



FRONTERION<sub>LLC</sub>  
*Presents*

**TEN**  
— for —  
**2012**

# Ten for 2012



## Top Ten Trends for Legal Outsourcing in 2012

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](mailto:info@fronterion.com) or +1.312.473.4887.

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# Ten for 2012:

## Top Ten Trends for Legal Outsourcing in 2012

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

The emergence of legal process outsourcing (LPO) has reshaped the profession and pushed the boundaries of the delivery of legal services. In 2012, LPO will continue to have a significant impact on all legal professionals – both competitively and in terms of how they practice law.

For the third year in a row, Fronterion is releasing its highly anticipated report, *Fronterion Ten for 2012: Top 10 Trends in Legal Outsourcing for 2012*. Countless hours of research and consulting experience by Fronterion professionals – including direct interactions with vendors and buyers of LPO services – have gone into this year's trending report.

The result is a vital guide to the trends impacting the LPO landscape in the coming year. Past trending projections have been reported in the *ABA Journal*, *Legal Technology News*, *Lawyers Weekly* and many other publications.

As the LPO industry continues its evolution from a niche practice to game-changer and as numerous challenges lie ahead, 2012 is poised to be another dynamic year.

The Top Ten Trends for 2012 are:

- 1. Profitability Squeeze for LPO**
- 2. Growth Beyond Litigation Support**
- 3. Technology and LPO Combine**
- 4. Adoption of LPO Techniques**
- 5. Law Firm Insurers Target LPO**
- 6. Changes in the Executive Ranks**
- 7. LPO Faces Formidable Competition**
- 8. Winner-take-all Mentality**
- 9. Changing Professional Guidelines**
- 10. Evolution of the Law Firm-Client Relationship**

## #1 Profitability Squeeze for LPO

The shrinking gap between wages in the developing and developed countries and accelerating growth of onshore LPO services will combine to squeeze margins for LPO vendors in 2012.

Wage inflation abroad and soft labor markets domestically in the United States and United Kingdom have significantly narrowed the cost differential for the legal professionals performing LPO services. Fronterion has observed that offshore LPOs charge clients \$25-35 per hour for basic legal services while contract review attorneys in the U.S., particularly in the Midwest, often are charging comparable rates of \$25-30 per hour, according to sources cited by *The Wall Street Journal*. Similarly, in the U.K., comparable rates for legal professionals are seen in many areas outside of London.

The soft labor rates in the domestic legal sector place a natural cap on the amount LPO vendors can charge their clients, despite the increasingly expensive wages they pay their offshore staff. This squeeze in profitability is only set to increase in 2012 as the newly minted law graduates in the U.S. and U.K., who flocked to law schools during the downturn, are now seeking to join the workforce.

These challenges for the offshore model are not limited to the LPO industry. GE Chairman Jeff Immelt was reported in a separate article by *The Wall Street Journal* to say that the costs of running a U.S.-based call center had narrowed to 10% from a similar venture in India. The *Aon Hewitt Annual India Salary Increase Survey* projects 13% wage inflation in 2011, which potentially will increase with higher double-digit wage inflation in India in the coming year.

While a significant portion of the value proposition for LPO lies beyond basic labor arbitrage, most legal professionals, all things being equal, prefer to keep legal work domestically. For example, challenges with the offshore LPO model – such as professional obligations, client comfort, time zone differentials, language barriers and data protection concerns – are easily sidestepped when using domestic legal vendors.

As a result, the adoption of onshore or domestic LPO services represents a major growth segment for the LPO industry. But the pervasiveness of onshore LPO delivery in 2012 may hamper the overall LPO industry as vendors struggle to 1) convey a compelling value proposition opposed to law firms setting up their own domestic outsourcing centers (see Trend 4), and 2) remain profitable given

1. O'Connell, Vanessa. "Lawyers Settle... for Temp Jobs." *The Wall Street Journal* 15 June 2011.
2. Beckett, Paul. "GE's Immelt on the Frustrations of India." *The Wall Street Journal*. 14 Mar. 2011.
3. Aon Hewitt. *Aon Hewitt Annual India Salary Increase Survey*. 2011.
4. Lamont, James. "India Struggles to Cap Wage Inflation." *The Financial Times* 12 May 2011.

lower margins on more expensive legal personnel domestically and abroad.

In 2011, for the first time, fast-growing LPO firms began to feel this pressure, exacerbated by the challenging economic climate. Fronterion observed that some LPO vendors froze hiring, or even shed jobs, as a result. This trend will continue to have an impact in 2012.

## **#2 Growth Beyond Litigation Support**

The unsustainable concentration on litigation support services presents one of the most fundamental challenges facing the LPO industry in 2012.

Helping clients prepare for large-scale litigation was one of the first outsourced legal services to gain widespread adoption and remains by far the most popular. But in the coming year, LPO vendors more than ever, will seek to diversify service lines – from contract management to due diligence on M&A transactions – as legal professionals become more comfortable with LPO collaboration both on and offshore. This ability to integrate LPO beyond litigation support services provides one of the greatest opportunities for the LPO industry to secure its place in the legal landscape.

