top few challenges faced by them in outsourcing their candidate functions”, and then use this information to “develop specific client-driven service lines to address the challenges at competitive costs”.

Deshpande, meanwhile, says that in response to client demands, Mindcrest has started to offer “consultative services regarding successful implementation of LPO arrangements – ranging from the perspective of execution on a single discrete project to a long-term partnership spanning several years”.

**New sales proposition**

Not all companies are yet willing to make bold decisions about outsourcing. Akbar at LegalEase says some of his prospective clients “have been caught like deer in headlights by the current financial crisis.

“The decision-making capacity for some of the large corporations we have been pursuing has slowed down,” he says.

According to Hurry, clients are giving conflicting signals. “On the one hand, there is a definite impetus towards cutting costs and hence, outsourcing. On the other hand, because outsourcing typically requires an investment upfront, there is also something of a slowing down in the sales cycle.”

Other companies are yet to be convinced of the strategic value of outsourcing. “In the US, there are still disproportionate burdens placed on ‘proving the LPO concept’ to potential buyers,” says Lawlor.

In cash-strapped times, companies and law firms cannot afford costly missteps into outsourcing. While financial adversity is driving a growing number of international corporations to use the services of LPOs, it is vital that projects are carefully planned and well thought through.

“In-house counsel will not sacrifice their personal reputations and expectations of quality simply to reduce costs,” warns Lawlor. “It only takes one bad experience to turn a client off from using an offshore solution.”

LPOs are responding with a new sales proposition in which “quality” has replaced “cost” as the buzzword. “Quality, quality, quality,” recites Dhir at Atlas Legal Research. “Did I mention quality?” ■