

Ten for 2011



Top Ten Trends for Legal Outsourcing in 2011

Fronterion L.L.C. is an international management consultancy which focuses exclusively on advising law firms and corporations on outsourced legal services. We assist our clients to capitalize on a changing legal landscape and confidently engage in legal outsourcing initiatives based on unrivalled industry insight.

For more information on how these emerging trends will impact your organization in coming year or regarding Fronterion contact info@fronterion.com or +1.312.473.4887.

Ten for 2011:

Top Ten Trends for Legal Outsourcing in 2011

An insider's guide to the changing dynamics set to impact the legal outsourcing field in the coming year.

Following a breakthrough year of big deals and industry buyouts for legal process outsourcing (LPO) in 2010, the coming year of 2011 holds even greater implications for all legal professionals around the globe.

Ripples from the rapidly growing legal outsourcing industry are seen shaping professional ethics, altering long-standing law firm-client relationship dynamics and challenging the general notion for how legal services are procured, delivered and consumed.

As the coming year approaches, all legal professionals – from LPO industry veterans to those in firms who have banned the very mention of outsourced legal services – need to maintain a firm grasp on legal outsourcing trends.

Fronterion's Ten for 2011: Top Ten Trends for Legal Outsourcing follows the widely-recognized Ten for 2010 trending report published a year ago.

Fronterion's 2010 trending report was featured by the ABA Journal, Legal Technology News and many other mainstream and industry publications.

Due to Fronterion's prominent and influential position as the leading global consultancy on LPO, the trending report is the outcome of Fronterion's interactions with scores of LPO vendors and buyers.

From leading general counsel and law firm managing partners to the staff on-the-ground delivering LPO services around the world, Fronterion's Ten for 2011 trending report reflects the highly pragmatic perspectives of these key industry players.

While the coming year presents a fair share of obstacles to be overcome, 2011 appears to be an exciting year for the LPO industry. The Top Ten Trends for 2011 are:



1. **A Fundamentally Changing Legal Profession**
2. **Enterprise Approach**
3. **Onshore Expansion**
4. **Expanding Client Geographic / Jurisdictional Reach**
5. **Progressive Value Proposition**
6. **Increasing Technology Applications**
7. **Dynamic Vendor Landscape**
8. **Public Acknowledgement**
9. **Divergent Vendor Approach**
10. **Ethical Guidance**

#1 A Fundamentally Changing Legal Profession

Fundamental changes in the legal profession are impacting how legal services are procured, delivered and consumed – representing the single most significant influence on the legal outsourcing industry.

From sole practitioners to sprawling global law firms, legal professionals cannot deny the changing nature of the legal profession.

Key pillars of this change include advancing technology integration, broadening globalization and mounting pressure from buyers for increased value for their legal spend.

These pressures and changing buyer expectations have irrefutably changed how law firms price, structure, and staff client engagements.

Increasingly, this includes alternative resourcing and outsourcing legal services to third-party vendors located domestically and abroad.

Fundamental changes are also seen in a shift of purchasing power to general counsel who have growing influence over their law firms and the way legal work is performed. This, in turn, spurs the growing cost-conscious approach to legal service delivery – including the adoption of outside LPO vendors.

Accelerated by the global financial crisis and continuing sluggish economy, these changes will continue to impact how, when and why LPOs are engaged in the coming year.

Certainly a number of questions arise regarding the tri-angular relationship between law firms, LPOs and their respective corporate clients.

Further fundamental changes to the legal profession are expected in the coming year due to the implementation of the Legal Services Act (LSA) in the United Kingdom. These new UK regulations may influence the legal profession and LPO industry around the world.



#2 Enterprise Approach

A firm-wide approach by law firms on the use of LPO vendors will become increasingly common as LPO initiatives are led by management who use more formalized corporate structures.

The firm-wide approach allows legal professionals to better manage risks and ethical exposures, as well as leverage the value of engaging LPO vendors.

