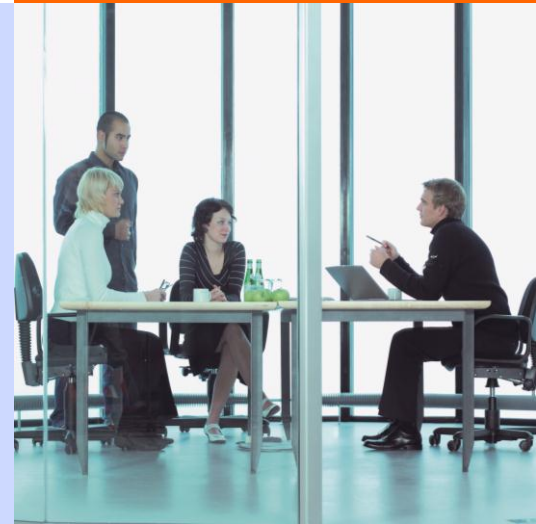


## LEGAL PROCESS OUTSOURCING

### Outsourcing routine legal and administrative tasks in Germany



#### INTRODUCTION

Legal Process Outsourcing (LPO) - the outsourcing of routine legal and administrative tasks by law firms and legal departments to external service providers or other law firms - has been gaining ground for several years in the US and in many Asian countries. The recent outsourcing by the Deutsche Bank of their litigation department as well as the expansion plans of many foreign LPO service providers for Germany show the increasing importance of this topic for the German market. The role played by LPO on the German market and its expected development have been reviewed and evaluated for the first time in this study. Law firms, as well as companies and LPO providers in Germany have been interviewed to provide a comprehensive picture.

#### LEGAL PROCESS OUTSOURCING SCARCELY ESTABLISHED IN GERMAN LEGAL DEPARTMENTS

Only 23% of the participating companies report that they have sought offers for outsourcing routine legal tasks; these, however, have done so repeatedly. On the other hand, on the part of the law firms already 50% have been involved with such proposals.

#### COMPANIES PREFER LAW FIRMS FOR OUTSOURCING

Of the almost 80% of companies that have not yet sought outsourcing offers, 27% are specifically planning to do so in the future, albeit not from LPO service providers but exclusively from law firms. Outsourcing of routine legal tasks is still in its infancy, which is also reflected by the mere 16% of participating law firms that expect to be involved with outsourcing offers.

#### PROCESS STEPS IN LEGAL FIELDS MUST BE CLEARLY IDENTIFIABLE

Outsourcing has been done in the areas of legal protection of IP and industrial property for many years. It is a possibility in several more legal fields: M&A, public law, litigation, claims recovery, labour law and foreign trade.

*„77% of companies have not yet sought a proposal for outsourcing routine legal tasks.“*

*„Industrial property legal protection is already being outsourced by 19% of the participating law firms.“*

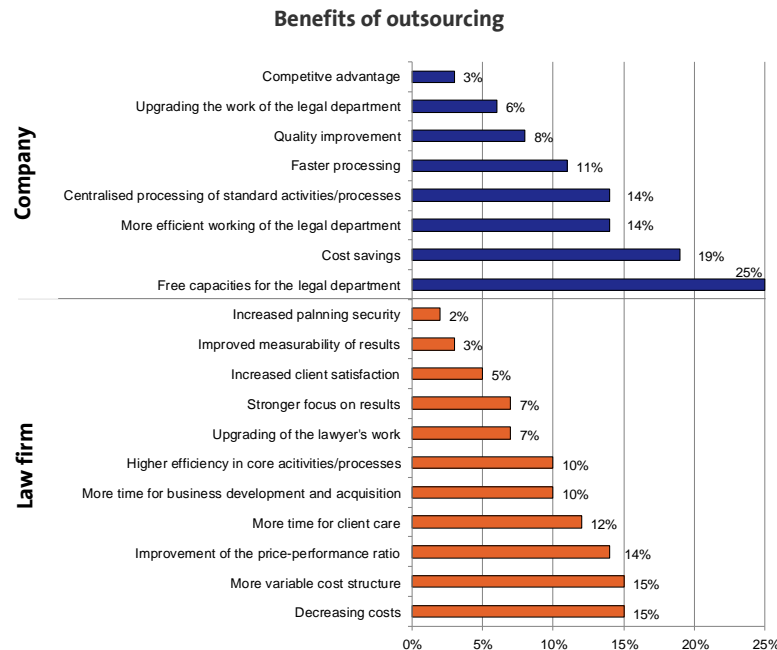
„Companies demand qualified lawyers who are able to take over outsourced support of routine tasks.“

**MONETARY ARGUMENTS ADVOCATE OUTSOURCING WITH LAW FIRMS**

Companies see in LPO an opportunity for additional free capacities (25%) and the advantage of saving on costs (19%). Law firms also envision a better cost structure as well as more time for customer care as the main benefits.

