

2012 WORLD MASTERS of LAW FIRM MANAGEMENT

## Setting up an LPO Captive – A Case Study

October 11, 2012  
Sydney, NSW.

**Paul Malliate**

“Those who get caught in the past and resist change will be forced deeper into commoditisation. Those who can create value through leadership, relationships and creativity will transform the industry, as well as strengthen relationships with their existing clients”

Thomas L Freidman – The World is Flat

“UNBOUND – how entrepreneurship is rapidly transforming legal services”

David Galbenski - President and CEO Lumen Legal

- Better
- Faster
- Cheaper

## Outline

Sourcing models  
Benefits  
GSM story  
Lessons learned  
Change management



## Right Sourcing Models

Location

Onshore  
Nearshore  
Offshore

Ownership

Captive  
Outsource/3rd Party  
Hybrid/BOT



### Captive Advantages



- \* Increased control
- \* No confidentiality and IP issues
- \* No conflict of interest
- \* Less employee resistance
- \* Easier change management
- \* Building up an asset
- \* Less costly (in theory)
- \* Better cultural fit
- \* No 3rd Party issues/contractual negotiations etc.

## Captive Disadvantages



- \* Regulatory/cultural challenges
- Not suited to small scale (i.e., less than 100)
- \* Inadequate capital/infrastructure funding
- \* Not consistent with best practice standards
- \* Management distraction
- \* Less flexible (ramping up or down)
- \* Brand name recognition (especially recruitment)
- \* Disaster recovery

## Benefits

1. Cost Management

2. Quality

3. Business Focus

4. Client Value



## 1. Cost Management

Labor arbitrage  
Functional consolidation  
Business process re-engineering  
Economies of scale  
Occupancy



## Is the prize worthwhile?

Total annual firm revenue	\$?m
Support expense margin	<u>25% (est)</u>
Total support costs	\$?m
Proportion suitable for outsourcing	<u>20% (est)</u>
Costs of outsourced services	\$?m
Likely cost savings	30% (est)
Estimated annual benefit	<u>\$?m</u> =====

## 2. Quality

Specialisation/ best practice expertise  
Speed of service delivery (time zone differences)  
Access (remote and 24x7)  
Standardisation & compliance  
Flexibility  
Talent pool  
Additional services



## 3. Business Focus

Staff morale/motivation  
Span of control  
Flexibility  
Core competence



## 4. Client Value

- \* Pricing
- \* Innovation
- \* Quality of service delivery
- \* Competitive differentiation



## Benefits

1. Cost Management

2. Quality

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4. Client Value



## Implementation Strategy

Review of functions/processes - unbundling  
Cost/benefit analysis  
Location options  
Captive/outsource provider  
Management concept proposal  
Pilot study  
Detailed proposal  
Full scale implementation



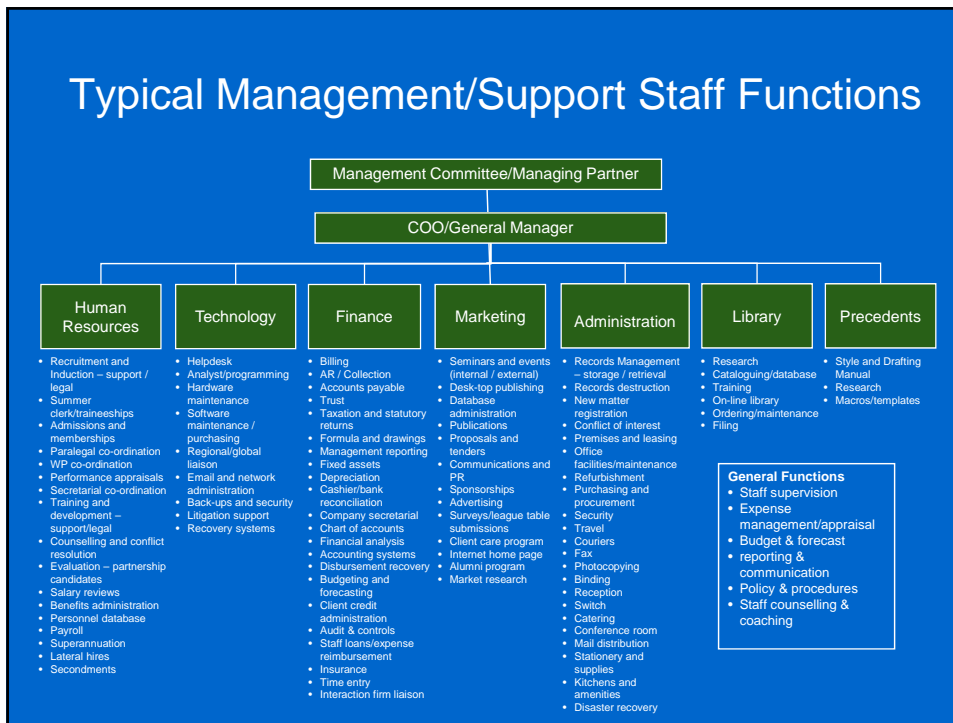
## Outsource Criteria

- \* Proprietary nature of service
- \* Confidentiality/security
- \* Cost effectiveness
- \* Reputation/track record of service provider
- \* Quality considerations
- \* Flexibility and control