Despite the autonomous nature of the majority of law firms, more cohesive LPO purchasing decisions will be seen in the coming year. This changing nature of purchasing will result in consequential change in how vendors engage and sell to law firms.

LPO vendor winners and losers will emerge as a result of these changes. Large players with requisite scale, global delivery capabilities and significant capital backing will be the most likely candidates for enterprise purchasing decisions.

Enterprise purchasing also provides an opportunity for niche LPO players who may not be large enough to provide full-service engagements to law firms, but can be strong contenders to provide specialized services as part of a firm-wide vendor panel.

Vendors without scale or a differentiated service offering will struggle to close the large firm-wide deals.

The enterprise approach by law firms will result in a greater investment in their LPO solutions.

The combined factors of a proven concept for LPO internally and the amortization of cost across the firm will result in more expansive captives, virtual captives, and well-invested vendor engagement structures.

#3 Onshore Expansion

The growth in onshore and hybrid on-offshore delivery solutions will begin in earnest in 2011. This trend will be equally prevalent in the United States and United Kingdom.

Growth in onshore delivery is a result of third-party vendor investment in onshore solutions as well as captive centers developed by major law firms.

The trend of onshoring highlights the value of LPO beyond basic labor arbitrage. Value is also gained by scalability, technology integration and process application.

Onshore LPO solutions will fill gaps in UK markets due to the lack of a robust contract attorney market. Onshore LPO solutions will also provide more rigor and continuity than the transient contract attorney offerings in the US.

This is a continuation from the 2010 trending report projections of onshore representing a viable career path for

entrepreneurial and globally-minded domestic legal professionals.

In the Ten for 2010 trending report, Fronterion was the first to recognize the growing trend of onshore LPO. The trend was verified through Fronterion's industry research published in the 2010 Global Sourcing Study. www.fronterion.com/globalsourcing2010

Onshore will continue to challenge the perception of "outsourcing." Legal process outsourcing won't be understood as simply sending legal services to low cost centers on the far side of the world. But, will be seen as a new, more effective manner of delivering certain segments of legal and legal support functions both within the same country as well as abroad.

Onshore LPO represents an alternative for legal professionals who are wary of sending work to outside jurisdictions as well as allowing vendors to expand their delivery capabilities and service portfolios.

#4 Expanding Client Geographic / Jurisdictional Reach

In 2011, LPO services will be increasingly adopted in expanded areas domestically within the US and UK, as well as international destinations.

Texas, the Midwest and the Pacific Northwest will be locations for expansion in the US. In the UK, regions outside of London are also emerging growth markets.

Buyers of LPO services are likely to expand into other geographic destinations around the world such as Australia, South Africa and major business hubs in the Asia-Pacific region.

Despite the dynamic and rapidly evolving UK markets, continental Europe will continue to remain slow in the uptake of LPO due to a number of factors including language difficulties, regulatory challenges and general business climates.

The primary drivers for the adoption of LPO in expanded jurisdictions are international corporations. Large corporations, which pushed for the adoption of LPO in major metropolitan areas such New York, London and Chicago, will now continue to request that their globally-dispersed satellite business units and regional law firms follow suit.

#5 Progressive Value Proposition

In the coming year, LPO buyers will increasingly demand alternative, non labor-arbitrage based sources of value from their LPO vendors.

Progressive LPO buyers will increasingly seek new sources of value when engaging LPOs as part of the general trend to move beyond basic labor arbitrage.

Additional sources of value include continuity of a dedicated team, process and technology integration, and scalability, among others.

As a result, LPOs will have the opportunity to expand their service portfolios to include new segments of work and larger allocations of existing service areas.

While litigation-based support will continue to lead the growth in the LPO industry, increasing demand will arise from contract portfolios servicing, as well as compliance, due diligence, human resources, medicolegal and broader legal support functions.