**COORDINATION EFFORT IS THE MAIN OBSTACLE**

For companies the biggest obstacle to outsourcing is the consequent increase in coordination efforts (33%). This also results from the fact that the process steps often cannot be clearly identified (14%) and thus not easily separated for outsourcing. Data security is an issue for 14% of the participating companies, but for 23% of the participating law firms. In addition, 27% of law firms believe that the quality of results could suffer.



**COMPANIES DEMAND QUALIFIED LAWYERS FOR SUPPORT**

The companies require qualified lawyers for outsourced support of routine tasks (19%). Furthermore, they want international positioning of the LPO service provider (14%) as well as of the authorised supporting law firm (13%) and Chinese walls (14%).

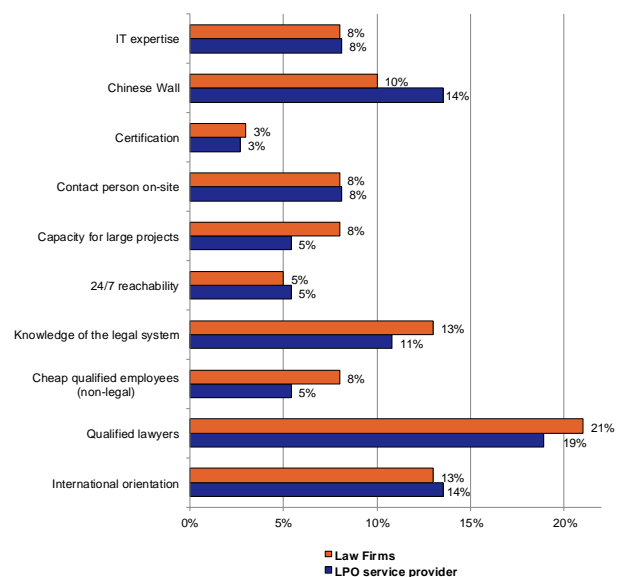
**LAW FIRMS MOST OFTEN OUTSOURCE IP MANAGEMENT TASKS**

Law firms most often outsource IP Management (29%) and the reviewing and drafting of contracts (17%). 24% of the responding companies said they see litigation support as a routine task they would most likely outsource; document inspection was mentioned by 20% and due diligence by 16%.

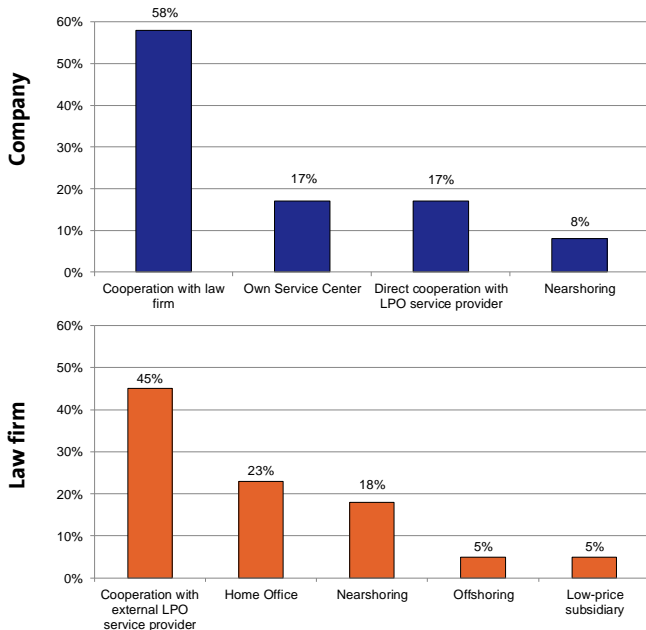
**OUTSOURCING OF TRANSLATIONS MOST POPULAR WITH COMPANIES AND LAW FIRMS**

When outsourcing support tasks, translation was the favourite of 33% of law firms and 26% of companies. Other possible fields for law firms are: IT (24%), secretariat functions (14%) and billing (12%).

**Requirements of LPO service providers and law firms respectively**



**LPO-models**



**CLIENTS PREFER COOPERATION WITH LAW FIRMS**

For 58% of clients the best solution is to cooperate with a law firm that offers standard processes at a lower price. Establishment of one's own service centre is seen by 17% as a potential LPO model, as is direct cooperation with an LPO service provider.

