

Case Study

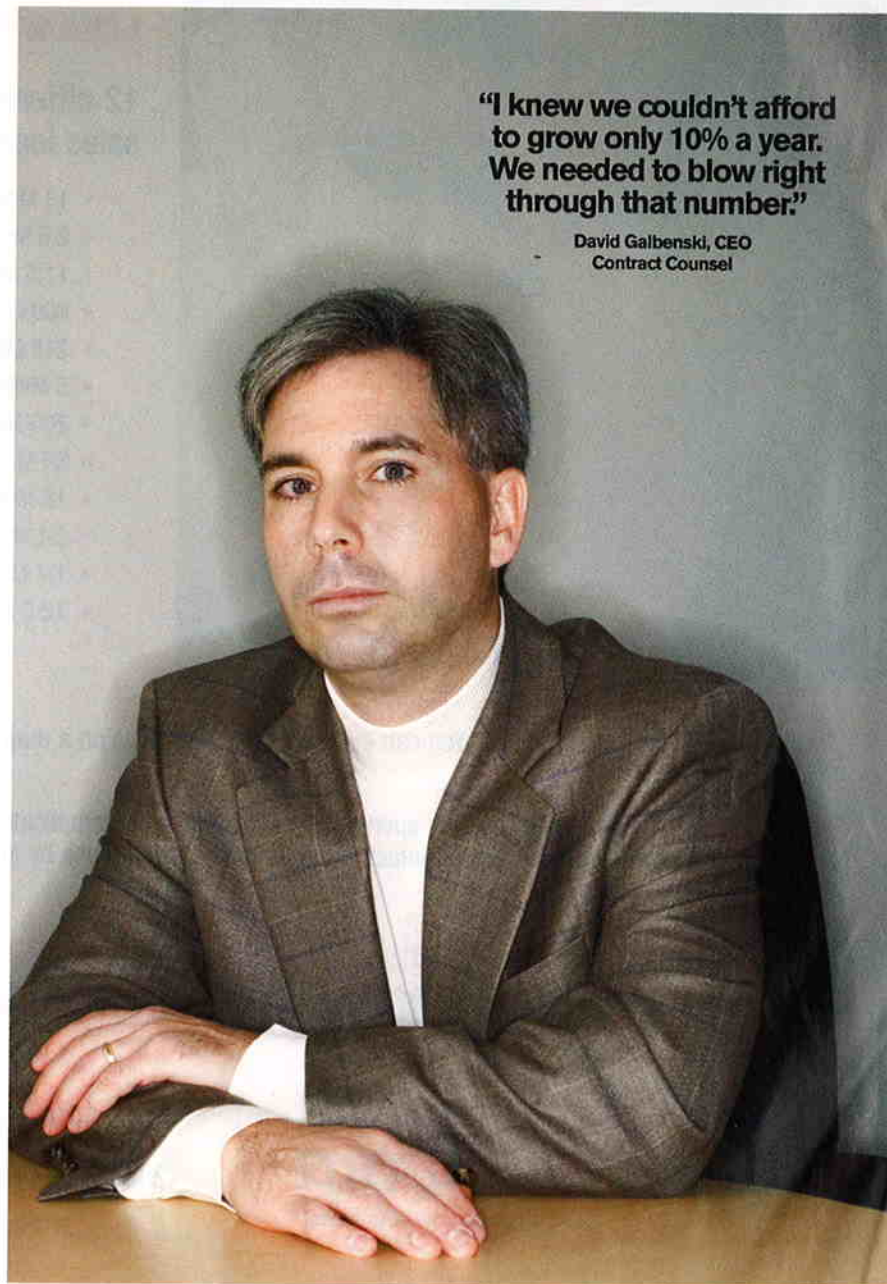
With revenue flattening, David Galbenski needed a bold new plan.

But was outsourcing everything to India really the right move?

BY ALMOST ANY measure, David Galbenski's company was a success. Contract Counsel, which Galbenski and a law school buddy, Mark Adams, started in 1993 from Galbenski's parents' basement in Royal Oak, Mich., helps companies find lawyers on a temporary contract basis. The growth over the past five years had been furious. Revenue went from less than \$200,000 to some \$6.5 million at the end of 2003, and the company was placing thousands of lawyers a year.

And then the revenue growth began to flatten—the company grew just 8% in 2004—despite a robust market for legal services estimated at about \$250 billion in the United States alone. Frustrated and concerned, Galbenski stepped back and began taking a hard look at his business. Could he get it back on the fast track? “Most business books say that the hardest threshold to cross is that \$10 million sales mark,” he says. “I knew we couldn't afford to grow only 10% a year. We needed to blow right through that number.”

