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## **LPO's Have Become Legal Project Outplacement Firms: They Are Outplacing Legal Work from Traditional Law Firms**

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*The guild rules designed to govern the practice of law and create barriers to entry by unlicensed professionals have been completely trampled.*

As the legal spend continues to decline, competition for the ever diminishing budgets for outside counsel continues to fiercely escalate. Today, we again address the stiff competition coming from offshore legal project outsourcing. Frankly, United States law firms, the American Bar Association and regulatory agencies governing bar admissions and the

unauthorized practice of law seem completely clueless as to what is actually happening in the marketplace.

The LPO industry is a growing behemoth. Still barely in its infancy, LPO's will likely reach revenues of \$2,500,000,000 next year. That may seem a pittance compared to the \$180,000,000,000 revenues derived by law firms, but revenues for

LPO's continue to grow exponentially, while law firm revenues remain largely flat.



LPO's initially entered the market by focusing on the processing end of legal work. As [Jeff Carr, general counsel of FMC Technologies, has frequently noted](#), legal work falls into one of four buckets: Processing, counseling, advocacy and content. LPO's got their noses into the tent by offering to handle the processing component arguing, quite correctly, that US law firms were ill equipped to handle large volume processing efficiently, while LPO's, staffed by low paid foreign lawyers and aided by state of the art technology, could perform these services at a small fraction of the price of large law firms, allowing these law firms to focus on the other more lucrative buckets, for which these firms were far better suited.



**A**t the outset, LPO's marketed their services to law firms, offering to serve as their subcontractors. Law firms, in turn, often simply "marked up" the fees charged by LPO's, on the rubric that the firms were assuming some level of supervision and risk and, well, it was a pretty easy way to make a couple of extra bucks. In short order, sophisticated clients, dealing with sophisticated LPO's, entered into direct

contracts with LPO's, having general counsel use the services of LPO's directly. Corporations, the ultimate consumers of LPO services, used their economic prowess to extract favorable pricing from LPO's and often then directed their outside law firms to utilize the services of LPO's with which the corporate clients had favorable pricing arrangements. [These LPO's were essentially "designated subcontractors."](#)

LPO's are well capitalized and are investor owned. These two factors provide LPO's with enormous advantages over law firms. Their technology tends to be light years ahead of that typically used by traditional law firms. They are not bound by much of the expensive baggage weighing down traditional law firms, like [expensive midtown office space](#) or paying off outmoded technology acquired years ago. I have had the privilege of meeting and working with some of the world's best LPO's. I've uniformly found the leaders of these LPO's to be exceptionally bright and astute business leaders.



**B**ut, even as the [ABA Ethics 20/20 Commission](#) dawdles with merely [tinkering Model Rule 1.1 of the Model Rules of Professional Conduct](#) by making some minor revisions and expanding the Rule's comments to provide the guild's belated imprimatur to the LPO industry, the facts on the ground have created new realities.

Perhaps only an idealist might believe that the Model Rules are designed to do anything more than create artificial barriers to entry. Any realist recognizes that free market forces rendered the attempt to be of no moment.

The fact is that LPO's are working hard to get in to each of Jeff Carr's four buckets. At a recent [Global LPO Conference](#), much of the discussion by LPO leaders was about inroads they were making in these buckets. One LPO leader chaired a panel in which he encouraged the industry to re-brand itself, since calling the industry Legal Process Outsourcers created the misimpression that it was focused only on processing. I, for one, view the industry as simply providers of legal services. Period.



Another LPO leader boasted about serving as a processing outsourcer on multi-district related litigation in which the lead counsel and the corporate general counsel concluded that the time was ripe to file some 61 motions for summary judgment in related cases across the country. Lead counsel estimated the cost of preparing these motions to be in the area of \$1,500,000. The LPO offered to prepare these motions for approximately \$350,000. The motions were in fact ultimately prepared in India and revised and edited by lead counsel; the client saved nearly \$1,000,000. Welcome to the advocacy bucket.

These alternate providers of legal services have for long been preparing routine corporate, real estate and financing documents. Welcome to the content bucket.

And these providers of legal services have been providing basic and sometimes even advanced legal research to support both general counsel and outside counsel in their counseling functions.

**Global LPO Conference**  
BUYERS AND VENDORS MEET 2011  
OCTOBER 5-6, SHERATON LOS ANGELES DOWNTOWN HOTEL

The fact is that the only areas in which these providers of legal services are precluded from active participation are in connection with actual court appearances and signing legal opinions. The workaround here is rather obvious and likely inevitable. All that an LPO needs to do is to establish a U.S. law firm, populated by duly admitted American lawyers, which will own the equity of the law firm (obviously to circumvent the bar against non-lawyer ownership of law firms), and have these captive law firms contract with the LPO to have the latter handle all of the firm's "processing" requirements – inclusive of every one of the four items in the bucket, save for court appearances and the signing of legal opinions. Control over the nominal U.S. law firm would be maintained by the LPO, which will have the captive law firm sign a promissory note for the funds it has advanced to capitalize the firm. (After all it has sometimes been said, not completely in jest, that the largest owner of law firms is [Citibank](#), the premiere lender to law firms, which has some 650 law firm clients and 38,000 lawyer clients).

My friend and professional colleague, Bruce MacEwen, writing as

[Adam Smith, Esq.](#), recently noted that the LPO's are "smart, stocked with top talent, well-funded, strategically astute, and not the least bit afraid to break some china." My only disagreement with Bruce is that these folks won't be content to simply break some china. I believe they are planning on walking away with the china closet.

At the end of the day, traditional law firms will need to consider developing their own LPO, aligning with an existing LPO or, perhaps finding some different lines of work.

One final cautionary important postscript: LPO's typically carry about \$5,000,000 in E&O insurance. In a world where we already have [one claim pending](#) against a prominent law firm predicated on errors allegedly committed by its LPO subcontractor in connection with a matter that may involve some \$380,000,000, Quite clearly, LPO's need to materially beef up their coverage, law firms and general counsel need to examine any LPO's coverage and law traditional law firms should use their own expanded insurance coverage as an important marketing tool as they will increasingly compete toe to toe with these alternate providers of legal

services.



In all events, as Paul Lippe of Legalonramp.com so [cogently observed](#), non-traditional law firms may well eat the lunches of many traditional law firms and these traditional law firms must now take notice and action.

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