**OUTSOURCING ABROAD NOT AN OPTION FOR LAW FIRMS**

The establishment of a branch in a low-wage country is hardly imaginable for the participating law firms. However, 18% could picture building up an office in a less expensive German region (nearshoring) and 23% setting up home offices. For outsourcing, 45% of participating law firms prefer to cooperate with an external LPO provider. By doing so, the law firms can adjust to the favourite model of their clients and, thanks to cooperation with an LPO provider, they can offer their standard processes at a lower price.

**LPO SERVICE PROVIDERS STILL UNKNOWN IN GERMANY**

Almost no internationally or locally active LPO provider is known to the responding law firms other than CPA Global. Some law firms are already working together with this provider or are planning to do so.

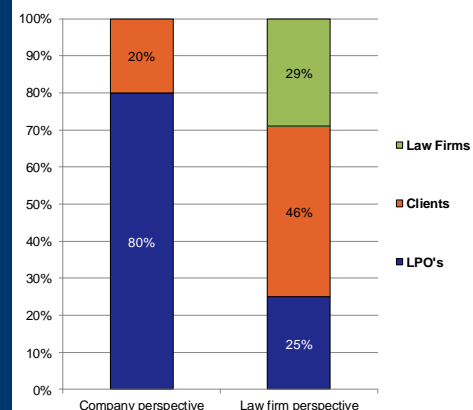
**MAXIMUM 20% SAVINGS POTENTIAL**

The responding law firms see a savings potential of 10% to 20%, whereby at most half of that potential can be realised within the next five years. The companies also see a maximum savings potential of 20%.

**LAW FIRMS MERELY REACT**

46% of the participating law firms name their clients as the driving force. 29% believe they are responsible for the development themselves, and 25% think the LPO providers can boost this development. In contrast to the law firms, the companies make a clear assignment of responsibility. 80% of the companies see LPO providers as the driver, and 20% say companies. From the companies' perspective, law firms are not seen as the driving force at all.

**Driver of this development**





*“Law firms will experience pricing pressure and new LPO service providers will emerge.”*

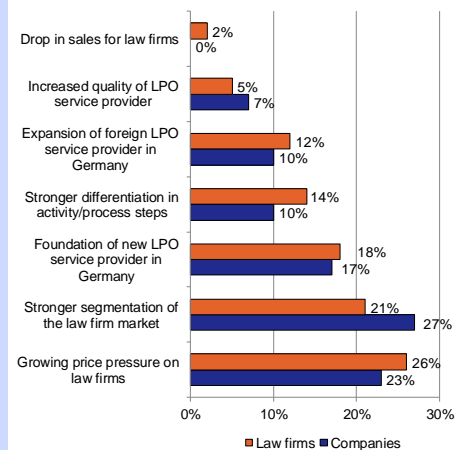
**HIGH GROWTH RATES EXPECTED IN INTERNATIONAL LEGAL PROCESS OUTSOURCING**

LPO providers see as their chance that a large law firm charging 300€ an hour for an associate will consider entering this cost-efficient outsourcing segment. Cooperating with an LPO provider makes more sense, says a leading LPO provider. The more law firms that open up vis-à-vis LPO, the more difficult it will become for those who oppose the development to justify this to their clients.

**PRICING PRESSURE WILL INCREASE FOR LAW FIRMS**

The impact of Legal Process Outsourcing on the market is clear on both sides. The law firms mainly expect a rise in pricing pressure (26%), an increased segmentation of the law firm market (21%) and the emergence of new LPO service providers (18%). A consolidation wave among law firms is not expected. The companies see a stronger segmentation of the law firm market (27%), an increase in pricing pressure (23%), the emergence of new LPO providers in Germany (17%) and an expansion of foreign LPO providers to Germany (10%) as a result of this development.

**Impact of LPO on the market**



**Executive Summary**

1. Half of the participating law firms have been involved in outsourcing proposals.
2. A quarter of the companies plan to outsource standard processes to law firms.
3. For a third the higher coordination effort is the biggest obstacle.
4. Every fourth company sees additional free capacities through outsourcing.
5. A fifth of participating companies require qualified lawyers for the support of routine tasks.
6. LPO service providers are still virtually unknown in Germany.
7. Savings potential through LPO is between 10% and 20%.
8. Half of the law firms see their clients as the driving force in this development. From the clients' perspective the law firms only react.
9. One fourth of participating companies and law firms expect an increase in pricing pressure.

**Study design**

The top 100 law firms and top 100 companies in Germany were interviewed. The study was carried out in writing on the basis of a questionnaire. In the law firms managing partners, marketing directors or business development heads were interviewed; in the companies it was the heads of legal departments or the managing directors. Participation was 16%. The study was carried out from June until July 2011. Evaluation was done anonymously.



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