

TEN FOR 2010: TOP TEN TRENDS FOR LEGAL OUTSOURCING IN 2010

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

2010 marks a new decade in the 21st century. To address a profoundly changing legal landscape, law firms and corporate counsels are exploring new models for delivering legal services. One of the most compelling legal service delivery models will be outsourcing. Here are Fronterion's *Top Ten Trends for Legal Outsourcing in 2010*:

10) Industry transparency.

2010 will mark an increased focus on transparency that will result in more efficient markets and heightened credibility of legal outsourcing initiatives for both buyers and vendors.

The increasing significance of transparency will result in a greater emphasis on industry benchmarking, best practices and collective standards.

More established standards like data security will continue to grow in importance, alongside softer aspects such as training, hiring and certain aspects of legal ethical provisions.

Traditionally client led, these requirements will be reinforced by the industry. The development of industry trade bodies between offshore vendors also align with the trending toward increasing transparency.

Further guidance is anticipated from organisations such as the American Bar Association (ABA) and The Law Society. A number of legal bodies have released ethics opinions on outsourcing, and we expect more guidance in 2010. The ABA Commission on Ethics 20/20 is now conducting ethical assessments on the growing use of outsourced legal services.

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 organisation in 2010 or regarding Fronterion contact info@fronterion.com or +1.312.473.4887.

9) Talent development and migration. As legal outsourcing vendors gain prominence in 2010, they will have much greater access to talent as more lawyers consider outsourcing as a genuine career path.

Client confidence in the outsourcing legal services market is translating into a rising talent pool, both on and offshore. Positions at outsourcing vendors will increasingly become an attractive alternative career path for entrepreneurial and global-minded legal professionals as pay, positions and prestige increase.

As a result of moderated demand levels and mitigated attrition in 2009, personnel recruiting levels at legal outsourcing vendors dropped substantially. In 2010, a marked reversal from this trend is expected.

Offshore legal outsourcing personnel will have access to increased training opportunities, as well. Vendors in 2010 plan to invest in greater amounts of formal training for their offshore delivery teams to meet the growing demands of quality legal service offerings.

8) Dynamic vendor landscape. Increased competition as traditional business process outsourcing (BPO) providers ramp up

their LPO capacity. Mid-size LPO providers face a choice between consolidation and specialisation.

Mega-outsourcing vendors, traditionally BPO-focused, will ramp up their LPO capabilities in 2010 to meet growing demand from clients. Furthermore, many corporations with existing offshore captive delivery centers will augment their offshore operations with early-stage legal and legal support services.

This increase in competition will mean that, despite growing opportunities in the legal outsourcing segment, less established and non-diversified players will likely face a choice between consolidation and specialisation. It is a strong possibility that recognized names will merge or exit the market.

Increasing resource dedication and a strengthening of market leadership will result in higher entry barriers to new vendors as current LPO vendors become more established

. As capital markets improve in 2010, these larger players will access outside capital investment to further drive growth and acquisitions.

Despite the initial trending toward industry consolidation, the vendor landscape in 2010 will continue to be a fragmented market.

7) Emerging sourcing destinations. The leading LPO location, India, will face competition from emerging nations like South Africa and the Philippines.

India is currently the leading geography for legal outsourcing; according to Fronterion's 2009 market research, more than 85 per cent of offshore legal outsourcing vendors are primarily or exclusively located in India.

While mature Indian players will continue to retain significant market share, the strongest emerging offshore legal services destination in 2010 will be South Africa, particularly with UK clients.

The emergence of South Africa as a preferred destination with UK clients will be driven by its concurrent time zone, strong cultural affinity and a maturing vendor landscape.

The Philippines will continue to build on its position as a prominent offshore destination for outsourced legal services, as well.

In addition to the growth of offshore locations, 2010 will bring an increase in multi-source, multi-shore vendors, including domestic delivery centers.

These onshore delivery centers will be largely based in domestic tier-II and tier-III cities like Wheeling, West Virginia in the US and Reading in the UK.

6) Engagement structures.

For 2010, the primary avenue for law firms and corporate legal teams to participate in outsourcing arrangements will be through third-party vendors and virtual captives.

While captive models may become more pervasive, in the near-term developing a stand-alone captive model is not a viable solution for a majority of law firms due to the requisite scale and start-up obligations. For corporate legal teams at large international organisations, integrating legal solutions with their existing offshore operations will be an emerging trend in the coming year.

Due to the continued uncertain economic outlook in 2010, many firms may be hesitant to lock into long-term, multi-year contract agreements with legal outsourcing vendors. Instead, firms will consider flexible outsourcing agreement structures with third-party vendors which will allow for increased resources on-demand.

5) A proving opportunity.

In 2009, legal outsourcing caught the media limelight. 2010 will be the acid test for the legal outsourcing industry, when it must prove its value to new consumers.

Throughout the past year, legal outsourcing gained the media's attention when several leading global law firms and corporate legal departments announced high-profile deals. 2010 will be the proving year for legal outsourcing.

Law firms and corporate legal teams will learn from their peers, resulting in make-or-break peer referrals, which will be strong indicators of the success and maturity of the outsourced legal services segment.