Litigation support is the easiest service line to outsource in part because it is the most readily broken down into discrete legal tasks through what is known as legal disaggregation. Also, litigation support has a clear value proposition and requires limited day-to-day oversight and integration by law firms.

While LPO vendors have historically offered a broad suite of legal services, significant client adoption of non-litigation support services has proven to be problematic. Expanding service adoption in 2012 will be an uphill battle for LPO vendors, but worth the effort. Failing to make this expansion and provide a progressive value proposition to clients, the LPO industry faces the risk of commoditization and stagnation. Furthermore, future advances in e-discovery technology or changes in disclosure requirements could make LPO litigation support services, which employs scores of legal professionals manually reviewing documents, obsolete.

## **#3 Technology and LPO Combine**

In the coming year, legal technology platforms will be increasingly bundled together with traditional LPO offerings,

combing two of the most important trends shaping the legal profession today. This means using software systems as well as low-cost human labor to provide cheaper and more efficient legal services.

As technology is increasingly paired with manpower, 2012 represents a year of both opportunity and challenge for LPOs. Advances in legal technology will create opportunities for greater legal service disaggregation, expanding the scope of LPO offerings. But in the long-term, certain manual LPO services may become automated or eliminated altogether by computer programs which cost less than even the cheapest worker. In addition, LPOs still largely operate on a similar hourly model as law firms and traditional legal staffing firms. This hourly-billing model is increasingly under threat from alternative billing methods and may give way to bundled technology-service models.

Bundling LPO services with technology offerings will be an essential differentiator for outsourcers in 2012, but LPOs should be wary of over-committing to a single technology platform or deviating from their primary focus of delivering process-driven legal support services, as opposed to technology development. Examples of technology applications

LPOs might use include contract management repositories, document review platforms, or legal research technologies, which can trawl through thousands of documents for key themes and phrases.

## **#4 Adoption of LPO Techniques**

The broad adoption of LPO techniques in 2012 comes as a supreme validation of the LPO approach and will more than ever reshape the practice of law.

In 2012, Fronterion projects a definitive shift as law firms and legal professionals across the board act more like LPO vendors. That means replicating LPO-like approaches based on process, reporting and rigorous project management. LPO techniques deliver more scalable and transparent services through better management and consistent quality.

The start of this trend has already been seen in 2011 with a number of law firms making landmark announcements concerning their establishment of wholly-owned captive centers in their own jurisdictions using LPO techniques. Law firm clients often find it attractive to have an integrated LPO-based captive center within the law firm – confident

that all of their interests are covered under the umbrella of the law firm's professional obligations, and perhaps more importantly, the law firm's professional liability policies. The question remains, how much depth of experience and appetite do law firms have to adopt these process-driven techniques?

The adoption of LPO techniques is not limited to law firms as traditional legal vendors augment existing operations with LPO techniques and corporate legal departments expand offshore back office centers to include legal functions based on an LPO model.

## **#5 Law Firm Insurers Target LPO**

As outsourcing becomes more common, the unique nature of LPO services creates new risks for legal professionals that will be addressed by law firm insurers in the coming year.

The malpractice lawsuit against a prominent AmLaw firm in 2011 is one of the first public examples of the risks posed by using third-party legal vendors. In 2012, Fronterion sees a growing focus on vendor risk as the primary driver for insurers taking a holistic view of law firms' sourcing

initiatives as primary professional liability policies may not be suitable for these new exposures.

Firms revisiting or renewing professional liability policies in the coming year may find new exclusions, and possibly new products specifically tailored for a law firm's use of third-party legal vendors. Additionally, law firms may be required to adopt a similar rationalization of e-discovery technology vendors. A firm-wide or enterprise approach instead of piecemeal outsourcing can both reduce the risks by imbedding systems that allow greater control and supervision of offsite lawyers.

See the *Fronterion Law Firm Liability Report* for more details on this trend. ([www.fronterion.com/liability](http://www.fronterion.com/liability))

## **#6 Changes in the Executive Ranks**

The shifting skill set required for leading an LPO in this evolving industry, along with growing pressure on existing management to produce results, will drive changes in executive ranks at many LPO vendors in the coming year.

Fronterion observed significant personnel changes at nearly all the

major vendors in the last two quarters of 2011 and expects this trend to continue or accelerate in 2012.

The primary driver for this trend is the transition to more operationally-minded leadership, with new executives focusing on improving efficiency and profitability, opposed to the entrepreneurial focus of leaders at many LPO vendors today.

Additional drivers for executive changes include greater competitive pressure from mainstream legal vendors (see Trend 7) and expectations from owners on firm profitability, as opposed to top line revenue growth.

Investment timelines will also play a part in this trend next year. Institutional investors backing many of the major LPOs want to see profitable growth. Otherwise, investors may seek exit opportunities as they near the end of the typical investment cycle.

Even if founders remain in place, they may find themselves supported by a changing demographic of leaders within their organization as the required skill sets for the industry continue to evolve.

