

STATE OF THE INDIAN LPO SECTOR
December 2010

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ABSTRACT

In October and November 2010, a 49-question survey was administered to firms in the Indian legal process outsourcing (“LPO”) sector. Nineteen firms participated in the survey. This report, *State of the Indian LPO Sector*, is based on their responses.

For more information about this report, please contact IndianLPOSurvey@gmail.com.

PURPOSE

The purposes of the *State of the Indian LPO Sector* report are two-fold:

First, to profile firms in the Indian LPO sector (hereinafter “LPO firms” or “firms”).

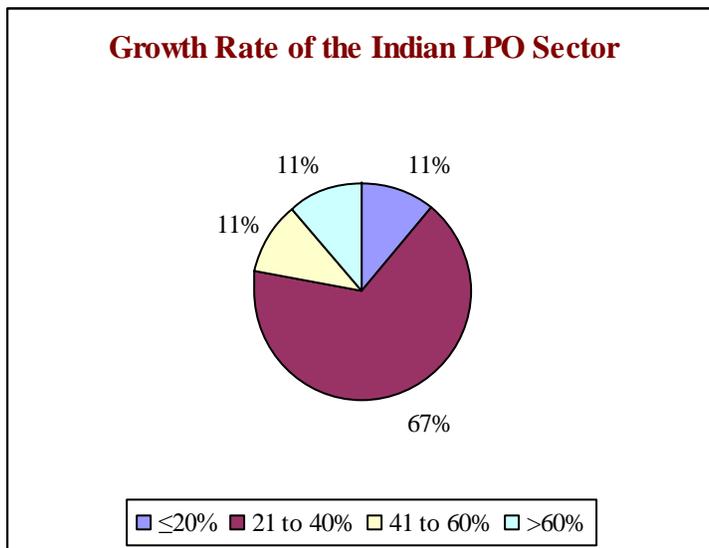
Second, to collect and disseminate practical advice from LPO firms. The information available on the Internet is inadequate. It is too general to be translated into practical advice, especially for a company deciding whether to enter the industry. Yet, for more than three-fourths of firms (77 percent, n=13), the Internet “has been [one of] the best resource[s] to help run LPO campaigns effectively.”¹

¹ Nineteen firms participated in the 49-question survey on which this report is based. Firms answered from 13 and 48 questions. “n=13” means that 13 firms answered *this* survey question: “[W]hat has been the best resource to help you run LPO campaigns effectively?”

HIGHLIGHTS

First, despite challenges, firms are confident about their own and the LPO industry's prospects:

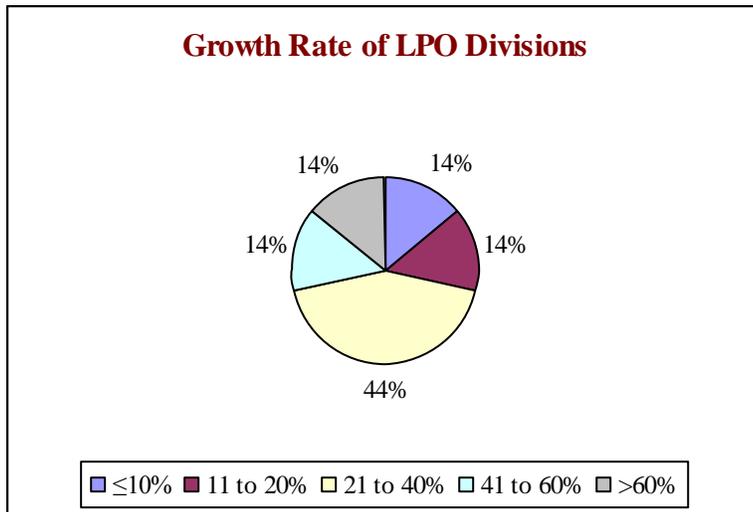
- The vast majority (89 percent, n=18²) estimate that the Indian LPO sector is currently growing at a rate of "21 to 40 percent," or more, annually.



- Furthermore, when asked "how strong or weak" the sector is, 68 percent of firms (n=19) described it as "strong" or "very strong." The remainder (32 percent) said "fair."

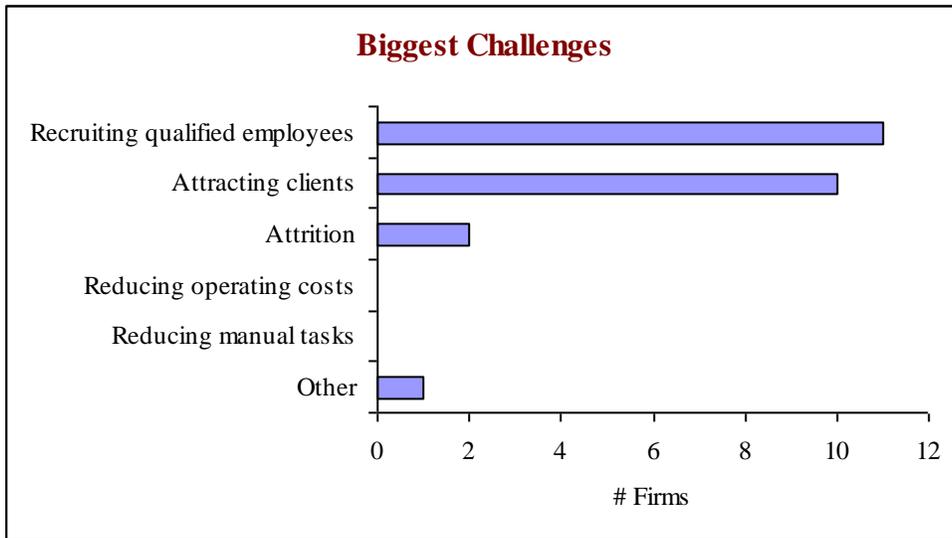
² As explained in footnote 1, "n=18" means that 18 firms answered *this* survey question: "Please estimate how fast the Indian LPO sector is growing?" Because 19 firms responded to this survey, "n=18" also means that one firm did *not* answer that question.

- All firms (n=14) expect their LPO division to grow next year. Seventy-one percent of those 14 firms foresee it growing by at least “21 to 40 percent.”



- Growth in the LPO sector creates jobs. All but one firm (n=14) is “looking to hire more [LPO personnel] in the coming year.”

Second, more Indian students should enter the legal profession. Their job prospects are strong. In addition to the expected hiring next year (in 2011), firms find recruiting *qualified* LPO employees to be a challenge. More firms said recruiting employees was one of their biggest challenges than attracting clients (69 versus 63 percent, n=16).



Third, business process outsourcing (“BPO”) companies looking to move-up the value-chain should consider entering the LPO industry. All respondents who began in the BPO sector (n=8) benefited from that experience. Two of the eight firms called the experience “very helpful.”

According to the Chief Executive Officer (“CEO”) of one LPO *only* provider, BPO companies have two advantages when entering the LPO sector. First, BPO companies already have the security infrastructure³ in place; this is the primary expense for entering the LPO sector (both for offering low and high-end services⁴). Second, they have experience marketing themselves to an American and British client base.

Fourth, while reading this report, keep-in-mind that Delta Management Associates (“DMA”) was unable to survey firms that exited the industry. Their perspective on the industry’s prospects, for example, may differ from the 19 respondents in this survey.

³ This is both physical and data security. Physical security is who has access to the building. Data security is setting-up the proper firewalls to prevent data theft and access.

⁴ Low-end LPO services include general back office support, document support, and legal transcription. By contrast, high-end LPO services—such as document review, legal research, drafting contracts, and reviewing patent applications—require greater legal training.

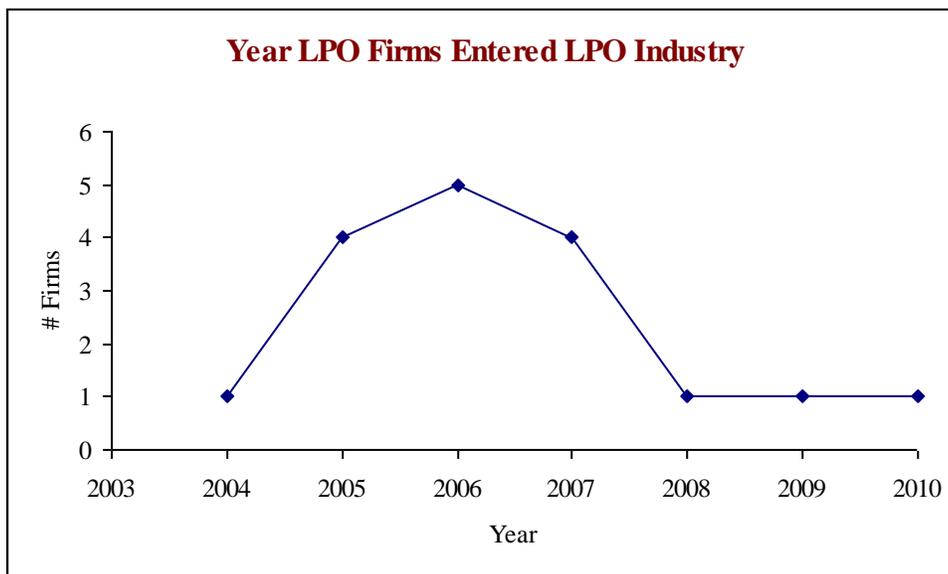
PROFILE OF LPO FIRMS

The typical LPO firm:

- entered the industry between 2005 and 2007;
- more likely than not, provides LPO services only;
- is small, with either less than 20 or between 51 and 75 employees;
- has 10 clients, at most; and
- offers a diverse array of low and high-end services.

YEAR ENTERED THE INDUSTRY

Seventy-two percent of LPO firms surveyed (n=18) entered the industry between 2005 and 2007. Two firms entered earlier (one prior to 2004, which is not plotted in the graph below), three later.