For that to happen, Galbenski knew he had to expand his customer base beyond the Midwest into large legal supermarkets such as Boston, New York, and Washington, D.C. He also knew that in doing so, he'd run into stiff competition from larger publicly traded rivals. Contract Counsel's edge had always been its low price. Clients called when dealing with large-scale litigation or complicated merger-and-acquisition deals, either of which can require as many as 100 lawyers to manage the discovery process and the piles of documents associated with it. Con-



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David Galbenski, CEO
Contract Counsel

tract Counsel's temps cost about \$75 an hour, roughly half of what a law firm would charge, which allowed the company to be competitive despite its relatively small size. Galbenski was counting on using the same strategy as he expanded into new cities. But would that be enough to spur the hypergrowth that he craved?

At the time, Galbenski had been reading quite a bit about the growing use of offshore employees. He knew companies like General Electric, Microsoft, and Cisco were saving bundles by setting up call and data centers in India. But it was an article in the November 2004 *American Lawyer*—titled “Briefed in Bangalore: Will India's Lawyers Help Re-shape the U.S. Legal Market?”—that really opened his eyes. Law firms could offshore their work? Galbenski's mind raced with possibilities. He imagined tapping into an army of discount-priced legal minds that would mesh with his existing talent pool in the U.S. The two work forces could collaborate over the Web and be productive on a 24-7 basis. And the cost savings could be massive.

Of course, there were big questions. Could he count on the quality of the work that came from overseas? Would language and cultural differences be a problem when it came to reviewing and coding documents for an upcoming trial? Would licensing be an issue? Using offshore workers was a risk, but the payoff was potentially huge.

It so happened that Galbenski and his eight-person management team were preparing to meet for their semiannual strategic review meeting. The purpose of the two-day event was to decide the company's goals for the coming year. The meeting was being held at the Thomas Edison Inn in Port Huron, about an hour from the company's office. Driving to the meeting, Galbenski struggled to figure out exactly what he was going to say. He was still undecided about whether to pursue an incremental and conservative national expansion or take a big gamble on overseas contractors. Could the company really afford to go global? Could it afford not to?

The Decision The next morning, Galbenski kicked off the management meeting. Marc Blessing, the company's chief

operations officer, had come prepared to talk about his role in expanding Contract Counsel's client roster in the U.S. When he saw the usually easygoing Galbenski pacing back and forth nonstop, he thought

something was up. “And that's when he dropped the bomb on us,” he says.

Like Blessing, Mark Adams was expecting a discussion about sparking U.S. growth. He and Galbenski had chatted briefly about the prospect of outsourcing to India, but never very seriously. So when Galbenski launched into a passionate talk about his vision for transforming Contract Counsel, and doing so immediately, Adams was stunned. “He changed the agenda on us 180 degrees and it was hard to digest at first,” says Adams. “He said we had to pursue bigger things and we couldn't afford to wait.”

Galbenski laid out the facts as he saw them. Rather than look at just the next five years of growth, look at the next 20, he said. He cited a Forrester Research prediction that some 79,000 legal jobs, totaling \$5.8 billion in wages, would be sent offshore by 2015. He challenged his team to be pioneers in creating a new industry, rather than stragglers racing to catch up. His team applauded.

Returning to the Royal Oak office after the meeting, Galbenski announced the change in strategy to his 20 full-timers. Then he and his team began plotting a global action plan. The first step was to hire a company out of Indianapolis, Analysts International, to start compiling a list of the best legal services providers in countries where people had comparatively strong English skills. The next phase was vetting the companies in person. In February 2005, just three months after the meeting in Port Huron, Galbenski found himself jetting off on a three-month trip to scout potential contractors in India, Dubai, and Sri Lanka. Traveling to cities like Bangalore, Chennai, and Hyderabad, he interviewed executives from more than a dozen companies,

The experts weigh in

Too Much Too Soon

Galbenski is clearly a maverick bold enough to lead a whole new industry. But his new brand won't be able to survive many mistakes. By making the simultaneous switch from the Contract Counsel brand while moving offshore, Galbenski is taking on a big educational challenge. Clients want to know that they can trust their attorneys, so the company is going to have to figure out how to translate the message that cheap prices also mean high quality. There could be a disconnect there. Customers need to get the same quality of service they are used to—even if they are paying less.



Doreen Lorenzo
COO
Frog Design
Sunnyvale, Calif.

It's All in the Training

We're using a similar business model—only instead of lawyers, we use offshore accountants to help process tax returns. On paper, the opportunities are obvious: lower labor costs and better turnaround times because of the difference in time zones. But it's something you can't just rush into. We started by taking accountants from India and bringing them to the U.S. for training. Galbenski is trying to develop an emerging market that doesn't exist yet; he needs to be patient and develop talented workers. There is no substitute for experience.



