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## Challenges and Solutions for Electronic Billing

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Coming into 2010, it has become clear that, for law firms, not only is electronic billing here to stay, but adoption by corporate clients will continue to accelerate.

In principal, the benefits to a firm are obvious and sound. The corporate legal department will receive its bills electronically through a single interface that also allows it to route, review and approve them. As a result, a law firm should be able to more easily ensure compliance with the client's guidelines, expedite dispute resolution when there is an issue, create valuable data that can be mined for internal use, "go green" by cutting down on paper and mailings, and ultimately accelerate payment cycles. On the face of it, the only expenses are the small fees required by e-billing vendors.

### NOT SO SIMPLE

However, there is a fundamental flaw in that principal argument. It assumes a single e-billing vendor and a single set of client billing guidelines, using a single file format that can deliver these benefits. The reality is that there are multiple e-billing vendors and multiple file formats. To illustrate this point, the December 2008 *ILTA E-Billing Survey* identified 29 commercially available e-billing vendors (this doesn't include the roughly 50 corporations that have developed their own system or require invoices to be sent via e-mail).

Couple that with the roughly 1,300 corporations with their own unique submission guidelines, using one of the aforementioned systems, and the challenges that a law firm faces should become clear. Because it's a major departure from paper billing (print-stuff-send), electronic billing often requires law firms to allocate or add more staff, have staff become more specialized in their duties, increase the amount of

time it takes to collect on invoices, spend more attorney time on billing, and work from incorrect or incomplete data in the collections process.

So how do law firms take advantage of the benefits e-billing can offer? Like many things, the first step is acceptance. Next, a firm needs to evaluate the options, then construct a plan and follow through. By looking for ways to automate the process and develop standardized internal procedures, law firms can overcome many of the hurdles and costs involved with e-billing and realize many of the benefits it offers.

### LACK OF STANDARDIZATION

The greatest logistical problem when it comes to e-billing is a lack of standardized protocols. This problem is not related to any particular vendor; it's based on the plethora of vendors and the fact that so many corporate law departments have expectations about e-billing from their law firms.

As an analogy, Outlook and Gmail are both outstanding e-mail clients, but they work differently. The interfaces are different. The buttons are in different places. Both do the job, but learning and remembering how to use both systems simultaneously can be a minor hassle. Now imagine having to learn 29-plus more applications.

To support the existing unique billing requirements, clients also often require custom codes, adding to the logistical challenges of e-billing. While most vendor and client systems are largely based off the Uniform Task-Based Management System ("UTBMS") and Legal Electronic Data Exchange Standard ("LEDES"), each vendor has a somewhat different protocol for uploading and tracking. And every client seems to have at least one or two (and sometimes many more) minor adjustments to either the exchange standard or, more likely, the task codes.

These custom codes and additional data elements allow the client to collect the precise data it wants, and from its point of view, the impact on the firm is minor. However, those "minor" elements quickly add up when a firm has many clients that require e-billing, each with their own cus-

tomizations. Providing three customizations for a client presents little challenge. But providing 135 customizations for 45 clients severely limits efficiency. In fact, the average client will take roughly five man-hours of time to set up for e-billing.

The problem will only grow as more organizations adopt e-billing. According to an Altman Weil Study in 2005, 10.3% of corporations surveyed used e-billing. By 2007, 22.2% of corporations surveyed had adopted e-billing. And according to a recent study by Serengeti, 44% of the 400 organizations it surveyed are considering it.

### THE E-BILLING PROCESS

For law firms, the logistics of e-billing will only grow more complicated as more clients require it. It takes more work, not less, for law firms to e-bill. During the initial set up for each client, the law firm usually has 30 days to bring a client online. This can be relatively simple if the client is using an e-billing vendor with which the firm is familiar, or more complicated if it is all new. And while many firms have honed the initial set-up process, there are still costs associated with it. Larger firms have dedicated staff just to bring new clients online. And as more clients demand e-billing, this problem will grow, even as law firms learn to improve efficiency in this area.

Even after a client is set up, e-billing is still more complicated and time consuming than a paper process. Both paper and electronic bills start when the creation of a "pre-bill" is distributed, an attorney edits it and the billing department posts the bill. With a paper bill, there are just a few simple steps after the attorney's review — the printing, envelope stuffing and mailing.

But an average e-bill takes eight steps to process. A typical process goes something like this: First, the bill must be printed to a file based on a template that has been developed for that specific client. Then, it goes to a shared drive for review. Next, the biller may need to manually manipulate the file or conduct spot checks. The biller then must log on to the e-billing system, find the client and upload the bill. If the

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bill is accepted, the confirmation must be recorded; if the bill is rejected, the process begins all over again. The billers may also have to verify that the client has previously approved the timekeepers. Clients may have other unique guidelines that law firms are expected to adhere to, along with technical requirements related to the e-billing vendor.

With e-billing systems, capacity issues and server space are also issues (while storage costs are decreasing, they are not free) when it comes to processing the bills, and law firms must work closely with their IT departments to manage the technical requirements involved in serving the growing number of e-billing clients.

