

Offshoring Legal Services to India

December 2005



"Outsourcing to India: Beyond Call Centre "series



From data to decisions...

1

Executive Summary

With the maturing of offshoring, and increasing acceptance of India as a destination, a range of non-CRM and non-transaction related services are being increasingly offshored. Among these, a range of higher-value services requiring not just skill, but “knowledge” are rapidly gaining traction. “Legal Services” is one area that has generated significant interest and media attention in 2005. In this report we seek to demystify the hype, and provide concrete data and analysis on the state of “Legal Services Offshoring” from India.

Key Research Findings:

- The global legal services market, which includes major developed English speaking countries: US, UK, Canada, Australia and New Zealand is estimated to be around \$190 billion in 2005, but less than 5% of this is “offshoreable”.
 - Currently law firms are the largest service buyers from the Indian legal offshoring industry contributing about 49% of the total \$61.6 million revenues. The others are corporations and legal publishers.
 - The current employee strength of the Indian legal offshoring industry is approximately 1,800, with 78% of the employment in third party BPOs. However, “captives” are likely to outpace third-party vendors in terms of growth over the next five years.
 - Our growth projections indicate that by 2010 the legal services offshoring industry in India will employ about 24,000 people – a more than ten-fold increase over current numbers.
 - By 2010, we estimate the revenues from legal service outsourcing to be \$600 million, or just 13% of the size of the “addressable” offshoring market, estimated at \$4.5 billion by 2010.
-

US & UK are the key markets

India’s target market includes only English-speaking countries, of which the key markets are the US, UK, Canada, Australia and New Zealand. The legal services industry (in these countries) is estimated at \$190 billion in 2005. The US and UK, together constitute 95% of this market.

Law Firms lead amongst service buyers...

The legal services market is segmented into three broad groups: law firms (including individual attorneys), in-house legal departments of companies and legal publishers. Among these, law firms dominate and this is seen in their share of offshoring from India as well. However, though 86% of the global (English) legal services market is accounted for

by law firms, they account for only 55% of the offshoring from India. This indicates that corporate buyers (in-house legal departments of companies) see cost reduction as more crucial, and are ready to move work to India, probably because they have already offshored some other activity or process. In contrast, law firms are quite traditional in their outlook and have little prior experience in offshoring.

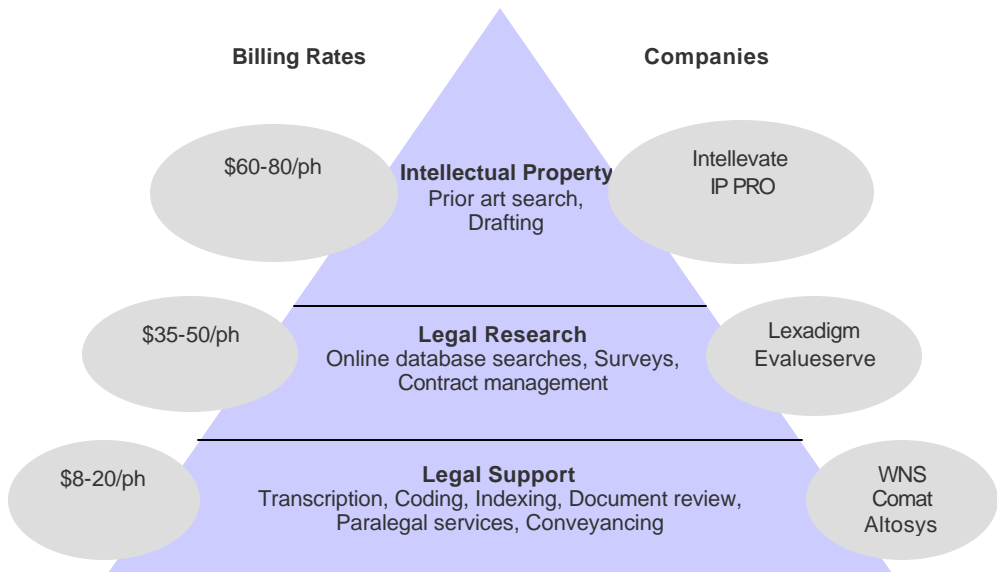
From Legal Support to Patent drafting...