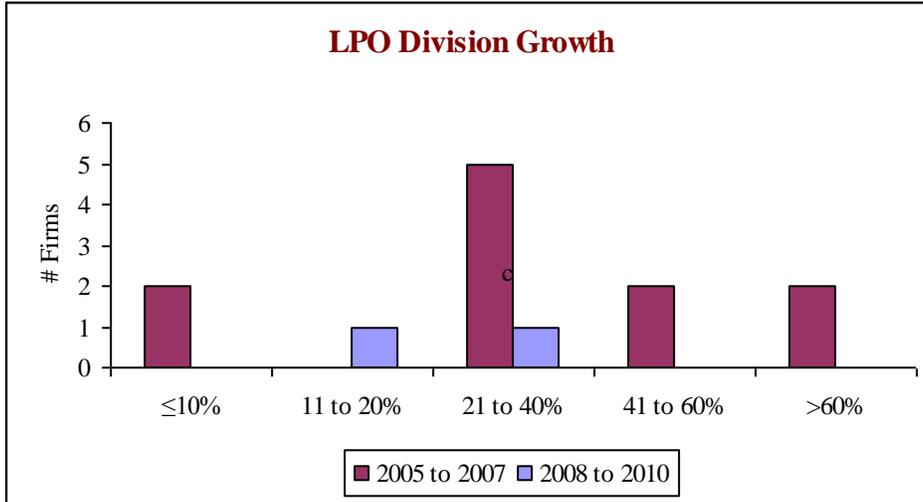


Once plotted, it becomes clear that few firms have entered the LPO sector in the past three years (from 2007 to 2010). It is possible that the survey over-sampled older firms, as discussed in the Methodology section. Another explanation is that early entrants had a first-mover advantage, developing a reputation and acquiring market share before competitors entered the market. 2005 to 2007 corresponds to when LPO initially took off in India.

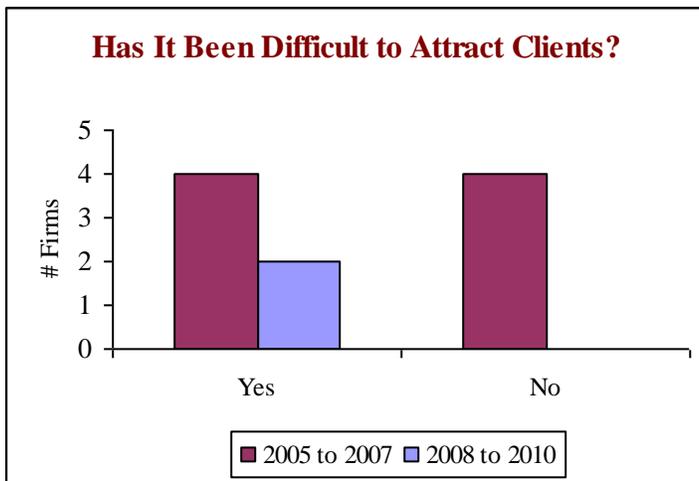
DMA tested that hypothesis. However, this analysis may be premature. It takes time (years) for LPO firms to establish themselves, so more recent entrants are likely smaller (e.g., number of employees and clients). Furthermore, the sample size is small. Just three of the respondents entered the LPO industry in 2008 or later.

Nonetheless, the following trends should be noted:

First, on average, older firms are growing faster. No firm since 2008 (n=2) reported growth of more than “21 to 40 percent.” This compares with 36 percent of “older firms”⁵ (n=11) reported growth of more than 21 percent.

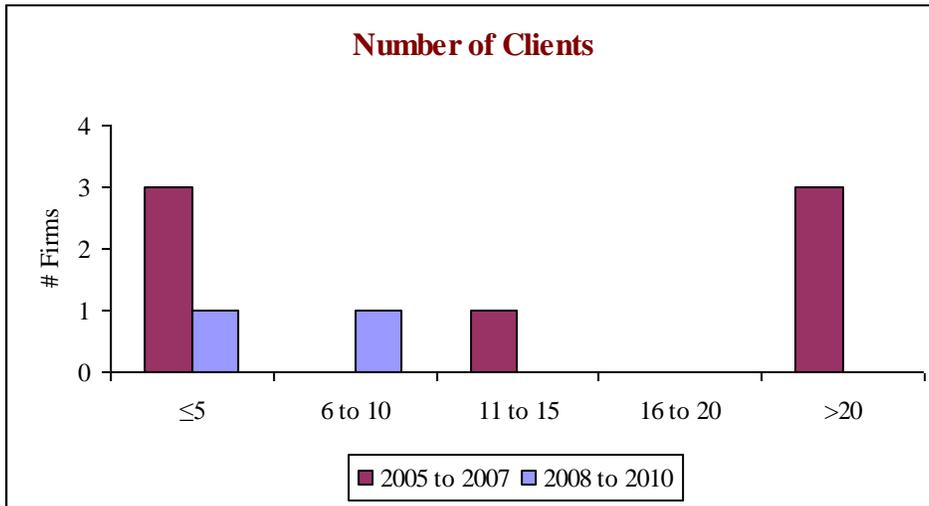


Furthermore, all recent firms (n=2), compared with just half of older firms (n=8), find it difficult to attract clients.

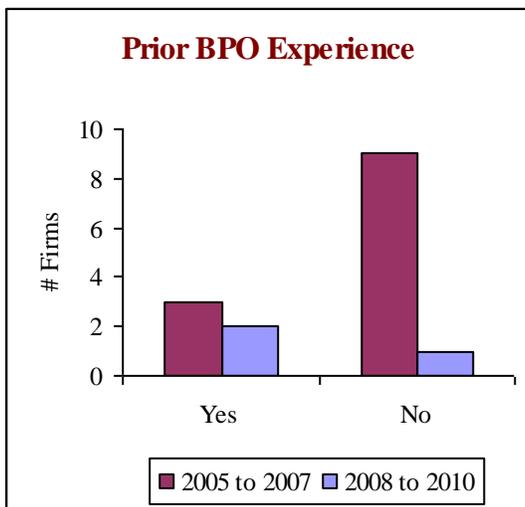


⁵ “Older firms” are firms that entered the LPO sector from 2005 to 2007.

Second, older firms have more clients. Three older firms (n=7) have more than 20 clients; no recent firm (n=2) has more than 10 clients.



Third, entrants to the LPO sector are more likely to be BPO companies. Since 2008, two-thirds of entrants (n=3) had BPO experience. By contrast, just three firms (25 percent, n=12) that entered the LPO sector from 2005 to 2007 had BPO experience.

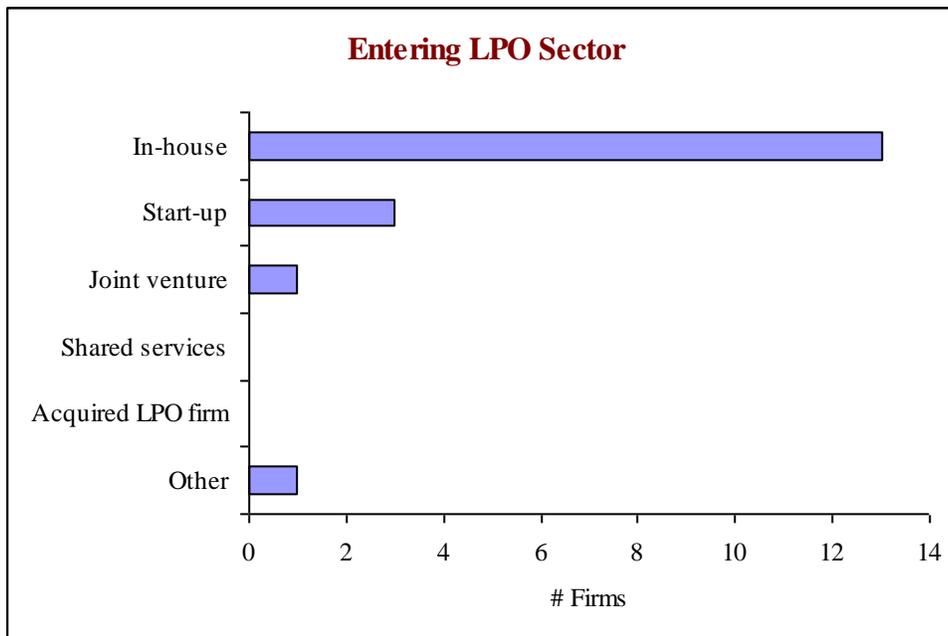


Fourth, both groups were asked: “What is the best way to attract LPO clients?” All recent firms (n=2) recommended “acquiring existing LPO firms,” compared to just over half of older firms (56 percent, n=7).

HOW FIRMS ENTERED THE LPO SECTOR

Seventy-eight percent of firms (14 responses, n=18) “started [their] LPO department in-house,” and three others (17 percent) began as start-ups. It was unusual for a LPO firm to enter the sector through any other route, such as through a joint venture (one response) or shared services (none).

Notably, no firm entered the LPO sector by “acquir[ing] an existing LPO [firm],” even though half of firms (n=12) said that is one of the “best ways to attract LPO clients.”



Firms were asked whether they are a:

- LPO firm only;
- BPO *and* LPO provider;
- manpower consultant; or
- industry expert.⁶

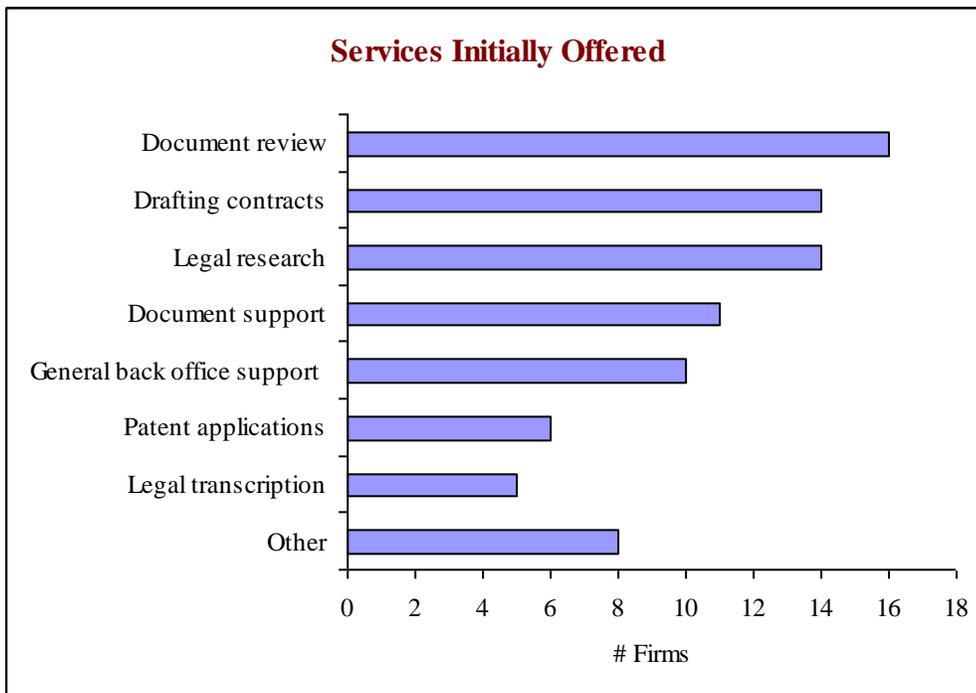
Most LPO firms (63 percent, n=19) provide LPO services only. Of these firms, only one responded that less than “80 to 100 percent” of its total revenue came from non-LPO work. The remaining firms (7 responses) are BPO *and* LPO providers.