Not all responsibility rests on vendor performance; organisations outsourcing legal services will need to ensure they are adapting as well.

As organisations continue to publicly broadcast their outsourcing initiatives and leverage their outsourcing engagements as a competitive differentiator, vendors who are part of high-profile deals will be in a position to build substantial brand awareness. This will also bolster the entire outsourcing market.

4) Expanded work flow.

Projected increases in litigation and rising economic activity will prompt organisations to source more work to LPO vendors.

Projections for the first two quarters indicate an increase in litigation and a stabilization of legal budgets, which will result in a modest increase in legal activities followed by a more sizable increase in the latter half of 2010. Rising activity in the domestic legal sector will lead to more work for legal outsourcing vendors.

The scale of job losses in 2009 suggests that many law firms were dangerously over capacity. In 2010, despite the increases in legal activity, organisations will be cautious to avoid over capacity once more.

As a result, law firms and corporate legal teams will be apprehensive and the majority of outsourcing deals will be of middling size with the option to expand. Agreements will remain project-based and rarely for more than one year.

During 2009, a great deal of legal work was postponed or simply not performed due to budgetary constraints at corporate legal teams. In 2010, an increasing amount of this backlogged work will be economically performed by outsourcing vendors.

3) Shift in focus.

Legal organisations will take a more strategic approach to their outsourcing arrangements as opposed to an ad hoc, cost-focused approach.

By taking an organisationally aligned approach to their legal outsourcing initiatives, law firms and corporate legal teams will be better positioned to capture the full operational and strategic value of an outside vendor relationship.

Firms will leverage an outside vendor as a competitive differentiator, as well as take a strategic opportunity to engage emerging global economies such as India, Philippines and South Africa.

Other strategic opportunities include better allocation of internal firm resources, increased access to scale, advanced restructuring opportunities and more effective variability management.

Cost savings are core to the value proposition for LPO vendors. But in 2010 vendors will need to ensure they are providing their clients with strategic value to remain competitive.

The leading offshore vendors will demonstrate value by emphasizing quality attributes such as a depth of legal talent, rigorous process-

structured workflows and project oversight by seasoned domestic professionals.

2) Alternative legal delivery.

In 2010, organisations will take a more structured approach to unbundling legal services in order to leverage outside vendors to perform specific functions of these services.

When unbundling legal services through a structured approach, domestic legal firms will be able to better delegate components of legal services to outside vendors. For example, firms will break down projects into segmented, modular tasks for reviewing and assessing sales or employment contracts, litigation support and more.

Alternative delivery will also impact the roles that lawyers play. Their role will shift from providing purely bespoke legal advice to aggregating and procuring legal functions from a number of sources in and outside the law firm structure.

Corporate legal teams are also increasingly scrutinizing the work they send to outside counsel and unbundling services which can be performed more efficiently. Many corporations in 2010 will start engaging outsourcing vendors directly.

1) A dynamic legal landscape.

Economic pressures and the changing regulatory environment will continue to put pressure on organisations to turn to outside vendors.

The seismic economic forces that impacted the global legal industry in 2009 will continue to be the leading factor shaping legal outsourcing decisions in 2010. Limited resources, greater risk exposures and backlogged legal obligations have forced law firms and corporate legal teams to do more with less.

The most marked changes in the legal landscape will be seen in the UK with the upcoming implementation of the Legal Services Act. 2010 will be a watershed year for UK-based law firms as they prepare to remain competitive after the Legal Services Act is fully implemented in 2011. One of the most compelling strategies to remain competitive is integrating an outside vendor into a firm's organisational operations.

Other changes in the international legal markets include major firm consolidation like the pending blockbuster merger between Lovells and Hogan & Hartson. Firms in positions of consolidation will explore how outside vendors can make the legal team more effective in the restructured operations.

Conclusion. Industry leaders will not only adapt to change but also will use change to their advantage. Successful law firms and corporate counsels will study the trends in 2010 and ask, "How can our firm not only adjust to change but thrive in the midst of it?" The answer to that question will most likely mean changes in the delivery of legal services.

Supporting – not supplanting – firm operations with an outside legal services vendor has emerged as a successful strategy and will gain momentum in 2010.

In a changing and dynamic legal industry, firms that understand these emerging trends will be able to leverage the full value of their outside legal and litigation support vendors.

Trends mean change. Responding to change means success.

About Fronterion

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

The Ten For 2010 follows the groundbreaking and widely recognized publication, [Implementing a Successful Legal Outsourcing Engagement](#), authored by Fronterion managing principal Michael D. Bell.

Fronterion is the premier international management consulting firm exclusively focused on advising law firms and corporate counsels on outsourced legal services. Fronterion clients, primarily based in the US and UK, include a variety of sizes and practice specialties.

As the first organisation to bring a highly structured approach to the assessment of offshore legal outsourcing vendors, Fronterion has helped clients tackle an array of outsourcing challenges and achieve transformational benefits through outsourced legal services. A strict adherence to independence from vendor firms ensures Fronterion's objectivity in all client reporting.

For more information about Fronterion contact mediarelations@fronterion.com. Additional resources are available at www.fronterion.com and www.fronterion.com/TenFor2010.