Legal services can be further categorized into low-value and high-value services. The low-value services include processes like legal transcription, document conversion, legal data entry, legal coding, indexing, paralegal services, etc. These jobs are

“Wave 1 of legal outsourcing focussed strongly on legal transcription, legal research and aspects of IP. Wave 2 of outsourcing has now arrived. Many legal departments are prepared to outsource large legal projects which can be enhanced by the document and project management skills now available in India.”

- Robert Glennie, Director, New Galaxy

typically quite process-oriented, requiring less complex capabilities, and are hence billed at lower rates. In contrast, the higher-end jobs like legal research and patent related work require much higher skill levels and knowledge, and hence command a higher billing rate. The diagram below represents the types of services offered by some leading vendors and indicative billing rates up the value chain.



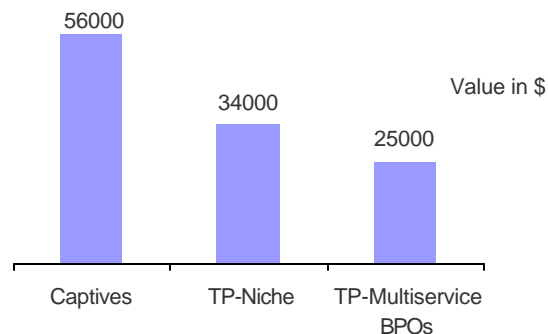
Captive vendors earn the most...

The Indian vendor landscape can be divided as into captives and third party vendors.

- Captives include dedicated centers of international law firms like Lexadigm, and in-house legal departments of companies like GE, Cisco, Oracle, Dupont. A new breed of law firms, being set up in the US or UK with offshoring (a captive India office) as an integral part of their business model are now visible, such as Intellevate and NewGalaxy.
- Third party vendors consist of “niche” BPOs that focus on providing only legal services, as well as multiservice BPOs that offer offshore legal services along with other services. Some of the niche players are IP PRO, Patent Metrix, Pangea3, Mindcrest and Quislex. Prominent BPO players include the likes of Evalueserve, Datamatics, WNS and Manthan.

There are over 50 players offering legal services to overseas customers from India, with employee strength varying from 10-100. The overall manpower employed in this segment is approximately 1,800 and the revenues are estimated at around \$61 million in 2005.

While the third party vendors employ over 78% of the manpower, revenue/employee at \$56,000 per year amongst the captives is much higher than what third-party vendors are able to achieve.



Key Projections and Insights

The US and UK are already familiar with the cost benefits derived from offshoring to India; and “proof of concept” along with increasing competitive pressures will lead more law firms and corporations to offshore their legal services. Some of the key emerging trends in the legal services offshoring scenario are:

- The overall addressable offshore opportunity in legal services is estimated to be \$4.5 billion by 2010. The Indian offshore industry will grow dramatically, especially in 2006 and 2007; and from a current revenue base of \$61 million we expect offshoring revenues to touch \$605 million in 2010.
- The key growth areas will be patent search, filing, etc. (IP related work) as well as low-end transaction oriented, process driven work such as conveyancing and property transfer transactions.