Developing a sustainable value proposition for the LPO engagement is a cornerstone for all buyers. Recognizing, and effectively capturing, the array of value propositions from LPO vendors will be a key challenge for LPO buyers throughout the coming year.

#6 Increasing Technology Applications

In the coming year, more pervasive and advanced technology platforms will increase clients' abilities to engage with LPO vendors and expand service opportunities.

As a result of the growing importance of technology, LPO vendors will use technology as a key selling point. Technology platforms will be used to offer diversified services and as a means for vendors to further embed themselves in client organizations.

Technology application is a distinguishing trait of legal process outsourcing – a melding of service technology – opposed to more traditional delivery methods legal services.

The primary technology offerings by LPO vendors will include customized document review and discover platforms, contact management databases, and workflow integration tools.

The importance of technology and the requisite investment in hardware and software products will further raise barriers of entry for new LPO players.

Major LPO players who now have the established scale will continue to develop customized technology tools as they offer integrated solutions to their established and new clients.

This trend favors large business processing outsourcing (BPO) and information technology outsourcing (ITO) vendors entering the LPO space due to their long-established competency in software development and transformational technology

applications. To remain competitive, pure-play LPO's may need to increasingly collaborate with legal technology vendors.

#7 Dynamic Vendor Landscape

The unprecedented growth and industry consolidation initiated in the fourth quarter of 2010 will continue to shape the dynamic LPO vendor landscape in the coming year.

Overall, these consolidation trends are positive for the industry as vendors emerge stronger, more capitalized and most likely, considerably larger.

Consolidation within the market will reduce transaction costs of purchasing, as well as reframe the buyer perspective from "whom to engage," to "how to engage" their LPO vendor(s).

Industry consolidation in the coming year will be driven by vendors seeking to capitalize on scalable operations, better allocate infrastructure requirements and provide exit opportunities for early stage investors.

These consolidation forces will be driven both internally within the existing LPO industry as well as through external players.

As a result of the continued growth of legal outsourcing vendors, the industry

has increasingly caught the attention of players interested in strategic acquisitions. LPO industry outsiders seeking to expand their service capabilities may also be involved in consolidations. Legal support firms as well as large business outsourcing organizations may be most eager to purchase LPO vendors.

The growing adoption of LPO in expanding jurisdictions will scale vendors to new thresholds and broaden global delivery platforms.

The opportunities of scalable, global delivery capabilities will be paired by the challenges facing vendors to manage considerably larger delivery capabilities.

This dynamic trend, carrying over from the past year, may create many valuable opportunities. But, it will also require buyers of LPO services to ensure that their organizations are well-aligned with their chosen LPO vendor(s).

Existing pure-play LPO vendors will continue to face pressure from major BPO players who began to seriously invest in LPO offering over last year and are now reaping dividends.

Despite this pressure, deep domain expertise in legal will remain the most significant success factor for LPO vendors.



#8 Public Acknowledgement

The growing acceptance and adoption of onshore and offshore LPO will become more visible in the coming year. This will become increasingly prevalent in the US, where in the past five to six years, corporations and law firms have remained virtually silent on all LPO related matters.

Fronterion research published in the AmLaw 2010 Global Sourcing Study revealed that 83% of top AmLaw firms declined to comment on their involvement with legal outsourcing vendors.

At the close of 2010, the first public announcement by a major US-based law firm concerning their work with LPO vendors is imminent.

As a result, increasing numbers of major US law firms and corporations may publicly acknowledge their use of LPO.

A domino effect may occur as law firms strive to tout their outsourcing savvy, similar to what has been seen in the past year in the UK legal market.

Such announcements will act as a validation of the legal outsourcing industry, and will cement relationships between LPO vendors, law firms and their clients.

#9 Divergent Vendor Approach

Competition means that LPO vendors will have to differentiate themselves from each other in terms of services offered and delivery models. No dominant model exists (yet) and a range of different approaches will emerge next year.