# Typical Management/Support Staff Functions



## Functional/Task Analysis

1. Breakdown functions into specific tasks
2. Identify FTE work load and related cost
3. Review each task and indicate:
  - what must be done locally
  - what could be outsourced immediately
  - what could be outsourced later
4. Quantify potential savings/benefits



## Location Analysis – Key Criteria

Cost – (Labor, Occupancy, Technology etc)

Quality of Staff

Availability of Staff

Infrastructure and Technology

Regulatory/Business Environment

Language and Culture

Time Zone

Client Attractiveness

Risk Profile



## Location Analysis

Rank	Country	Financial structure	People and skills availability	Business environment	Total score
1	India	3.47	2.14	1.26	6.87
2	China	3.21	1.76	1.17	6.14
3	Malaysia	2.95	1.12	2.00	6.07
4	Philippines	3.58	1.16	1.05	5.78
5	Singapore	1.62	1.44	2.67	5.73
6	Thailand	3.27	0.94	1.51	5.72
7	Czech Republic	2.57	1.12	1.90	5.58
8	Chile	2.73	0.97	1.87	5.58
9	Canada	1.10	2.03	2.40	5.52
10	Brazil	2.91	1.36	1.23	5.50
11	United States	0.54	2.74	2.22	5.49
12	Egypt	3.55	0.95	0.98	5.47
13	Indonesia	3.51	1.06	0.89	5.47
14	Jordan	3.02	0.91	1.43	5.35
15	Bulgaria	3.29	0.86	1.11	5.27
16	Slovakia	2.72	0.96	1.55	5.24
17	Mexico	2.87	1.16	1.19	5.22
18	Poland	2.67	1.06	1.44	5.16
19	Hungary	2.61	0.88	1.63	5.13
20	United Arab Emirates	2.66	0.61	1.85	5.12

Source: AT Kearney Global Services Location Analysis 2007

## Support Functions

Word processing  
Database management  
(especially marketing and  
HR)  
Library/research (client and  
general)  
Data entry  
English review  
Events management



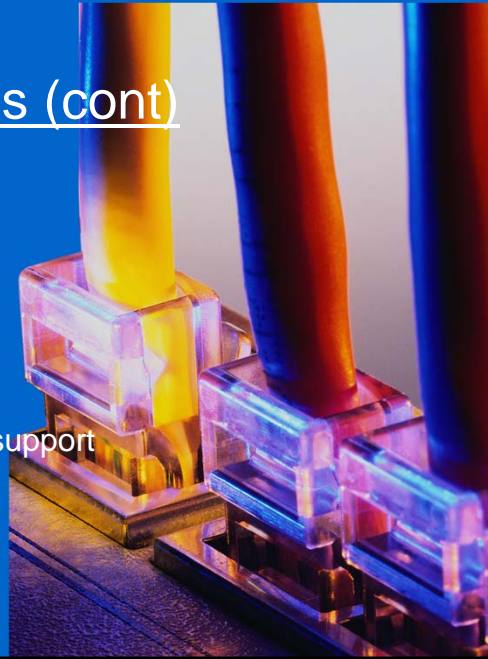
## Support Functions (cont)

Business development  
Brochures and publications  
Practice group co-ordination  
Billing  
Conflicts check  
Project management



## Support Functions (cont)

- Payroll
- Accounts payable
- Timesheet entry
- Financial reporting
- Network administration
- Help desk and applications support



## Support Functions (cont)

- Secretarial/PA support
- Precedents and knowledge management
- Internal audit
- Records management
- Web design and maintenance
- Systems development
- Power point and excel spreadsheets



## Legal Functions

Research and analysis  
Document review  
Contract drafting and proof reading  
Litigation support  
Patent research/analysis/drafting  
Trademark database  
Corporate secretarial  
Legal surveys  
Project management



[LPO workbook and implementation guide](#)

<http://www.acc.com/valuechallenge/resources/index.cfm>

## Lessons Learned

Leadership vision/commitment  
Evolution rather than revolution  
Resistance to change  
Pilot selection (small/invisible to user)  
Under promise – manage expectations  
Quality imperative (people/processes)  
Marketing & promotion strategy  
Manage risk  
Hidden costs  
Reengineer before outsourcing  
Establish benchmark targets  
Identify champions  
Celebrate success



## Cost Allocation

1. User Pays

at full cost  
cost plus profit margin

2. Subsidised/Hybrid Approach

start up  
central/infrastructure  
standard rate

3. Firm/shared expense

manage usage

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