- Captives will increase their share of the market significantly in coming years, and will take on more complex and high-value jobs like contracts, IP research etc., which are otherwise considered too sensitive to be offshored to third-party vendors.
- Aggressive moves by larger multiservice BPOs which are adding legal services to their portfolio are likely to threaten many of the smaller vendors, who do not have the financial muscle and the capability to move up the value chain.
- Many low-value jobs, that are process and skill driven rather than knowledge based, will see erosion in billing rates, with the entry of competition. This despite a significant growth in market volumes.
- Large international law firms will explore joint venture opportunities with existing Indian law firms or third party vendors.
- M&A activity will gain traction by end 2006 and beyond. Many of the smaller players will be unable to invest adequately to face competition as the industry matures in India. Already, it appears that some of them are positioning themselves towards getting acquired. This fits in well with the likely plans of large BPOs looking to add scale or global law firms contemplating captive centers, who may consider acquiring existing niche vendors to accelerate their efforts.

The key constraints to growth lie in the quality of legal education in India, as well as the restricted domestic market for legal services. While the quality issue can be mitigated by in-house training, we believe that the closed Indian legal sector is the greatest bottleneck. If government policy changes to allow the entry of international law firms into the Indian market, this single action could provide a huge impetus to the growth of offshored legal services from India.

Table of Contents

| | |
|---|-----------|
| 1. Executive Summary | 1 |
| US & UK are the key markets..... | 1 |
| Law Firms lead amongst service buyers..... | 1 |
| From Legal Support to Patent drafting..... | 2 |
| Captive vendors earn the most..... | 3 |
| Key Projections and Insights..... | 3 |
| 2. Global Market for Legal Services | 5 |
| 2.1 Organization of the Legal Services Industry..... | 5 |
| 2.1.1 Law Firms..... | 5 |
| 2.1.2 In-house Legal Departments..... | 6 |
| 2.1.3 Legal Publishers | 6 |
| 2.2 Law Firms Dominate the Industry..... | 7 |
| 2.3 The Common Law and Civil Law System | 7 |
| 2.4 Concentration - Prominent Countries are US and UK..... | 8 |
| 2.4.1 Select Facts and Figures..... | 8 |
| 3. Legal Services: Outsourceability | 9 |
| 3.1 Functions and Outsourceability | 9 |
| 3.2 The Legal Services Value Chain..... | 10 |
| 3.3 A Wide Range of Services..... | 10 |
| 3.3.1 Legal Support:..... | 11 |
| 3.3.2 Legal Research:..... | 11 |
| 3.3.3 Intellectual Property:..... | 11 |
| 3.3.4 Others..... | 12 |
| 4. The Offshore Alternative | 13 |
| 4.1 The Offshoring Chain | 13 |
| 4.2 The Pioneers..... | 13 |
| 4.3 IP-related Work Dominates in Value..... | 14 |
| 4.4 Law Firms are the Largest Service Buyers..... | 14 |
| 4.4.1 Prominent Service Buyers..... | 15 |
| 4.5 Offshoring Drivers | 16 |
| 4.5.1 Congruent Legal Systems..... | 16 |
| 4.5.2 Major English Speaking Country..... | 16 |
| 4.5.3 Availability of Highly Skilled Manpower..... | 16 |
| 4.5.4 India Offers Cost-effective Talent..... | 18 |
| 4.5.5 Cost Comparison Across Destinations..... | 18 |
| 4.5.6 Complementary Time Zones..... | 19 |
| 5. Indian Vendor Analysis | 20 |
| 5.1 Industry Structure | 20 |
| 5.1.1 Captives:..... | 20 |
| 5.1.2 Third Party: | 21 |
| 5.2 Comparative Analysis of Vendors..... | 21 |
| 5.2.1 Types of Players | 22 |
| 5.2.2 Segmentation by Services Offered | 23 |
| 5.2.3 Citywise Concentration..... | 25 |
| 5.3 Billing Rates | 25 |
| 5.4 Current Positioning of Vendors..... | 26 |
| 5.5 Key Industry Issues | 28 |
| 5.5.1 Huge Training Requirement to Fill the Skills Gap | 28 |
| 5.5.2 Attrition Currently a Non-Issue | 28 |
| 5.5.3 No Significant Competition to India..... | 29 |
| 5.5.4 Data Security is a Primary Concern..... | 30 |
| 6. Trends, Insights & Projections | 32 |
| 6.1 Opportunity for India..... | 32 |
| 6.2 Indian Offshoring Growth Estimates | 33 |
| 6.3 Intellectual Property & Conveyancing to Grow Dramatically | 34 |
| 6.4 Horizontal Competition in Low-end Jobs..... | 35 |
| 6.5 More Aggressive Moves by Large BPOs | 35 |
| 6.6 Captives Will Increase Share..... | 36 |
| 6.7 Expect M&A Activity in 2006 and 2007..... | 36 |
| 6.8 Domestic Market Deregulation Can Provide Huge Fillip | 37 |
| 7. Company Profiles | 39 |
| ALMT Synergies..... | 39 |