⁶ Six firms responded that they were “industry expert[s].” Analysis of the survey results reveals that six of the seven industry experts provide both BPO *and* LPO services, and the other provides LPO services *only*. Therefore, this report does not refer to industry experts.

SERVICES INITIALLY OFFERED

Firms initially offer an array of low and high-end LPO services, more than four on average.

Firms offer more high than low-end services. The LPO services most often offered are: document review (16 responses, n=19), legal research (14 responses), and drafting contracts (14 responses). Among low-end services, document and general back office support (11 and 10 responses, respectively) are most often offered.

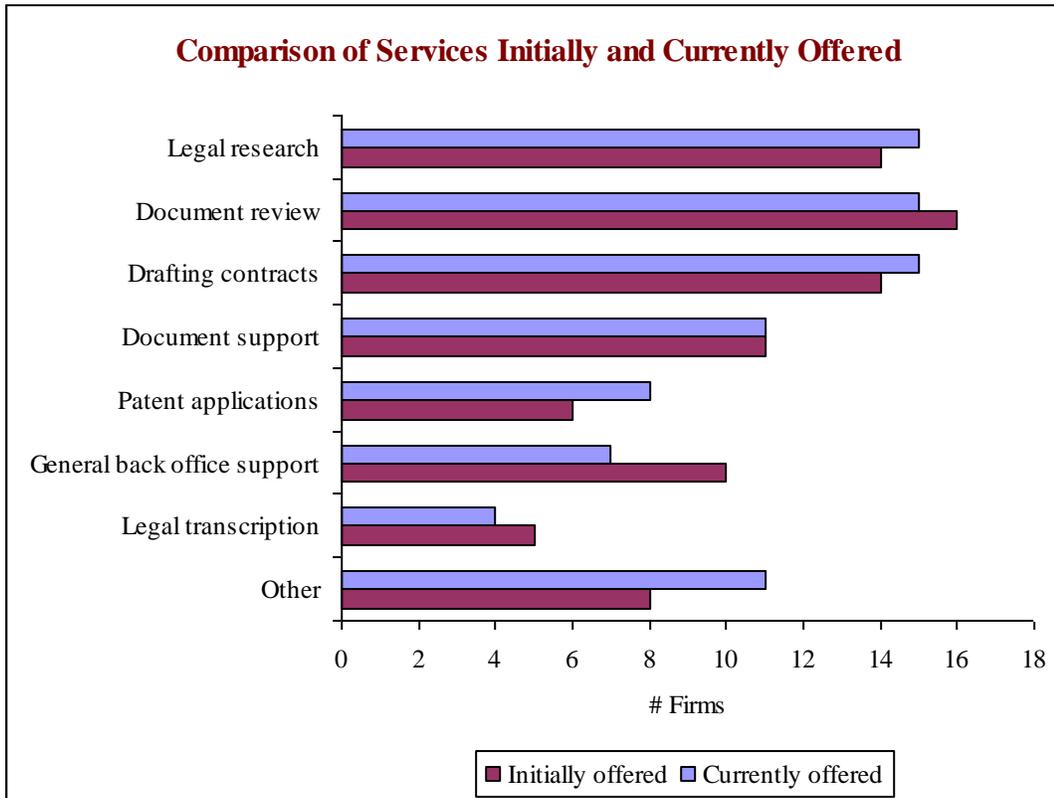


SERVICES CURRENTLY OFFERED

Firms offer more LPO services over time. At the time this survey was conducted (October and November 2010), firms, on average, offered more than five (5.1) services.



Additionally, over time, firms move away from offering low-end services, such as general back office support (declined from 10 to 7) and legal transcription (declined from 5 to 4). Instead, more high-end services are offered. More firms offer to do legal research, draft contracts, and review patent applications. Among the “other” answers given (see the last row in the graph) are negotiating contracts, E-discovery consulting, drafting court briefs, and writing deposition summaries.



NUMBER OF CLIENTS

A significant minority of firms represent the majority of clients. Put another way, clients hire just a few firms—a perception which exists among LPO firms.⁷ As the following table shows, 60 percent of firms (6 out of 10) have 10 or fewer clients whereas 30 percent of firms (3 out of 10) have more than 20 clients each.

In fact, if conservative estimates are made about the data, thirty percent of firms represent more than half of the industry's clients.⁸ The true market concentration may be much more. One of the LPO firms with “more than 20 clients” told DMA exactly how many clients it had, a number over 100.

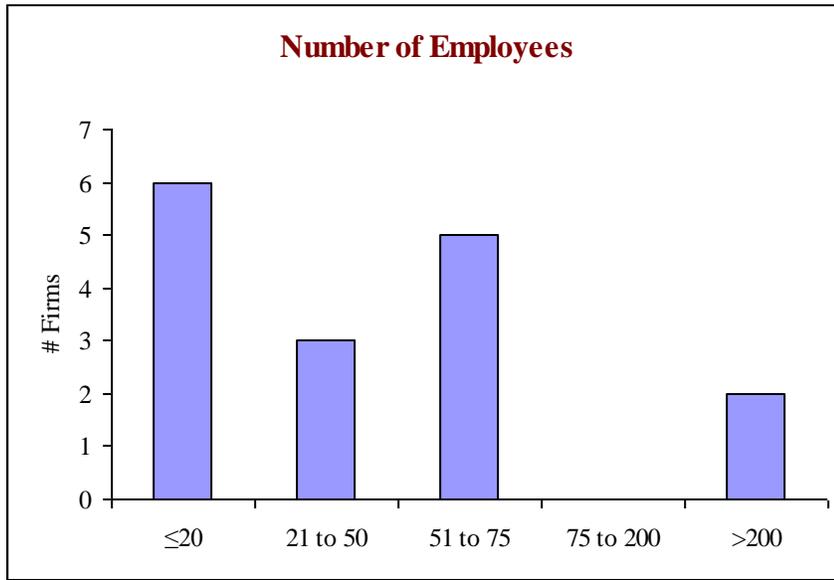
Number of Clients	# Firms
1 to 5	4
6 to 10	2
11 to 15	1
16 to 20	0
More than 20	3

⁷ When asked about their difficulties attracting clients, four out of seven firms stated that a “few LPO firms capture the market.”

⁸ See App. A.

SIZE OF LPO DIVISION

Most LPO firms are small. Six out of 16 (38 percent) had 20 or fewer employees, 3 (19 percent) had between 21 to 50 employees, and 5 (31 percent) had between 51 and 75 employees. However, two firms grew rapidly. Each had well-over 200 employees at the time the survey was conducted (October and November 2010).



ENTERING THE LPO INDUSTRY

ATTRACTING CLIENTS

Most LPO firms find attracting clients to be difficult. Firms were asked:

20. Has your company found it difficult to attract LPO clients?

Six out of ten responded “yes.” Firms were also asked:

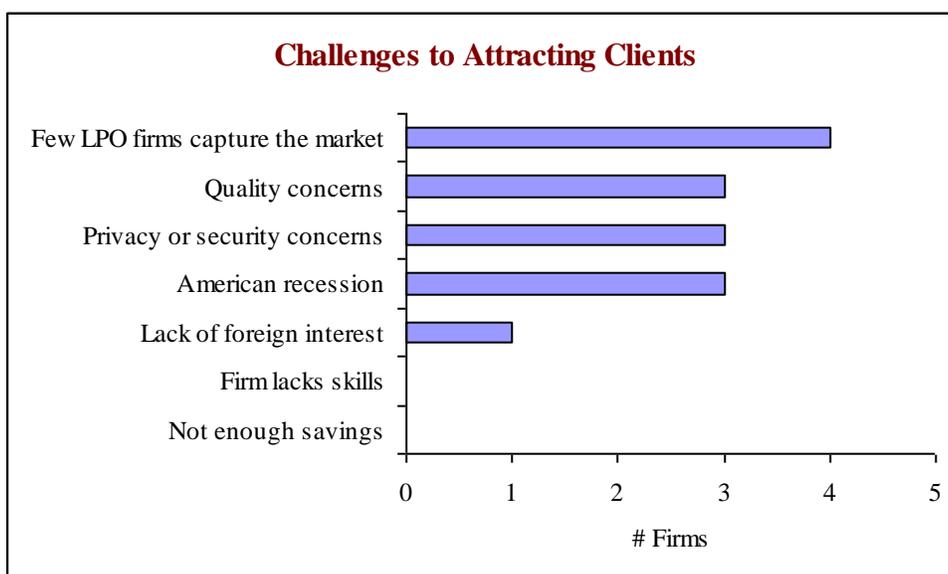
28. What are your company’s biggest challenges as a LPO? Select all the answers that apply.

Almost two-thirds (63 percent, n=14) selected “attracting clients.” Possibly this is why the typical LPO firm has few clients, 10 or less.

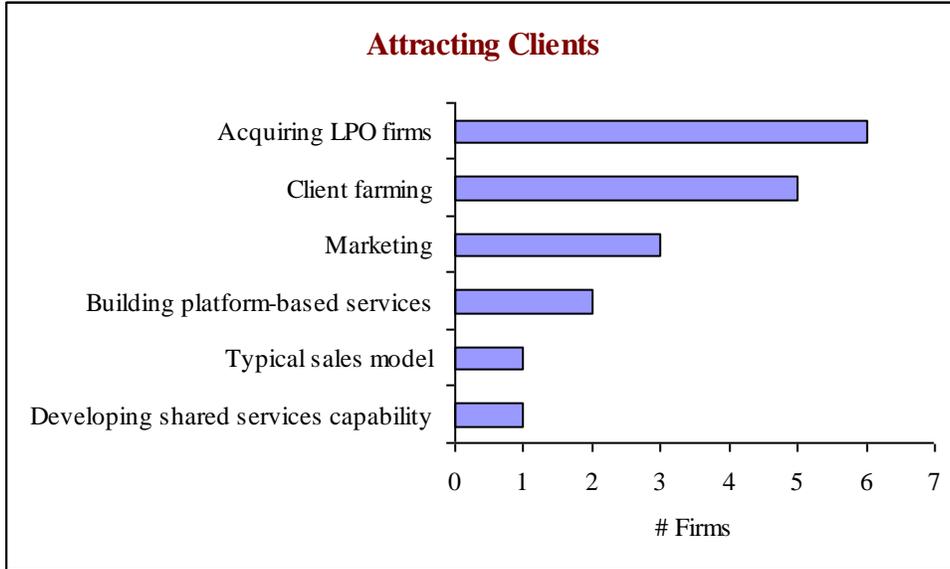
As a follow-up to Question 20, DMA firms asked firms why they found it difficult to attract clients. Firms almost always gave one or more of three explanations:

- quality and security concerns (four responses, n=7);
- a few LPO firms capture the market (four responses); or
- the American recession (three responses).