## **#7 LPO Faces Formidable Competition**

As LPO achieves greater acceptance in the coming year, LPO vendors face intense competition from more formidable mainstream legal vendors.

Sending legal work offshore or to one of the many onshore LPO centers located domestically will become significantly less novel than in years past. As corporate clients grow to expect value-based options, law firms will preemptively use LPOs and increasingly include LPO vendors in client request for proposal (RFP) responses.

This represents a major milestone for the industry and expanding opportunities for growth. But, the proliferation of LPO also presents a new set of challenges for vendors. While the practice is much more widely accepted, LPOs are now competing against established, well-capitalized legal service vendors such as staffing firms and discovery vendors, as well as law firms with specialized delivery centers.



## **#8 Winner-take-all Mentality**

As the LPO industry matures in 2012, the industry will continue to coalesce around an inner-circle of LPO vendors.

Fronterion does not expect a radical restructuring of the LPO industry in the coming year, but we do expect to see client consolidation as cash flows dry up for LPO vendors not in the inner-circle.

The 2012 economic climate will make it unlikely that new stand-alone LPO vendors will attract the additional capital required to compete with existing industry heavyweights. In 2012, most major LPO vendors will have been established for eight to ten years and will have received some portion of external financing. Furthermore, legal professionals are less concerned with price, but are highly sensitive to an LPO vendor's track record and market positioning.

This environment will make it much harder for newcomers to enter the LPO scene and may well lead to the exit of fringe players outside the inner core of LPO firms. It will take a very inventive and well-funded start-up to break into this hierarchy and have an impact on the LPO industry. We expect the most

movement in the industry to come from existing LPO vendors or established legal vendors expanding into LPO service lines.

## **#9 Changing Professional Guidelines**

U.S. law firms, and even more so those in the U.K., are evolving toward greater openness to alternative legal service delivery and LPO-inspired approaches – driven by technology and a fundamentally changing legal profession.

Next year U.S. and U.K. professional and regulatory bodies are due to publish the results of studies on the impact of outsourcing. Many important areas are yet to be addressed. How should the relationship between a law firm, client and an LPO work? How can a law firm bill a client for work undertaken by an outsourced lawyer? What happens when things go wrong? While regulators have been slow to offer tangible guidance to legal professionals wrestling with the radical changes reshaping the legal profession, outsourcing will increasingly come under the spotlight in 2012.

Specifically in the U.S., the American Bar Association (ABA) is reportedly



presenting recommendations for modifications to professional guidelines to the ABA House of Delegates in August of 2012. While in the U.K., the Solicitors Regulation Authority (SRA) has not specifically released a timeline to address outsourced legal services, it is confronting many new issues with the adoption of the Legal Services Act and may be required to provide additional guidance in the coming year. The arrival of the Legal Services Act in the U.K. will allow, in theory, a host of new competitors to traditional law firms. It could also release a flood of investment into the legal industry and accelerate the modernization of legal services.

Furthermore, as LPO continues to achieve global adoption, the ripples of LPO also may lead to new professional guidance in additional jurisdictions such as India and Australia.

## **#10 Evolution of the Law Firm-Client Relationship**

The injection of a third-party legal vendor into what was a straightforward law firm-client relationship is set to result in significant changes in the coming year.

The growing sophistication and autonomy of legal vendors, such as LPOs, are primary drivers for the shift in the law firm-client relationship structure. Previously, legal vendors were directly engaged and overseen by the law firm, in the case with legal staffing firms, literally in the offices of the law firm.

In the coming year, however, in-house legal departments will increasingly contract directly with legal vendors creating conflicting concerns for law firms. For example, how can law firms oversee, and be responsible for, services provided by a vendor with which the firm is not even contractually engaged? These new structural relationships and resulting work products are often beyond what the law firms' insurance policies were designed to cover (see Trend 5).

Fronterion also has found that some corporate in-house lawyers actually prefer to tap the expertise of LPO providers directly. For example, due to the LPO vendors' focus and service volumes, they have increasingly demonstrated superior expertise compared to their law firm counterparts for certain tasks, like searching documents for key words and phrases.

These developments will continue to create fundamental questions around the role of the law firm. For example, is the role of the law firm to act purely as a legal specialist or are the responsibilities of the law firm to be taken more broadly so that the firm acts like a general contractor coordinating inputs from various other law firms and legal outsourcing vendors?

While many factors will dictate the degree of changes to the law firm-client relationship, it is certain that this relationship structure will be very different at the end of 2012 than when the year began.

## **About Fronterion**

Fronterion can help you recognize how these emerging trends will impact your organization and discover opportunities to thrive in a changing legal landscape.

Fronterion is the foremost legal consulting firm exclusively focused on advising law firms and corporate counsel 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 provides leading-edge webinars, training workshops, compliance audits, industry research and advisory services to legal professionals seeking to capitalize on the pervasive impact of outsourced legal services.

For more information about Fronterion, contact [media@fronterion.com](mailto:media@fronterion.com). Additional resources are available at [www.fronterion.com](http://www.fronterion.com) and [www.fronterion.com/TenFor2012](http://www.fronterion.com/TenFor2012)