| | |
|---|-----------|
| Atlas Legal Research | 41 |
| Comat | 42 |
| IndiaLegal.net..... | 44 |
| Integreon..... | 45 |
| Intellevate India..... | 47 |
| Lexadigm Solutions | 49 |
| Manthan Services | 51 |
| Mindcrest..... | 53 |
| NewGalaxy | 55 |
| Pangea3..... | 56 |
| Prolifus | 58 |
| Quislex | 60 |
| Variante Global..... | 62 |
| Verist Research..... | 63 |
| 8. About ValueNotes | 64 |
| Research Publications | 64 |
| Offshoring in the Publishing Vertical..... | 64 |
| Global Insurance Outsourcing – The India Perspective:..... | 64 |
| R&D Outsourcing – The India Edge: Key Insights and Success Factors..... | 64 |
| Custom Research Services: Some of our recent assignments:..... | 65 |

Table of Figures

| | |
|---|----|
| Figure 1 Structure of Legal Industry..... | 5 |
| Figure 2 Types of Law Firms | 6 |
| Figure 3 Global Legal Services Market..... | 7 |
| Figure 4 Common Law and Civil Law | 7 |
| Figure 5 Global Legal Services Market..... | 8 |
| Figure 6 Legal Services Industry: Facts and Figures | 8 |
| Figure 7 Structure of Law Firms, Corporate Legal Departments and Publishers | 9 |
| Figure 8 The Legal Services Value Chain..... | 10 |
| Figure 9 The Offshoring Chain..... | 13 |
| Figure 10 Revenues by Type of Services | 14 |
| Figure 11 Law Firms are the largest service buyers..... | 14 |
| Figure 12 Legal Outsourcing Services on Offer | 15 |
| Figure 13 India Talent Pool..... | 17 |
| Figure 14 Prominent Law Schools in India..... | 17 |
| Figure 15 Approximate Wage Comparison: Legal Industry in India, US, UK..... | 18 |
| Figure 16 Approximate Costs across Destinations | 19 |
| Figure 17 Industry Structure | 20 |
| Figure 18 Major Players in Legal Outsourcing in India | 21 |
| Figure 19 Employment in Third Party vs. Captive | 23 |
| Figure 20 Revenue/Employee for Captives is the Highest..... | 23 |
| Figure 21 Segmentation by Services Offered..... | 24 |
| Figure 22 Citywise Concentration of Legal Service Providers | 25 |
| Figure 23 Types of Billing Rates | 25 |
| Figure 24 Average Billing Rates in Industry..... | 26 |
| Figure 25 Billing Rates | 26 |
| Figure 26 Comparative Analysis of Leading Vendors | 27 |
| Figure 27 Comparative Rating of Destinations | 30 |
| Figure 28 The Opportunity Size | 32 |
| Figure 29 Estimated Employee Growth by 2015 | 33 |
| Figure 30 Estimated Revenue Growth by 2015..... | 34 |
| Figure 31 Possible Scenario: Removal of Entry Barriers in Domestic Market..... | 38 |

7

About ValueNotes

ValueNotes Database is a leading provider of business intelligence and research, with expertise across selected domains and types of customer needs. Working with clients across the globe we have significant understanding of international markets.