That a “few” LPO firms—about a dozen firms according to one firm—capture the market may be the result of “quality and security concerns.” It is difficult, or at least expensive, for clients to assess the quality of LPO firms. As a result, clients may over-rely on an established firm’s reputation, at the cost of evaluating competitors.

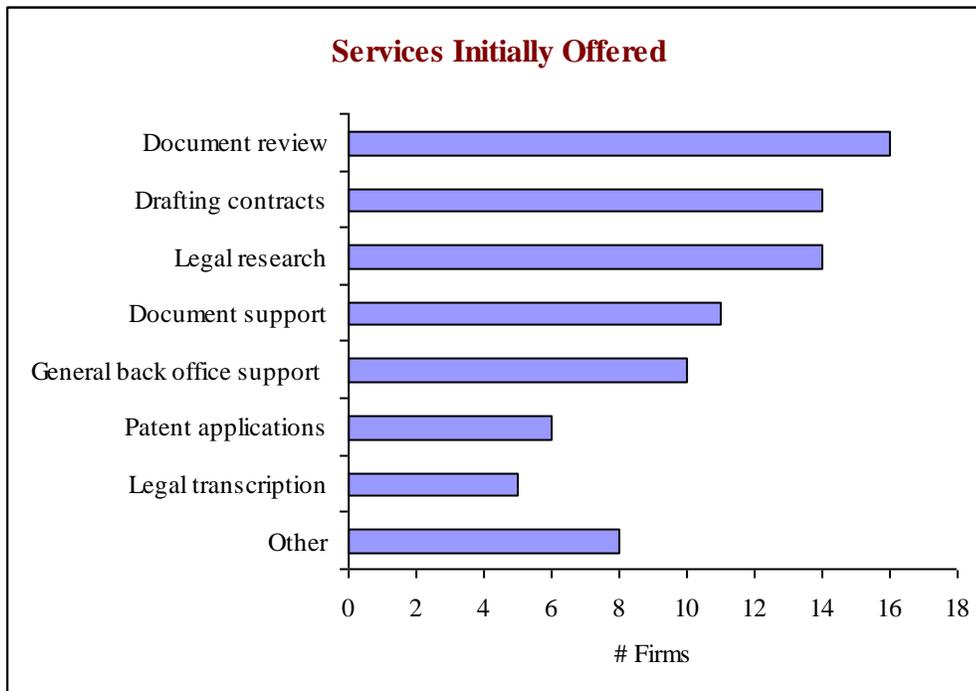


Because of the quality and security concerns, popular recommendations for attracting clients focused on reputation-building. Half of firms (n=12) said one of the “best way[s] to attract LPO clients” is by acquiring an existing LPO firm—in effect, buying clients. Forty-two percent of firms recommended client farming, a strategy of leveraging existing relationships. This may be a particularly effective strategy for BPO companies. BPO companies can showcase their LPO services to existing clients. A quarter of firms favored marketing and branding strategies generally.



In practice, LPO firms appear to be trying to find a proper balance between (a) offering a diverse array of services, so that no business opportunities are missed and (b) specializing to establish a reputation for quality.

As the following graph shows,⁹ LPO firms offered a broad range of low and high-end services when they first entered the industry, more than four on average. Two firms explicitly told DMA that they offered “everything” to start.



Additionally, three-fourths of firms (n=12) do not focus on attracting clients from one country.

On the other hand, the CEO of one firm strongly advises LPO firms to specialize—specifically, firms should develop a niche practice and market themselves as the expert in that area. More broadly, this CEO stressed that LPO firms must become better communicators. Many general counsels in the United States are simply not aware or familiar with the LPO sector and the opportunity to outsource legal work.

A different strategy for acquiring clients appears to be LPO firms developing their practice around the demands of a few large clients. For most LPO firms (five out of nine), a majority of the work comes either from a few large clients.

⁹ This is the same graph from the “SERVICES INITIALLY OFFERED” subsection.

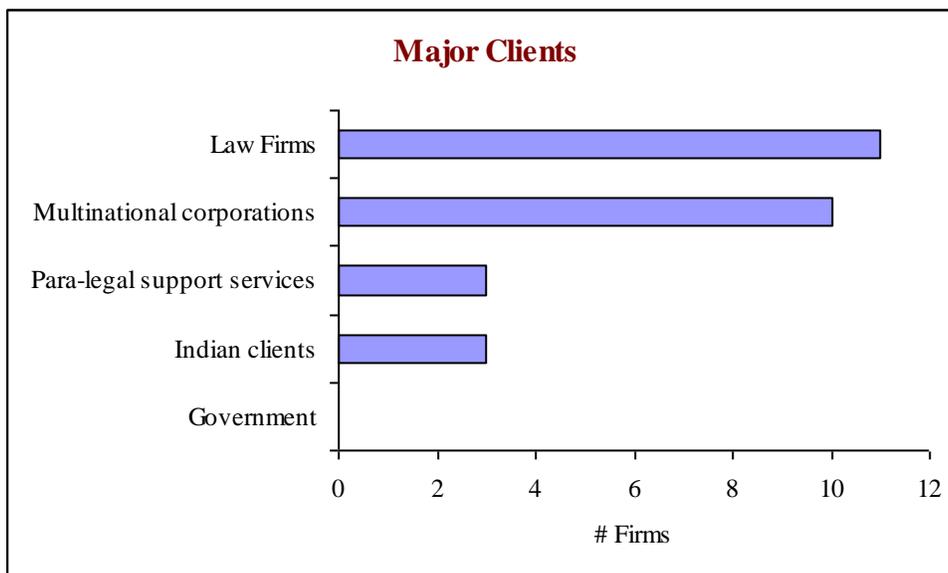
As an aside, sub-analysis does not reveal any pattern between the number of clients and whether the LPO firm's work is evenly divided among them.

Number of clients	Work evenly divided	Not
1 to 5	2	2
6 to 10	0	0
11 to 15	0	1
16 to 20	0	0
More than 20	1	1

PROSPECTIVE CLIENTS

LPO firms primarily work with foreign (non-Indian) law firms and multinational corporations. Firms were asked who their major clients are. All (n=14) said either foreign law firms or multinational corporations, and six (43 percent) said both.

A few firms (about 20 percent) work with Indian-based clients (either law firms or corporations) or para-legal support services. There is no significant legal outsourcing from governmental units.



OFF VERSUS ON-SHORING

Ten out of twelve firms prefer off-shore LPO delivery. Among the other two firms, one said that clients do not have a preference between off versus on-shoring. The other preferred some on-shoring, primarily as a marketing tool.

WHAT SERVICES TO OFFER

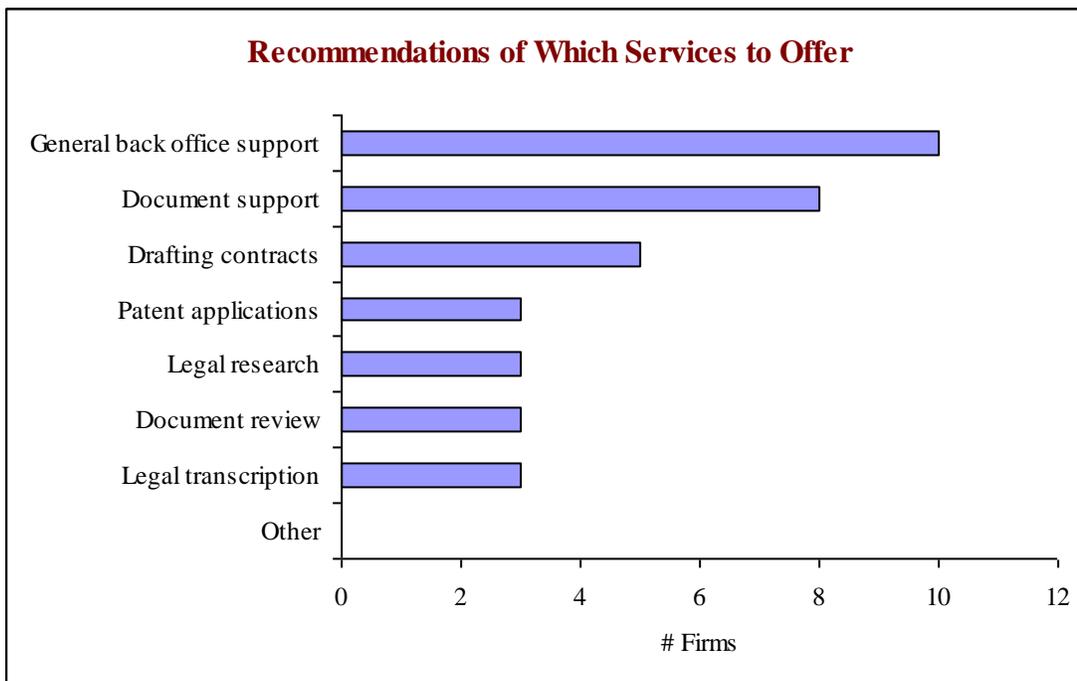
Firms were asked what services new entrants should offer:

Entering the LPO market requires a lot of start up capital to train employees and create a support structure around them. Given these costs, which of the following service areas are the least expensive (or easiest) to enter into? Select all the responses that apply.

Fifteen firms answered. Most said that new entrants should offer low-end LPO services, particularly back office or document support (67 and 53 percent, respectively). One reason, as will be shown in the Salary subsection, is that labor costs are cheaper for low-end legal services.

Relatively few firms said legal transcription (20 percent). DMA found this result surprising. Many BPO companies have the infrastructure and personnel in place to do voice-work.