Clarence Schmitz
Chairman and CEO
Outsource Partners International
Los Angeles

I Wouldn't Do It

There have been some disputes within the American Bar Association about whether document review and legal research constitutes the practice of law. We have decided that if we bill people out as lawyers, they need to be licensed in the state they are working in. There are plenty of phenomenal lawyers here in the U.S. that you don't have to gamble on. You can screen who is doing the work; you have access to where they went to law school, where they clerked. That's something you might not get from lawyers in India.



Jane Hanner Allen
President
Counsel On Call
Brentwood, Tenn.

investigating their day-to-day operations firsthand.

India seemed like the best bet. With more than 500 law schools and about 200,000 law students graduating each year, it had no shortage of attorneys. What amazed Galbenski, however, was that thanks to the Web, lawyers in India had access to the same research tools and case summaries as any associate in the U.S. Sure, they didn't speak American English. "But they were highly motivated, highly intelligent, and extremely process-oriented," he says. "They were also eager to tackle the kinds of tasks that most new associates at law firms look down upon"—such as poring over and coding thousands of documents in advance of a trial. In other words, they were perfect for the kind of document-review work he had in mind.

After a return visit to India in August 2005, Galbenski signed a contract with two legal services companies: QuisLex, in Hyderabad, and Manthan Services, in Bangalore. Using their lawyers and paralegals, Galbenski figured he could cut his document-review rates to \$50 an hour. He also outsourced the maintenance of the database used to store the contact information for his thousands of contractors. In all, he spent about 12 months and \$250,000 readying his newly global company.

Convincing U.S.-based clients to take a chance on the new service hasn't been easy. In November, Galbenski lined up pilot programs with four clients (none of which are ready to publicize their use of offshore resources). To help get the word out, he launched a website (offshore-legal-services.com), which includes a cache of white papers and case studies to serve as a resource guide for companies interested in outsourcing. And in February, Galbenski will sponsor a legal outsourcing summit in India that will bring both resource providers and their potential clients together.

February will also mark another big change for Contract Counsel: its name. Though Galbenski has spent the past decade building the Contract Counsel brand, he thinks the name feels stale. A new name, Galbenski

hopes, will help inject new energy into his company. For a while, the favorite was Offshore Legal Services. But Galbenski wound up taking a different route. One of his heroes is Thomas Edison; he even gives his top performing employee an "Eddie" award at the end of every year. Why not incorporate the concept of his hero's greatest invention—the light bulb—into the company's new name? He decided to rebrand his company Lumen Legal. "We're shining light on a new way to do business," he says.

Still, much at the company remains the same. The service is brand new, and only about 5% of its work is being handled overseas. There's a lot at stake and Galbenski admits that 2006

UPDATE

Singling out a new market

The Problem In January 2004, we presented the case of Wakefield, Mass.-based Keurig, a manufacturer of single-serving coffee machines, which were being sold primarily to corporate customers. But the company was thirsty for a piece of the far larger consumer market. In September 2003, the company took a big gamble, offering a \$250 version of its coffeemaker to consumers on its website and through roasters and distributors. Keurig's CEO, Nick Lazaris, had high hopes: He expected to sell 20,000 machines to consumers by the end of 2003 and introduce a \$150 model in retail stores in 2004.

What the Experts Said "The price of the machine is well beyond the range of the average consumer," warned Daniel Cox, president of Coffee Enterprises, who advised Keurig to lower the price to \$99. David Oreck, founder of the vacuum cleaner company Oreck Corp., said that Keurig should focus on expanding its commercial business before branching out into the consumer market. "Pursuing retailers is definitely not the way to go," he said.

What's Happened Since In 2004, Keurig found a manufacturing partner in China and rolled out \$99, \$149, and \$199 models; the priciest machine now goes for \$279. The coffeemakers are sold in 4,000 high-end retail stores, including Williams-Sonoma and Bloomingdale's. All told, the company has sold more than 150,000 coffeemakers to consumers, who now account for two-thirds of Keurig's sales. As a result, revenue has more than doubled, from \$25 million in 2003 to an expected \$60 million in 2005.

What's Next Keurig's \$99 single-serving coffeemaker will hit Target shelves this month. Lazaris has also lined up distributors in Europe and Japan, and is adding new licensing partners, which supply the coffee, tea, and hot cocoa used in Keurig machines. "We continue to be busy around here," Lazaris says. "But at least we're caffeinated." —D.D.



could be a make-or-break year. After launching the new brand, the next step will be trying to line up some \$4 million in angel financing. Negotiations are already under way, and Galbenski plans to use the cash to invest in new full-time staff and search for new sources of legal talent; Israel looks promising, he says. He also expects the February conference in India to generate a lot more business. The changes, Galbenski admits, are as frightening as they are exciting. But in his mind, he had no choice. "It's always been about going big or going home," he says.

—Darren Dahl

What do you think? Is outsourcing to India really the answer for Contract Counsel? Sound off at casestudy@inc.com.