#### **NEW ROLES AND RESPONSIBILITIES**

Once a law firm has developed hardware and software systems for e-billing, it must then consider the roles and responsibilities of those in the billing department. These staff members are often less productive with e-billing than they are with paper bills. Typically, one full-time staff member can process 250 e-bills every month, assuming few problems with the bills and a tried-and-true process. Unfortunately, clients bounce back e-bills because of problems, which require even more staff time to straighten out.

The dynamics of roadblocks and thresholds also become magnified as more clients and more matters are handled via e-billing. Correctly formatting and distributing e-bills in an acceptable manner for payment becomes increasingly more complex as each client expects compliance with its own guidelines. While these rules should be properly maintained in the firm's time and billing system, the information in the system is only as good as the data that is entered (or a sticky note pinned up in someone's office). As the sheer volume of data grows, more work will be required in order to manually maintain these rules — and deal with the fallout when they are not applied properly.

Clients also do not codify all their expectations. A client may, for example, flag every entry that contains the word "draft" for further review. But there may not be a clear guideline about it. This is likely to cause delays in review — or worse if the in-house counsel initially rejects the bill.

#### **FINANCIAL IMPACT**

Of course, the ability to process bills correctly and receive payment in a timely manner impacts a firm's cash flow. e-Billing can actually lower profit margins, since more work is required to process an electronic invoice than a paper one.

Write-downs due to e-billing becomes an

other issue for law firms. Many firms simply write off rejected invoices of \$500 or less (rather than resubmitting), because pursuing collections of such small sums is not worth the effort. If a firm has many of these small write-downs because of e-billing glitches, the sums can add up over time.

The increased amount of time that attorneys must devote to e-billing takes another bite out of revenue. An attorney may spend only an extra 15 minutes a month on resolving e-billing issues, but in a firm with 100 partners who bill \$400 an hour, a firm loses \$10,000 in revenue every month on managing e-billing questions and problems.

In response to these concerns, many law firms are putting extremely elaborate backup systems in place. Those that do not may be putting themselves at risk when only one person understands the collections system. If that person is called out of the office unexpectedly or leaves the firm, no one else may know the exact procedures for expediting six- and seven-figure bills.

#### **THE TIMING CHALLENGES WITH COLLECTIONS**

e-Billing can also cause a law firm's billing cycles and the client's payment cycles to go askew. Consider a law firm that sends out 500 e-bills to 27 clients. If, for example, 20% of those bills are rejected and must be recoded and resent, the overall collection cycle expands. On average, this can mean an extra 11 days to get paid across the board. That nearly two-week increase in payment times can quickly add up to a significant amount of delayed revenue for a law firm. For example, if a firm that sends \$3.5 million worth of billings electronically each month receives payment just seven days later than expected (costing the firm a week's interest per year), the result is a \$40,385 hit to the bottom line.

Further problems can arise if a client's bill gets put into the collection process. For example, a firm may bill on the first of the month, but when a bill is rejected, written down and resubmitted, the cycle changes. While a firm may work on a schedule of submitting bills the first day of the month, issues may cause a delay in the time that a client accepts it until the 15th of the month. The firm thinks the bill is 15 days older than the client does, perhaps causing the collections department to:

- Make collection calls at inappropriate times. This includes partner time, and it can have a negative impact on client relationships;
- Contact billers, which requires those in the collection department to stop and start their work in order to determine

whether to make a call; and

- Misunderstand when payment is coming, causing potentially inaccurate financial projections.

#### **SOLUTIONS FOR LAW FIRMS**

As e-billing has grown, many law firms may be scrambling to keep up if they lack comprehensive, automated processes and procedures. Currently, they may be relying on a "management by Post-It" approach.

But while technology has created many challenges when it comes to e-billing, technology can also help solve many of these problems. As with any repeatable process, automation can be the key. Technology adds efficiency and, perhaps more importantly, control. As more and more processes are reliant on systems rather than the memory (or Post-Its) of a few people, a higher percentage of e-bills go out right the first time. Law firms should automate the process to the extent possible. A good automated process includes tools that provide for:

- Easy building of templates for each client (based on their guidelines, rules, etc.);
- A library with different bill formats in order to optimize efficiency;
- Validation of each invoice against the rules and guidelines for that client;
- A single upload interface, avoiding the need to learn up to 29 (or more) different systems;
- Automated tracking of rejections and invoice status in a single database (no matter the client or e-billing vendor); and
- A mechanism that allows for the input of comments, status and information about individual invoices.

#### **CONCLUSION**

When law firms drill down into the expenses involved with e-billing, it's almost enough to make attorneys and staff long for the days of paper billing. However, the paper bill is quickly becoming a thing of the past. Law firms should instead focus on how they can ease the task of e-billing by working with clients and vendors to ensure the right bill is submitted the right way, so it can be paid as quickly as possible with the least amount of work involved and yield the most valuable data to the client. By automating processes and standardizing systems, law firms can e-bill much more quickly, effectively and efficiently.