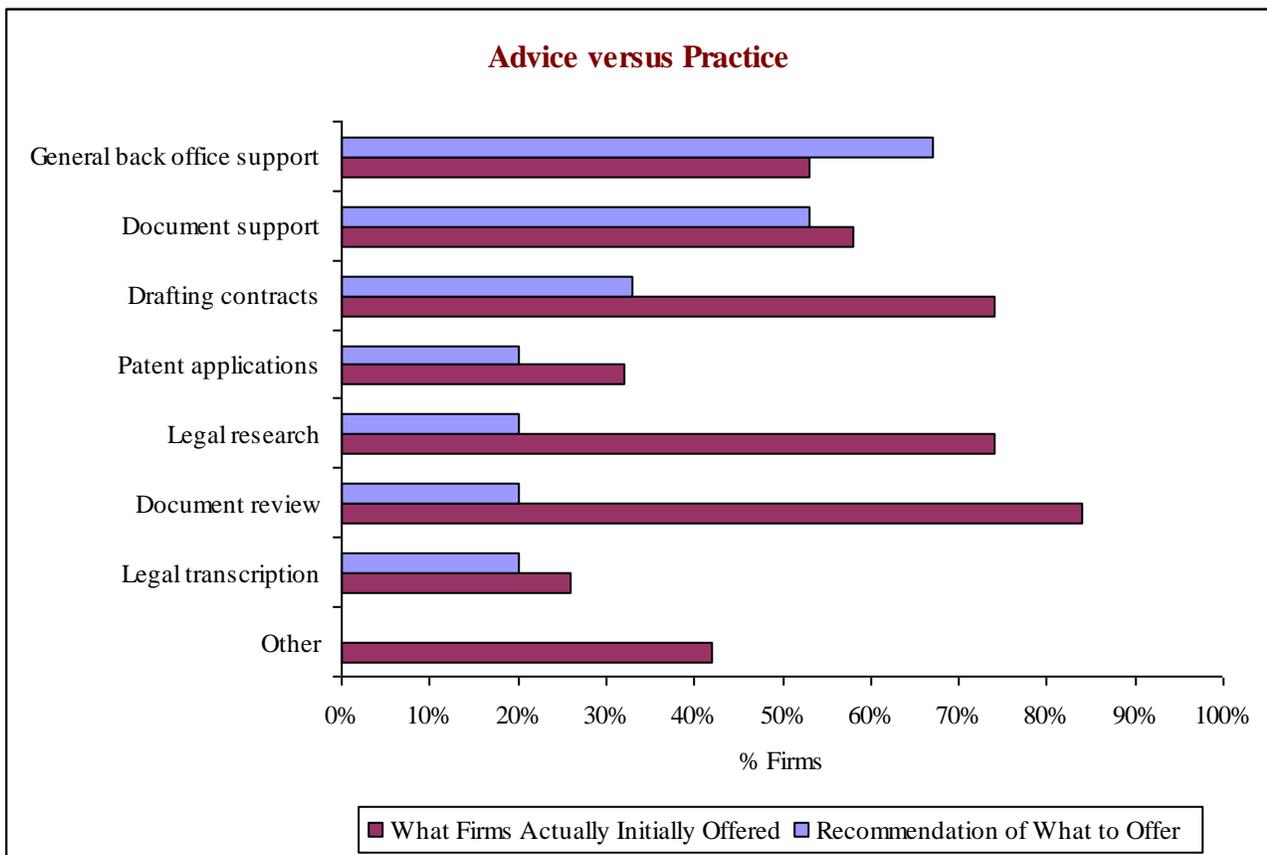
The third most popular suggestion was drafting contracts (40 percent). No other response received more than one-fourth of the responses.



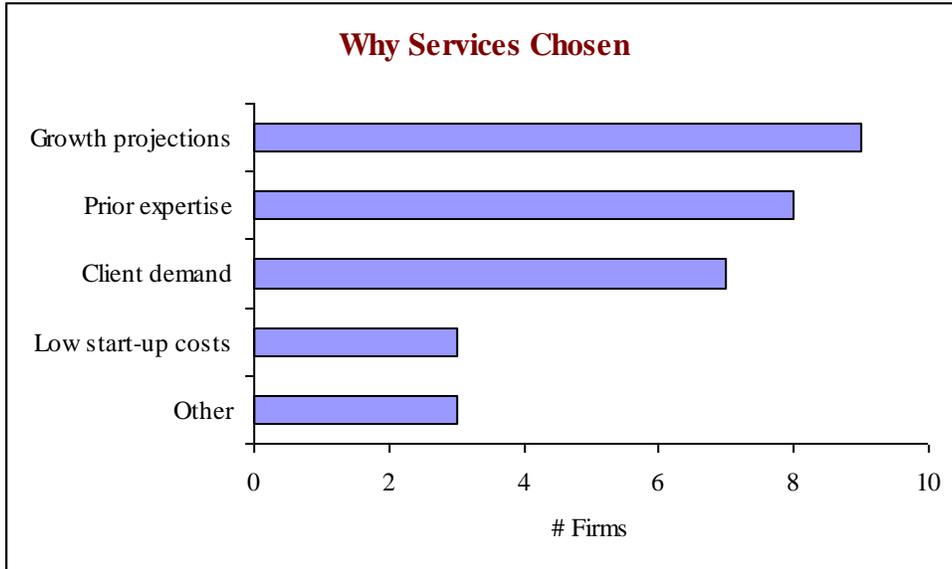
Firms did not follow their own advice. Neither initial costs nor ease deterred firms from initially offering high-end LPO services. Most often, firms initially offered:

- document review (89 percent, n=18);
- legal research (78 percent);
- drafting contracts (78 percent); or
- document support (61 percent).

No more than six firms (33 percent) offered any other service.



Firms were asked why they chose to offer those services initially. Only three firms (n=15) gave “low start-up costs” as the explanation. Rather, it was more important for the firms to forecast the market and assess their existing client-base and strengths. Nine out of fifteen firms (or 60 percent) decided what services to offer based on growth projections. Fifty-three percent of firms had prior expertise in that area. Forty-seven percent said the “LPO was formed to meet existing client demand.”



EMPLOYEES

Skills

Firms were asked how important it was for LPO employees to have each of the following skills. Firms were asked to rate *each* skill on a scale of 1 to 4, with 4 being the best:

- general work experience;
- work experience in a BPO, to be more specific;
- English proficiency; and
- a college education.

Fifteen firms responded. Of the 15 firm, eight firms rated *each* skill from 1 to 4. Five firms, instead, gave a *rank order* of the four skills (e.g., 1, 2, 3, and 4). Two firms just answered that English proficiency was the important skill.

All but one firm (n=15) responded that English proficiency is the most, or tied for the most, important of the four skills. Among the eight firms that rated *each* skill, English proficiency received an average rating of 3.9 out of 4.0 (n=8). This may be because LPO work predominately requires English skills. Eleven of twelve firms indicated that “81 to 100 percent” of their LPO work requires English skills.

A college education is the next important skill, with an average rating of 3.5 out of 4.0 (n=6). General work experience is also important, with an average score of 3.0 out of 4.0 (n=7). BPO work experience is not important, with an average score of 1.6 out of 4.0 (n=5).

The following table has the results of firms that gave a rank order, with 4 being the best:

Rank Order					
City	A	B	C	D	E
General work experience	1	1	2	3	2
Work experience in a BPO	2	2	1	1	1
English proficiency	4	3	4	4	4
College education	3	4	3	2	3

Do Employees Need a Law Degree

For low-end services, the advice is mixed regarding whether LPO firms should recruit employees with a law degree.

One manpower consultant told DMA that its two largest LPO clients in Chennai, India, do not require a law degree for legal transcription and voice process services—the latter being handling telephone legal inquiries with the assistance of a script.

However, three-fourths of firms (n=12) require an undergraduate law degree, at a minimum, for this work. Furthermore, seventy-one percent of firms (n=14) responded that “over 60 percent” of their LPO employees had at least an undergraduate law degree. (“Over 60 percent” was the highest response-category given for that question.) Additionally, while non-lawyers may be competent to handle low-end LPO work, one BPO company told DMA that clients simply demand that lawyers handle this work.

BPO Work Experience

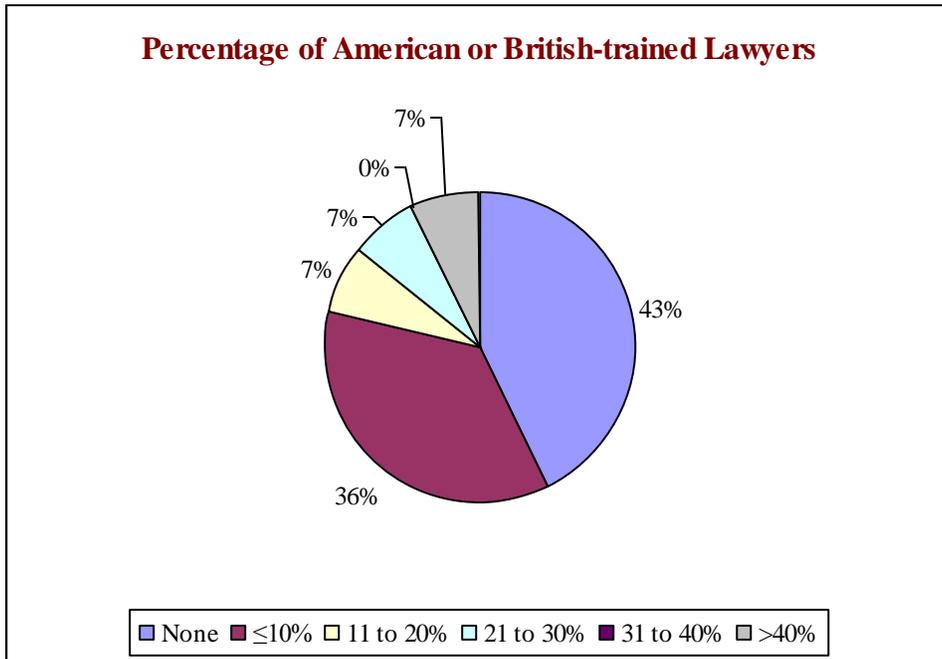
BPO employees may perform somewhat better than their counterparts, but the difference is not significant.

- Fifty-five percent (6 responses, n=11) of firms said LPO employees with prior BPO work experience perform “somewhat better” than their counterparts (employees without BPO experience) whereas forty-five percent found “no real difference.” Nine percent (or one firm) found that employees with BPO experience performed “much better.”
- Among the six respondents who said BPO employees perform somewhat or much better, one firm went on to indicate (in another question) that BPO work experience was less important than a college education or good English skills. In that same question, two other firms rated BPO work experience as a “2” and “3” on a scale of 4, with 4 being the best.¹⁰ The other three firms did not answer this follow-up question.
- In general, as explained in the Skills subsection, work experience in a BPO is not valued. BPO work experience received an average score of 1.6 out of 4.0 (n=5), with 4.0 being the best.