The ValueNotes Outsourcing Practice is one of the largest information providers on the outsourcing industry. The Outsourcing Practice uses a comprehensive analytical framework providing fresh insights into the fast emerging and yet, complex outsourcing space. We extensively track the outsourcing space through regular analysis of news and events and continuous primary research and contact with the industry.

Research Publications

Outsourcing: The India Perspective Series

The series looks at outsourcing in diverse verticals from an Indian perspective, and seeks to provide a flavor of important trends, issues and needs. Reports published so far include:

Offshoring in the Publishing Vertical

A review of outsourcing in the publishing vertical, especially the scientific, technical and medical (STM) segment, key growth drivers and inhibitors, outsourced processes, the Indian vendor landscape and profiles of key players [50 pages, US\$395 per copy]

Global Insurance Outsourcing – The India Perspective:

A review of outsourcing in the global insurance sector, outsourced processes, growth drivers and inhibitors, service delivery models, the Indian vendor landscape, and profiles of key players [20 pages, US\$250 per copy]

R&D Outsourcing – The India Edge: Key Insights and Success Factors

Analytical details on the size of the current market, R&D processes being outsourced, case studies and success stories [22 pages, US\$150 per copy]

ValueNotes Outsourcing Digest – Monthly publication

Up-to-date information and analyses of the latest happenings, events and stories in the BPO industry every month, with regular tracking of Mergers and Acquisitions, expansion plans, industry news analysis, company profiles and emerging areas in outsourcing [US\$39 for annual subscription]

ValueNotes Outsourcing News – Weekly publication

Our free, weekly email newsletter provides a continuous stream of useful statistics, insights, analysis and opinion. Unlike many available newsletters, we do not simply aggregate news, but provide fresh views and research on important issues.

BPO Directory

A comprehensive list of Indian BPO services, across verticals and horizontals, complete with names, emails, addresses, URLs and other important details. Free registration for outsourcing vendors – reach out to customers across the world!

Profiles of Leading Indian Outsourcing/ BPO vendors

Detailed profiles of leading players in the Indian Business Process Outsourcing industry, covering financials, infrastructure details, contact information, key people, news, strategies, competitive positioning and more. [USD 525 for 50 profiles, Sample profile available]

Custom Research Services: Some of our recent assignments:

- Competitive assessment of call center locations for a US call center – India, Philippines, Jamaica, South Africa, Mexico were assessed on manpower quality and costs; English capabilities; cultural issues; telecom infrastructure and other parameters
- Setting up a captive offshore operation for a financial services firm – Coordination with agencies like law firms, accountants, consultants, etc.; compliance with various local laws and regulations; research on comparative BPO salaries, HR guidelines, etc.
- Case studies on key success factors for MNCs outsourcing R&D activities to India – Analyzing MNCs successfully offshoring to India, especially, issues like leadership, organization structure, choice of R&D functions outsourced, cultural issues, etc
- Comparative analysis of large IT services & BPO vendors in the US and India – In-depth analysis of offshore IT and BPO markets on factors influencing success or failure, and ratings of more than 30 companies on qualitative and quantitative factors.
- Benchmarking for an Engineering Design Outsourcing operation – Competitive intelligence and detailed operational information on engineering design operations in India to benchmark service levels, and assist the client's expansion strategy.
- Industry Overview and Partner Due Diligence in Medical Transcription – An overview of the offshore medical transcription industry in India, benchmarking of suppliers, due diligence of operations and capabilities of selected vendors.
- Comparison of Indian vs. Chinese telecom software – Compilation and comparison of the relative attractiveness of India and China as a possible offshore destination for telecom software development and R&D, and partner due diligence

To learn more about the ValueNotes Outsourcing Practice, see samples, order reports or provide us with any feedback, please visit www.valuenotes.biz or write to us at bporesearch@valuenotes.com