

- ▶ As firms seek to cut costs, LPO gains steam
- ▶ Why pay attorneys for routine processing?
- ▶ Flat-rate billing emerges but may not always be the best solution
- ▶ Savings are enticing but not everything can be outsourced
- ▶ Outside lawyers must buy in and be involved in the process

By Gwen Moran

# Cutting legal down to size

Nearly five years ago, Lance Jones, vice president and general counsel of Trilogy Software, a Dallas, Texas-based software company that produces custom solutions for the automotive and insurance industries, was already jumping on the cost-cutting bandwagon. As a senior manager at a company that prides itself on finding innovative ways to save its customers money in their business operations, Jones thought it was time to walk the talk when it came to his own company's legal services.

While he won't say exactly how much the company's 10-person legal team, which includes four attorneys, was spending on external law firms, he thought it was excessive for the almost 400-employee company.

Cutting legal costs is not as simple as just using fewer law firms or getting them to do less work, however. In examining his cost structure, Jones realized a large percentage of routine processing work that was being done by the outside lawyers did not need to be carried out by attorneys.

To help him cut his overall legal spend, he looked into two firms: Tusker Group in Austin, Texas and iRunway, based in Bangalore, India. The two firms handle software code review for copyright infringement and document review, among other services.

Jones gave each company pilot projects to test their effectiveness and was so satisfied with the results that

he began using both companies on a regular basis to sift through the massive amounts of code and documentation that relate to Trilogy's legal actions. Today, he estimates that his firm saves approximately 60 percent to 70 percent of what it previously spent on routine legal processes that don't in fact need to be handled by attorneys.

'We take every aspect of our legal world and parse it into legal processes,' Jones explains. 'Anything that can be done by smart people who are not lawyers, we'll look at and decide whether we can find a provider that can do that work at least as well as our typical law firm provider. If so, we'll look into that option.'



## A new approach to the process

Driven by today's renewed emphasis on spending reduction, many companies are increasingly looking for cost-cutting measures across all business units, and even corporate governance and legal functions are not immune. Some corporations are cutting back on the level of litigation in which they are involved and, as a result, the number of external firms they employ.

'When times are fat, like they were over the past five to seven years, everyone finds ways to make more money from the services they provide,' comments Jonathan Blinderman, general counsel and senior vice president at Glaser Weil Fink Jacobs & Shapiro, a corporate law firm located in Los Angeles. 'When things



get skinny, like they are now, people find ways to cut back and still get the work done. I do a lot of enforcement for some very large companies. Guess what? We're not filing lawsuits against small salon owners for violating a trademark. We've cut back because the client wanted to save money.'

And while some firms are touting flat-fee billing instead of hourly rates, Blinderman says that's often a bad deal for companies because the firms need to bid high to ensure they cover the cost of their overheads.

One of the more promising ways corporations and law firms are cutting costs is in legal process outsourcing, or LPO, says Robert Kennedy, executive director of the William Davidson Institute at the University of Michigan in Ann Arbor, Michigan, and author of *The services shift: seizing the ultimate offshore opportunity* (January 2009).

These include LPO for litigation-related discovery, contract and lease review, and other routine review

UK attorney Mark Ross, chair of the International Association of Outsourcing Professionals' legal outsourcing chapter and head of sales and marketing for LawScribe, a Glendale, California-based LPO company, says the US LPO market alone could be as much as 10 percent of the entire \$250 billion sector. He does, however, admit that others put that number at a more conservative 3 percent.

One example of this explosive growth is Integreon, an outsourcing firm based in New York City. President of global sales and marketing John Croft says the company's discovery business, which offshores most of its work to offices in India and the Philippines, has grown over the past three years from 10 attorneys to more than 450 working on projects at any one time.

The company also employs some US attorneys for contract work on cases where companies do not want to send their documents overseas. Companies such as Lakewood, New Jersey-based LeaseProbe outsource real estate leases for review and summary to American attorneys who are living in Israel. 'This is still a pretty nascent industry,' Croft notes.

As corporations look for value from outside providers, including legal counselors, he adds that they are increasingly questioning why they should pay hundreds of dollars an

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**Jonathan Blinderman**

processes that require sifting through mountains of paperwork in search of documents that are relevant to the process at hand. In many cases, firms outsource the review to countries with ample low-cost human resources, including India, China and the Philippines. Some of the work is also done in the US but in cheaper areas, like the Midwest.

#### **Booming market**

In the face of general economic pressure from the downturn, as well as a shifting regulatory environment in the US, more companies are looking for ways to manage the increased costs of document review and other routine services. Indian market research firm ValueNotes estimates the country's revenue from legal services outsourcing will increase from \$146 million in 2006 to \$640 million by the end of 2010, with the number of employees in the sector growing from approximately 7,500 to approximately 32,000 during the same time period.

hour for routine services that can be performed on a much lower hourly or cost-per-document basis.

Croft says a typical document review will vary depending on the scope and complexity of the project, but typically falls into the range of \$1 to \$1.50 per page. Savings estimated by LPO firms interviewed range from 30 percent to 70 percent of the typical cost of using an outside law firm, depending on how long the project takes to define and whether the company will be using LPO repeatedly, as the impact of fixed set-up costs diminish over time.

#### **Violating privilege**

Not everyone is in love with LPO, however. Before moving from a corporation to his current firm, Blinderman was a senior in-house attorney for Playboy Enterprise's Playboy Entertainment Group when he realized that his firm was spending a lot of money on paying law firms to review documents that may be considered privileged and determine whether they were rel-