¹⁰ The question asked: “How important is it for LPO employees to have the following credentials?”

American or British-trained Lawyers

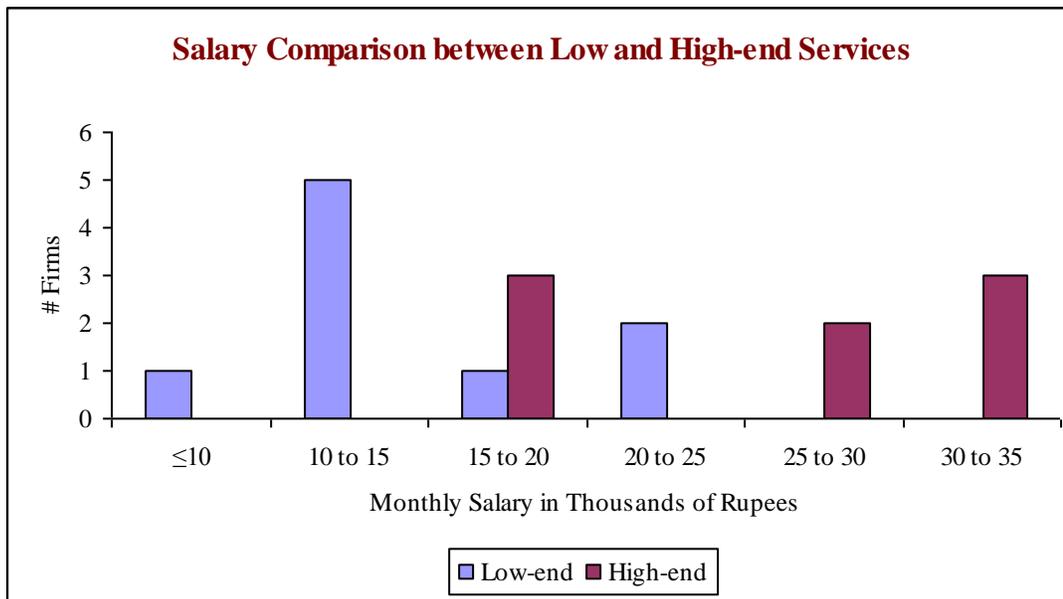
Twelve out of 17 firms have hired at least one American or British-trained lawyer to help manage the firm or train employees. Nonetheless, the actual number of American or British-trained lawyers working in Indian LPO firms is small. In seventy-nine percent of firms (n=14), 10 percent or less of its workforce has an American or British law degree.



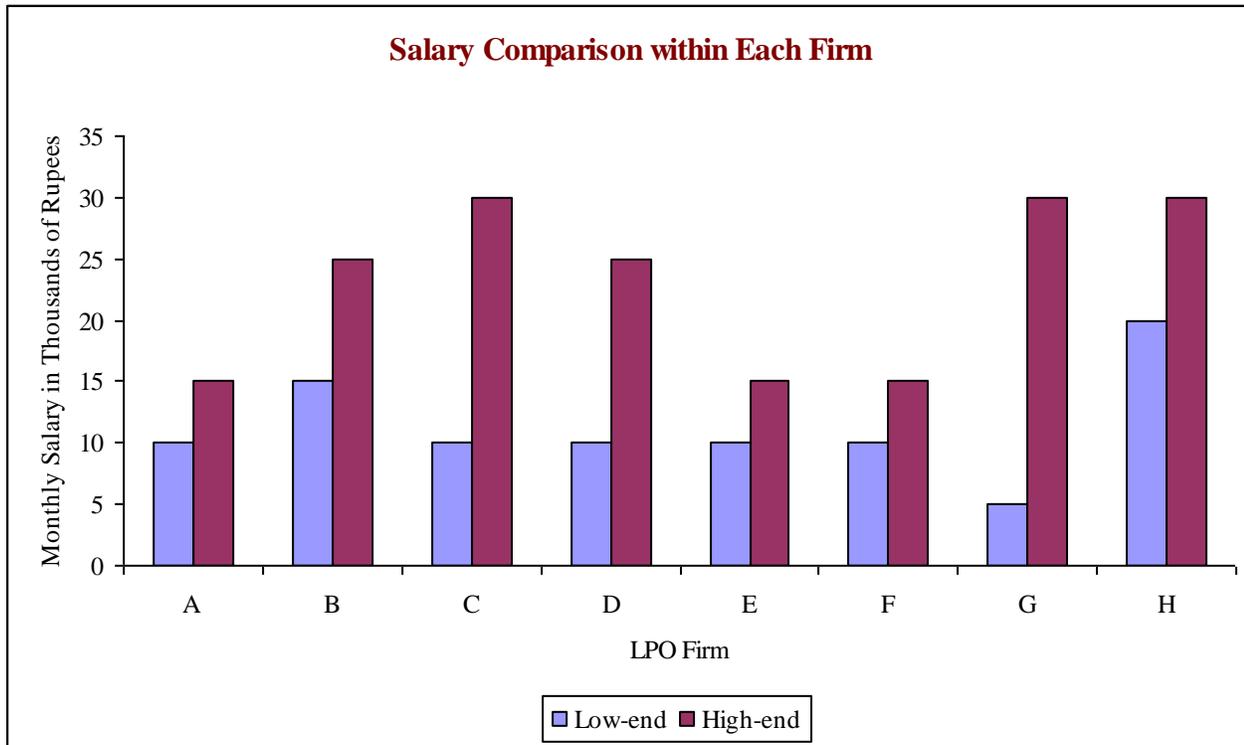
Salary

For low-end services, the salary ranges from less than 10,000 to up to 25,000 rupees per month. Five out of eight firms offer from 10,000 to 15,000 rupees per month.

There is a premium for high-end legal work. The salary ranges from 15,000 to 35,000 rupees per month. It is clumped at the two ends: three firms offer between 15,000 and 20,000 rupees per month whereas the rest (five firms) offer more than 25,000 per month.

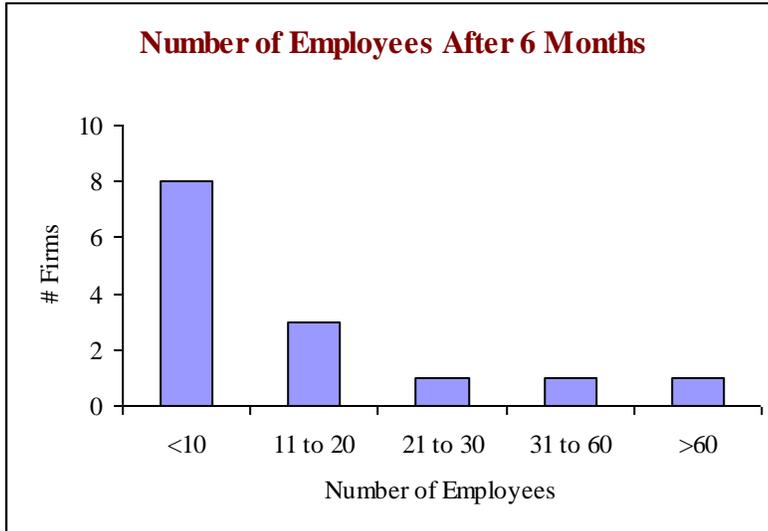


Within every LPO firm, there is a premium for high-end employees. In other words, each firm (“Firm A,” “Firm B,” etc. in the graph) pays more for employees doing high-end legal work.



How Many Employees to Hire

LPO firms hire few (less than 10) lawyers to start. In fact, most LPO firms not only begin small but also stay that way for at least six month. More than half of respondents (57 percent, n=14) employed less than 10 LPO employees six months after entering the industry. Another 21 percent employed between 11 to 20 LPO employees.



Additionally, few LPO employees can support many clients. For example, as the following table shows, a small LPO workforce (20 or fewer employees) can support 10 clients (a 2:1 ratio of employees to clients). Practically, this means that costs of entry (for at least labor) are less.

The table shows a comparison between (a) the number of clients LPO firms currently have and (b) their present size. One weakness of the data is that there is no way to determine how much work each client gives, but the aforementioned conclusion nonetheless appears.

# Clients	Number of LPO Employees		
	≤20	21-50	51-75
1 to 5	4	0	0
6 to 10	2	0	0
11 to 15	0	0	1
16 to 20	0	0	0
>20	0	1	2

Laterals

There are few laterals in the LPO sector. In two-thirds of firms (6 responses, n=9), 10 or fewer percent of their LPO workforce are laterals. The percentage of laterals at another firm is 11 to 20 percent. The remaining two firms reported that their LPO workforce is composed of (a) 21 to 30 and (b) 31 to 40 percent lateral hires, respectively.

TRAINING AND ATTRITION

The “typical training time required to deliver [low-end legal] services” is a month or less for all firms (n=11). Two-thirds of firms (64 percent) require less time, two weeks at most.

DMA did not ask firms how long it takes to train for high-end legal services. One firm volunteered that it had a two month training program followed by a one month probationary period.

The attrition rate of LPO employees is low, particularly in comparison to BPO employees. In ten out of eleven firms, the annual attrition rate is less than 20 percent (the smallest available response). The true attrition rate is even smaller. Two LPO firms told DMA that their actual attrition rate is actually around 5 to 10 percent. Additionally, just two out of fifteen firms describe attrition as one of their “biggest challenges.”

COUNTRY

Firms were asked to rate the prospects of starting a LPO office in five countries, using a scale of 1 to 5, with 5 being the best.

Firms prefer India by a wide margin. No firm ranked another country ahead of India. One source of bias, though, is that all but one firm that participated in this survey (n=19) has an Indian office.

After India, the Philippines (3.6 average, n=11) and South Africa (2.9 average, n=12) are preferred. However, support for both is quite variable. Some firms think those countries are very attractive for setting up a LPO office, others strongly disagree. There is not much support for setting-up an office in either Latin America or China.¹¹

Best Countries to Start an LPO Firm

Country	Count (n=)	Mean	Standard Deviation
China	12	1.2	0.40
Latin America	11	1.8	0.60
India	7	4.4	0.53
Philippines	11	3.6	1.21
South Africa	12	2.9	1.28

Three other firms provided a rank order of the countries.