Gone are the days when LPO vendors strived to be everything to everyone. Now, the divergence of vendors' approaches to the market will be increasingly visible.

The divergence in approaches by LPO vendors will be based on industry focus, service segments, jurisdiction client focus, bundled vs. pure-play service allocation, sources of value-add, delivery location, as well as client relationship and engagement structure.

Vendor diversification is a positive trend that illustrates the maturing of vendor marketing strategies. Heterogeneous market strategies will provide greater scale and depth of competency.

To date, no single approach has clearly arisen as the dominant model. Potentially, a clearer perspective about a dominant vendor approach may emerge by the end of the coming year.

#10 Ethical Guidance

Regulatory bodies will start to publically address the changing legal landscape. In the US, ethical commentary is expected from the ABA's Commission on Ethics 2020.

In the UK, announcements are expected from the Solicitors Regulation Authority and the Law Society. Other jurisdictions that have been silent so far may follow suit, such as Australia, Canada, and South Africa.

Formal ethical commentary from ethical bodies will impact how and what legal professionals are ethically permitted to source to outside vendors. Ethical changes will also have significant implications on how LPO vendor engage their clients and how they deliver LPO services.

Overall, the proposed ethical amendments in both the US and UK are largely favorable, or at least non-discriminatory, toward outsourced legal services.

In the US, the majority of the ethical guidance in 2011 is expected from the American Bar Association (ABA) Commission on Ethics 20/20.

The Commission continues to review the previously issued Formal Opinion 08-451, while exploring the ethical implications of LPO in meetings throughout 2010 and 2011.

A draft statement for review was issued by the Commission in late November 2010. Using feedback on this draft by ABA members, a more cohesive statement by the Commission is expected at the ABA Annual Meetings in August 2011.

In the UK, the Law Society has also produced several initiatives during the past year to address the ethical implications of LPO. The culmination of these efforts will most likely result in an official statement in early to mid-2011.

The Solicitors Regulation Authority (SRA) released a statement on LPO in July 2010 – first published by Fronterion on its LPO Ethics Resource Center (www.LPOethics.com). According to a media statement in late November 2010, additional guidance on legal outsourcing by the SRA is possible at some point in the coming year.

The UK legal markets are further positioned for significant regulatory changes in 2011 as a result of the implementation of the Legal Services Act 2007 (LSA) and the transition to Outcomes-Focused Regulation (OFR). The full extent of the impact on the legal profession, much less the impact on the LPO industry, is not yet fully understood.

Internationally, the regulatory issues in India, with what is known as the Madras Writ Petition, will most likely continue unresolved.

Summary Statement

As a result of these trends in 2011, legal outsourcing domestically and abroad will increasingly become a strategic priority for many firms.

What was once relegated to a handful of leading-edge innovative partners, outsourced and offshored legal services has emerged as an important strategic issue for senior leadership and managing partners.

The coming year presents a number of new and exciting opportunities for the LPO industry, and a fair share of challenges, as well. The firms that will be the most successful will be those with the ability to recognize and respond to change.

For those seeking to understand the continuing changes in the legal profession, Fronterion's Top 10 Trends in 2011 will be a guide and standard of measure.

About Fronterion

Fronterion can help you recognize how these emerging trends will impact your organization and to discover opportunities that capitalize on a changing legal landscape. Clients that leverage Fronterion's unrivaled perspective and leading industry insight get the most out of their legal outsourcing engagements.

Fronterion is the leading international management consulting firm exclusively focused on advising law firms and corporate counsels on outsourced legal services. Working with some of the largest law firms in the world, Fronterion helps clients structure and implement highly innovative legal outsourcing engagements.

Fronterion is in a unique position to comment on the industry and forthcoming industry trending through its unrivaled market-wide perspective matched with a granular understanding of the legal outsourcing industry

For more information about Fronterion contact mediarelations@fronterion.com. Additional resources are available at www.fronterion.com and www.fronterion.com/TenFor2011