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## Legal Outsourcing Gains Fans, Expected to Continue Growing

By Sara Randazzo  
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When Thomson Reuters announced last month its purchase of legal process outsourcing company Pangea3, it signaled more than a desire to expand its line of business. The seemingly innocuous deal lent credence to the notion that legal outsourcing is more than a fad.

The industry is growing 20 percent annually, and is projected to exceed \$1 billion this year, according to analysts, but is still not universally accepted in the slow-to-change legal industry.

Since companies such as Pangea3 came onto the scene in the mid-2000s, many law firms have led the charge against outsourcing, refusing to embrace an industry that threatens to make obsolete the work of high-billing junior associates.

"Part of the reason law firms resist it is because it takes away a big part of their profit base," said Ward Bower, a principal at legal consultant Altman Weil.

Even so, in-house legal departments have sought cheaper ways to do routine work such as document review and due diligence, and hundreds of outsourcing companies as far away as India and Australia have been happy to accommodate.

Pangea3 has emerged as one of the most well known. The company, founded in New York in 2004, now counts 650 attorneys in Mumbai, India.

Jonathan Goldstein, vice president and managing director of legal services for Pangea3, said that the majority of his 120 clients are in-house departments of major corporations, such as Gap, Netflix, Yahoo, Sony, American Express and General Electric.

"Law firms benefit from working with us, even if they have trouble seeing how," Goldstein said. "The kind of work we excel at is the kind of work in which they do not excel."

Although Goldstein argues it's not just about cost, its numbers are compelling. The price Pangea3 charges for a matter can be 90 percent less than if an associate did the work, Goldstein said, and up to 60 percent less than a U.S.-based staffing agency.

Every outsourcing company charges differently; some by the hour, others by the gigabyte, and

others by the page. And even though there's some consistency — hourly rates hover around \$20 to \$30 — pricing is still “all across the board,” in Bower's opinion, and true market rates have yet to emerge.

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**JONATHAN GOLDSTEIN**  
VICE PRESIDENT AND MANAGING  
DIRECTOR OF LEGAL SERVICES  
FOR PANGEA3

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Dollar for dollar, the difference between U.S.-based contract attorneys and overseas attorneys isn't extreme. But those on the outsourcing side of the equation insist their staff can run circles around the work done by unenthusiastic contract attorneys, who often turn to contract work after getting laid off or failing to find a more fulfilling job.

“Pause and think about the quality you get from a lawyer getting paid the same as my babysitter,” Goldstein said, pointing to the usual contract attorney wage of roughly \$14 or \$15 an hour.

So far, California lags behind the East Coast in outsourcing, and West Coast companies in general have been less inclined to send work overseas. Most of the biggest players, including Pangea3, CPA Global and Integreon, are located in New York, where the cost of legal work is the highest, and where the financial services industry churns out routine legal work in spades.

But some California law firms and companies are finding their way into the action. For several years, San Francisco litigation boutique Bartko, Zankel, Tarrant & Miller

has sent electronic discovery and document review work to the Philippines, and now has a separate business — BZresources — that handles the e-discovery work for other small firms.

Eric Bartko, the son of firm found-

er John Bartko, heads the operation. He said the overseas arrangement has made it possible to do massive reviews that would be unthinkable expensive if billed to a \$250-an-hour associate.

“Only in the last two years, corporations have said, ‘No, this is crazy. We can't have year-long reviews paying associate wages,’” Bartko said.

California is home to a handful of small legal-process outsourcing operations, such as Beverly Hills-based Novadios. Founded in 2008 by attorney Ashley Anderson, Novadios employs lawyers in Argentina to work on a range of project types, from contract drafting to document review.

“We're the near-shore alternative to the far shore of Mumbai,” said Anderson, whose West Coast-heavy client base includes Yahoo, MGM Resorts International, Adobe Systems and Universal Music Group.

But skepticism about the industry remains. Anderson said the stigma around the practice comes from “a very U.S.-centric view of the world” that he is working to dispel.

“The notion that sending things overseas is something to be cautious about is old school,” he said. “A car can now be built in three or four countries; legal work can be, as well.”

The next step, many in the industry predict, will involve outsourcing companies dedicating lawyers to work for one law firm or in-house department, more like an extension of their legal team than hired help.

Signs of the trend are already beginning to show. In June 2009, British mining company Rio Tinto struck an agreement with CPA Global to provide a team of lawyers to work on Rio Tinto matters for an estimated annual savings of 20 percent.

Those watching the industry said this so-called “captive outsourcing” will help ease fears about quality control while keeping costs down.

As the legal industry pulls itself out of the economic downturn, it appears legal process outsourcing will remain for the long haul.

“This industry is viable, very viable,” Pangea3's Goldstein said. He points to Thomson Reuters' acquisition of his company as confirmation. “[The acquisition] is proof of concept to show its viability is true, it worked, and that the growth opportunity here is really unbridled.”

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