Rank Order

Country	A	B	C
China	1	1	1
Latin America	2	2	2
India	5	5	5
Philippines	4	4	3
South Africa	3	3	4

¹¹ Two firms told DMA that China's primary problem is that its labor pool is not fluent in English. Otherwise, China would be competitive with India.

IN WHICH INDIAN CITY TO SET-UP AN OFFICE

Among Indian cities, firms had a slight preference for setting-up a LPO office in Bangalore. However, there is no consensus. At least five firms strongly support *every* city.

Firms were asked how attractive the following cities were to set up a LPO office in, and to rate each city on a scale of 1 to 5, with 5 being the best:

- Bangalore
- Chennai
- Delhi
- Hyderabad
- Mumbai
- Pune

Respondents were also asked to submit any other cities.

Fifteen firms answered the question, but not all firms evaluated each city. Three of the 15 firms gave a rank order—in other words, ranked the cities in order (e.g., 1, 2, 3, 4, 5, and 6). The other twelve firms rated *each* city from 1 to 5, with 5 being the best (e.g., 4, 4, 2, 1, 5, and 3).

Among the 12 firms that rated *each* city, the average and standard deviation are reported:

Best Cities to Start an LPO Firm			
City	Responses	Mean	Standard Deviation
Mumbai	11	3.4	1.50
Delhi	13	3.5	1.22
Chennai	13	3.3	1.20
Hyderabad	11	3.4	1.12
Bangalore	12	3.9	1.08
Pune	11	3.5	1.44

Another way to interpret the data is to examine the number of firms that rated the city favorably, with either a “4” or “5.”

City receives a 4 or 5		
City	Responses	# Firms
Mumbai	11	6
Delhi	13	7
Chennai	13	5
Hyderabad	11	5
Bangalore	12	7
Pune	11	5

From the above two tables, there is a preference for Bangalore. Bangalore received the highest average rating of 3.9—0.4 better than its nearest competitors, Delhi and Pune. Furthermore, Bangalore (along with Delhi) received the greatest number of “4” or “5” ratings, with seven. Nonetheless, *every* city received at least (a) an average rating of 3.3 and (b) five “4” or “5” ratings. Therefore, there is no consensus about which city is preferred.

The following is the data for firms that provided a rank order:

Rank Order			
City	A	B	C
Mumbai	5	6	1
Delhi	4	2	2
Chennai	2	3	6
Hyderabad	3	5	3
Bangalore	1	4	5
Pune	6	1	4

Four firms volunteered names of other cities—two for Cochin and two for Chandigarh.

When evaluating cities, firms told DMA that they consider the following:

- availability of legal talent
- the work culture, such as how dedicated employees are and their attrition rate;
- labor costs;
- infrastructure;
- political environment; and
- stability.

WHERE TO LOOK FOR BUSINESS

The United States appears to be the best market for acquiring business. The United Kingdom and Canada are also preferred.

Firms were asked to “[r]ate the prospects of obtaining business” from the United States, Canada, United Kingdom, and Australia. Firms rated each country from a scale of 1 to 5, with 5 being the best.

Best Countries to Obtain Business From

City	Responses	Mean	Standard Deviation
United States	13	4.2	0.70
Canada	9	3.4	0.70
United Kingdom	12	3.7	1.32
Australia	8	2.2	0.67

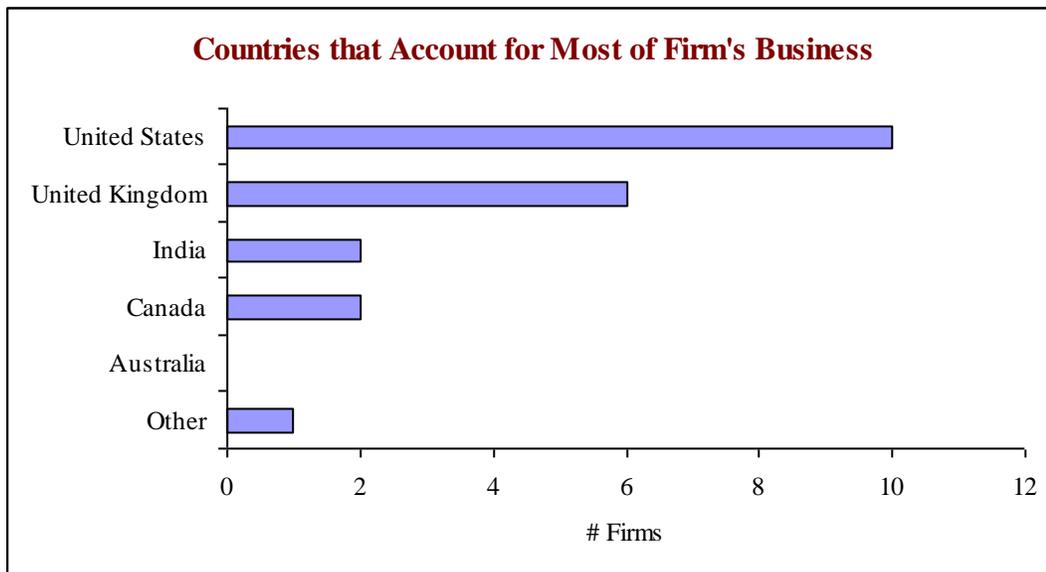
The United States received the highest average rating of 4.2 (out of 5.0). The United Kingdom and Canada were also preferred, with average ratings of 3.7 and 3.4 respectively. However, ratings for the United Kingdom were variable; it received (a) two “1” or “2” and (b) five “5.” Australia received little support. Its average rating was 2.2 and no country rated it higher than “3.”

Two other firms gave a rank order of each country. These rankings mirror the above ratings. The United States and United Kingdom were first and second best respectively.

Rank Order

City	A	B
United States	4	4
Canada	1	2
United Kingdom	3	3
Australia	2	1

Additionally, firms were asked: “Clients from which of the following countries account for most of your company’s LPO business?” Ten out of twelve firms derive much of their revenue from clients in the United States, half from the United Kingdom, and two (17%) from India. Two firms (17%) wrote-in Canada.¹²



¹² For this question, Canada was not one of the answers. Rather, firms were given the response option: “Other (Please specify).”

OPERATING ENVIRONMENT

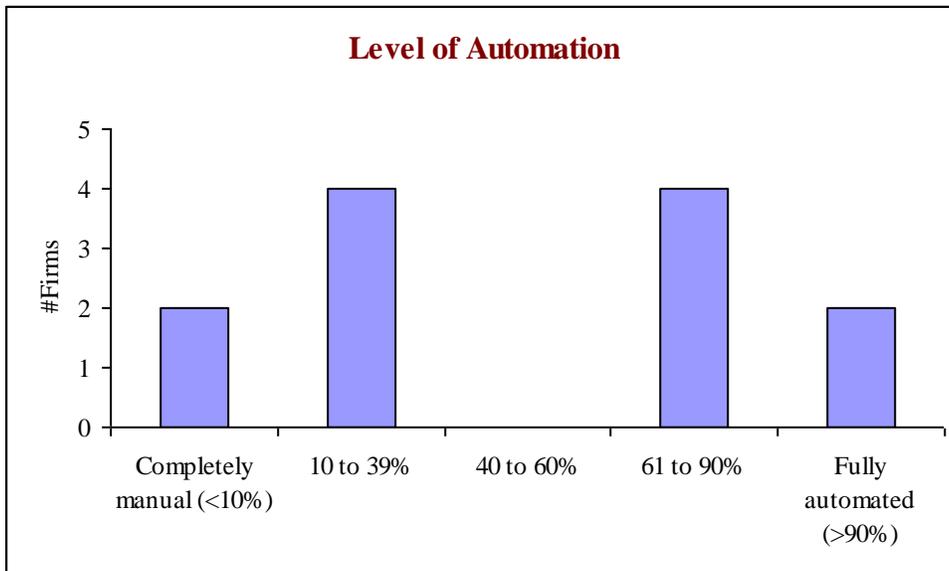
DMA asked firms four questions about their operating environment. These questions were written with the help of an operations manager at an Indian BPO company. His reasons for asking each question are included.

Level of Automation in Floor Operations

Firms estimated the “level of automation involved in [their] floor operations environment.” Their level of automation may reveal:

1. how much firms invest in delivering LPO services (i.e., start-up costs);
2. the reliability and repeatability of their process, which is more in an automated environment; and
3. the number and size of the firm’s clients—assuming that a low automation environment cannot handle multiple large-clients.

Firms either are largely automated or not; there is no in-between. Half (n=12) are mostly or completely manual. Their level of automation is less than 40 percent. The other half is mostly or fully automated. Their level of automation is greater than 60 percent.



A firm's level of automation is positively correlated to its size, as measured by either the number of (a) employees in its LPO division and (b) clients.

All firms (six) with 50 or fewer employees rely mostly on manual tasks. None of their level of automation is more than 39 percent. By contrast, with one exception explained below, firms that are mostly automated (greater than 60 percent) had over 50 employees in their LPO division.

None of the three firms with more than 200 employees revealed their level of automation. From the trend observed in this data, it is presumably greater than 60 percent.

		Employees				
		≤20	21 to 50	51 to 75	75 to 200	>200
Automation	<10%	2	0	0	0	0
	10 to 39%	3	1	0	0	0
	40 to 60%	0	0	0	0	0
	61 to 90%	0	0	3	0	0
	>90%	1	0	1	0	0

Firms with fewer clients have a less automated work environment. With one exception (n=9), not until a firm has at least 11 clients is its level of automation at least 61 percent. Until then, the firms's level of automation is less than forty percent.

		Clients				
		1 to 5	6 to 10	11 to 15	16 to 20	>20
Automation	<10%	2	0	0	0	0
	10 to 39%	1	2	0	0	0
	40 to 60%	0	0	0	0	0
	61 to 90%	0	0	1	0	2
	>90%	1	0	0	0	0

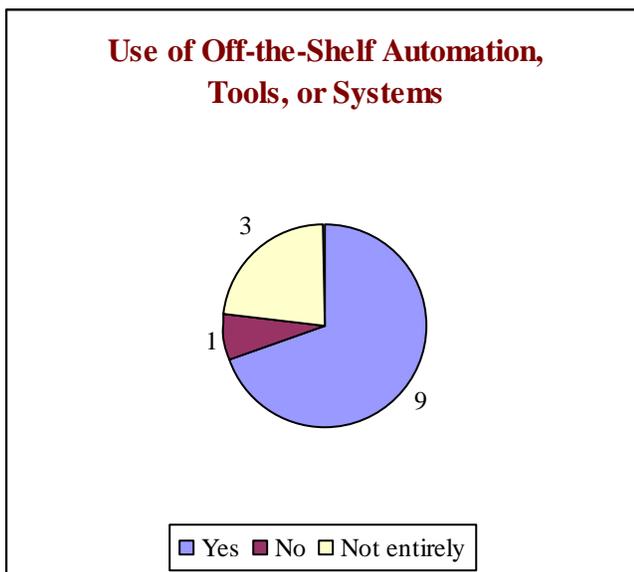
The outlier in both tables, highlighted in yellow (>90%, ≤20), is the same LPO firm. This LPO firm likely does not disprove the above trends. Rather, it is an exception. The firm primarily works in the Intellectual Technology and engineering sectors. Within the LPO sector, its work is primary patent-related. Therefore, its operation environment is different than the "typical" LPO firm, one that does legal research, drafts contracts, etc.

Off-the-Shelf Systems

Firms were asked if their “operating environment include[s] off-the-shelf automation, tools, or systems[.]” Whether a firm uses of off-the-shelf systems may reveal:

1. whether a firm’s processes are dynamic or are constrained by the off-the-shelf systems;
2. if LPO firms have in-house software development capability; and
3. how scalable their operations are.

All but one firm (92 percent, n=13) uses off-the-shelf systems. Because just one firm responded “no,” it is difficult to identify why not from sub-analysis. DMA compared the use of off-the-shelf systems with firms’s level of automation, number of employees, and the fraction of the operating environment developed in-house. No trends were revealed.

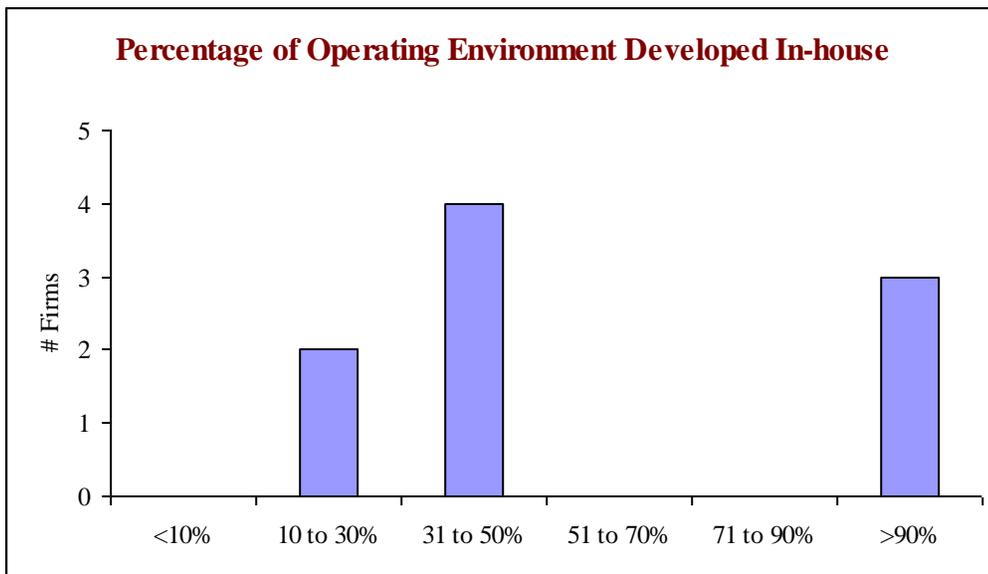


Development of In-house Software

Firms were asked “[w]hat percentage of [their] operating environment has been developed in-house[.]” The purpose of the question is:

1. to understand the LPO firms’ in-house software development capability;
2. to understand their ability to translate client requirements into software features; and
3. to estimate their profitability margins—expenditure of self-owned and developed software is less than for off-the-shelf products.

All firms (n=9) developed at least some of their operating environment in-house. Two-thirds of firms (n=9) developed between 10 to 50 percent of their operating environment in-house. A significant minority (33 percent) developed more than 90 percent of their operating environment in-house. No other response was given.



There is a positive correlation between the percentage of the operating environment developed in-house and the level of automation. To become more automated, firms purchase outside software, not develop their own. In other words, heavily automated work environments are primarily driven by off-the-shelf software.

		Automation				
		<10%	10 to 39%	40 to 60%	61 to 90%	>90%
In-house	<10%	0	0	0	0	0
	10 to 30%	0	0	0	0	1
	31 to 50%	0	0	0	2	0
	51 to 70%	0	0	0	0	0
	71 to 90%	0	0	0	0	0
	>90%	0	1	0	0	0

There does not appear to be a positive correlation. From sub-analysis of the survey results, it is not clear what caused the three firms to develop more than 90 percent of their operating environment in-house.

It does not appear that how many employees a firm has influences whether it develops more software in-house, or vice versa.

		Employees				
		≤20	21 to 50	51 to 75	75 to 200	>200
In-house	<10%	0	0	0	0	0
	10 to 30%	0	1	1	0	0
	31 to 50%	0	1	1	0	0
	51 to 70%	0	0	0	0	0
	71 to 90%	0	0	0	0	0
	>90%	1	0	0	0	1

There were too few responses for a comparison to be done with the number of clients. Only three firms who answered what percentage of their operating environment is developed in-house also disclosed their number of clients.

Nature of Operating Systems

Firms were asked to describe the “nature of their software systems in [their] operating environment[.]”

Nature of Operating Systems						
Response	Single	Combo 1	Combo 2	Combo 3	Combo 4	Combo 5
Stand-alone systems that support non-core functions such as transcription, data cleansing, data normalization, or data entry service, only	1	0	0	1	0	0
Stand-alone systems that support core functions such as legal research, drafting contracts, document review, briefs, and processing patent applications	6	0	1	0	1	1
Complete service transformation suite supporting end-to-end LPO activities	0	1	0	0	0	0
Enterprise integration systems extendible to client environment	2	0	0	0	0	0

Nine out of the fourteen firms chose just one response (the “Single” column). The other five firms chose two or more of the responses. Those answers are highlighted. Of all answers, “stand-alone systems that support core functions . . .” was chosen the most often (43 percent alone, 71 percent when it was chosen *either* alone *or* with another response).

METHODOLOGY

The survey on which this report is based was developed and sent to LPO firms in October and November 2010. In total, 19 firms responded the survey.

DMA attempted to contact every LPO firm with an Indian presence. First, unsolicited E-mails were sent to the Indian LPO firms—200-plus in total.¹³ The firms were identified from Internet research. DMA offered each firm a copy of this report and an aggregate of the data obtained for its participation. Up to three reminders were sent to firms that had not responded to the survey.

DMA received the following responses:

E-mail Response Rate	
Firms E-mailed	241
No response	178
E-mail bounced	32
Firm said it was not in LPO	5
No follow-up by firm	3
Firm declined to participate	6
Surveys returned	17
Survey response rate	8.3%

The E-mail survey response rate is calculated by:

$$\frac{\text{Surveys returned (17)}}{(\text{Firms E-mailed (241)} - \text{E-mail bounced (32)} - \text{Firm said it was not in LPO (5)})}$$

Second, a notice about this survey was posted on LPO Source and Legally Yours, LPO blogs.¹⁴ That resulted in two additional responses, for a total of 19 responses.

¹³ To put this number in perspective, DMA saw estimates of the Indian LPO sector at 170 firms.

¹⁴ Michael Bell, LPO SOURCE, *Industry Survey* (Nov. 26, 2010), <http://lposource.blogspot.com/2010/11/industry-survey.html>; Rahul Jindal, LEGALLY YOURS, *Survey on the LPO Industry* (Nov. 22, 2010), <http://legallyyours.blogspot.com/2010/11/survey-on-lpo-industry.html>.

UNDERSTANDING THE LOW RESPONSE RATE

The E-mail response rate to this survey was less than 10 percent (8.3 percent).

An explanation for the low response rate is that DMA is new to the LPO industry and therefore, lacked a database of contacts to draw from. Furthermore, because DMA asked sensitive-business questions, firms were reluctant to respond.

Because of the low response rate, DMA does not make statistical inferences about the LPO industry as a whole from the sample. Nor does DMA run any regressions to compare and contrast LPO firms.

However, because a cross-section of the Indian LPO industry is represented in the survey, it reveals industry trends and general attitudes. Some of the respondents are recent entrants to the industry. Most are established, award-winning firms. For example, five of the firms that participated in this survey had either more than 20 clients or over 200 LPO employees.

Furthermore, often it was the CEO, President, or managing director of the firm who completed the survey. Readers will hopefully find their advice, observations, and experiences valuable.

Who Responded	
CEO or President	7
Vice President	2
Head of Operations	2
Managing Attorney	1
Other	7

SOURCES OF BIAS

Response Bias

Small, recent entrants were likely underrepresented in this survey. To find Indian LPO firms to contact, DMA relied on Internet research. It searched for websites that had a list of LPO firm names. Lists were months or years old, meaning that recent entrants to the LPO sector were not included in them. In the end, one-sixth of respondents entered the LPO market in 2008 or later. However, it is difficult to interpret whether that percentage is low without a population estimate.

Additionally, firms that left the industry were excluded altogether. That is unfortunate because those firms may have a different outlook on the LPO industry.

As a recommendation, to facilitate future surveys, better response rates, and reliable statistical analysis, DMA encourages one LPO consultant host a website where LPO firms register their contact information.

Participant Bias

This is the bias that occurs when participants either unintentionally (does not know the correct answer but answers anyway) or intentionally (purposefully misleads) gives an incorrect answer. Here, the most frequent respondent was the firm's CEO, President, or managing director. Therefore, there does not appear to be much unintentional participant bias; these directors and officers know their firm's business well.

Regarding intentional bias, respondents do not stand to financially benefit or lose from how DMA perceives them. DMA is not in the LPO sector. Furthermore, because the names of all participants are kept confidential, respondents cannot signal their relative position to competitors. On the other hand, DMA conducted this survey on behalf of an Indian BPO, a potential competitor.

APPENDIX A

Assume that in each row, firms represent the maximum number of possible clients, except that firms with over 20 clients represent 21. In other words, favorable assumptions are made to the firms with fewer clients.

Number of Clients	# Firms
5	4
10	2
15	1
20	0
21	3

In total, there are 118 clients (multiply the numbers in each row). Of those 118 clients, 68 (or 53 percent) are represented by the three firms with 21 clients each.