

FIVE E-BILLING METRICS YOUR
LAW FIRM SHOULD BE TRACKING
PUTTING BIG DATA TO WORK AT
LAW FIRMS



HOW BIG DATA CAN HELP LAW FIRMS MAKE THE RIGHT DECISIONS IN THE SEARCH FOR EFFICIENCY GAINS

UNDERSTANDING BIG DATA

The ever increasing speed and availability of data in the legal market place is fundamentally changing the way the industry operates, yet many law firms remain uncertain about what big data is, how it works and what it offers firms looking to boost competitiveness.

For most lawyers not experienced in the details of information technology, the very concept of big data can seem confusing. But while the term may conjure images of endless streams of binary digits, the reality of big data is both simpler and more powerful.

INSIGHT, NOT DATA

Big data is essentially a collection of servers that hold extremely large and complex datasets that can be analyzed to reveal otherwise unknown patterns, trends and associations.

But data itself does not tell the whole story. For example, a law firm that receives 500 more invoice rejections this year than it did last year might at first glance believe they have cause for concern. However, simple data analysis would reveal that the firm in question had issued 10,000 more invoices over the last 12 months than in the previous year, ensuring their overall rejection rate had in fact dropped 7% year-on-year.

Awareness of these detailed patterns provides actionable insights that can dramatically improve the effectiveness of law firms' strategic decision making on a wide range of issues, ultimately leading to improved client service and strengthened revenues.

In the face of rising market pressures and increased legal spending scrutiny, law firms continue to seek these value-adding, actionable insights in every corner of the business, including e-billing.

Law firms seek greater insights in relation to three particular areas of focus:

1. Cash flow inhibitors
2. Process inefficiencies
3. Client trends

The question is, how can law firms use big data to gain actionable insights on these important topics?

For law firms seeking improved actionable insights from their e-billing initiatives, Thomson Reuters and the eBillingHub® team have identified five key metrics that should form the heart of firms' monitoring and evaluation initiatives.

1. CLIENT REJECTION RATES

When measuring client rejection rates, it is important to keep two key factors in mind.

Spend and matter management vendor used by the client

Each spend and matter management vendor platform has its own requirements and practices, and law firms ought to track how they interact with each of these vendors when handling e-billing.

Specific client practices

Within each vendor system, clients maintain their own specific practices. These practices may cover how clients handle budget rejections, or govern whether the firm elects to reject an invoice versus writing-off or writing-down the portions they don't wish to pay.

Together these two influencing factors ensure that rejection rates can vary substantially from firm to firm, with rates typically ranging from 30% to less than 1%.

The impact of rejection rates on a law firm's bottom line varies from firm to firm, with larger firms vulnerable to significant sums arising from rejected billing. For example, if a law firm typically issues 400 invoices per month, at an average value of \$10,000, this rejection variance can mean the difference between stalled payment of \$1.2 million (at 30% rejected) and \$40,000 (at 1% rejected) every single month.

2. REJECTION AND WRITE-OFF SOURCES

The second key metric concerns the monitoring of where—or at what point—rejections and write-offs are caught in the e-billing process. At eBillingHub®, we've found there are six points where invoice rejections have a significant impact:

1. Time entry
2. Invoice review
3. Invoice submission
4. Invoice rejection
5. Post-acceptance rejection
6. Appeal

Critically, the cost to law firms of addressing an invoice rejection is not equal at all points in the e-billing process. It is far costlier to complete an appeal, which may incur several hours of several individuals' time, than it is to check a line item at the time of entry.

It is far more efficient for law firms to check their potential rejection reasons early in the process to ensure that clients' billing guidelines are being met. Failing to do so means firms risk being forced to continually fix problems rather than acting to prevent them from occurring in the first place.

3. CLERICAL REJECTION REASONS

In 2015, invoices totalling \$36.6 billion were sent through the eBillingHub® service, of which 3.91%—some \$1.43 billion—resulted in clerical rejections.

Clerical rejections are classified by eBillingHub® as any rejection that occurs on account of client data being improperly entered in the spend and matter management vendor system. Clerical rejections can include:

- Fee earners not updated
- Budgets ignored or out of date
- Matters out of date
- Logins expired

4. BILLING OVERHEAD

The number of e-billing clients is increasing, and law firms of all sizes are being forced to contend with both this rate of change and the varied billing requirements of multiple spend and matter management vendor systems.

The impact these have on law firms' billing overhead is significant. A law firm may have a three-person billing staff theoretically capable of processing 1,500 electronic invoices per month. However, the requirement to switch regularly between different vendor systems, while simultaneously consolidating tracking information from each system and addressing each rejection and write-off, ensures that most billing staff are under significant pressures to meet productivity targets.

Law firms are thus presented with the decision of whether to add additional resources, to the detriment of gross margins, or identify alternative solutions. Either option is clearly preferable to failing to issue invoices at all.

5. CLIENT INDUSTRY TRENDS

While certain metrics, including rejection rates and overheads, can be tracked in-house, there are a number of factors beyond the control of law firms that should be monitored among clients, industries, and matter types, including:

- Outside legal spend growth
- Average approved fee earner rates
- Average rejection rates
- Average write-off rates
- Average days to pay

Each of these metrics provides law firms with greater understanding of how clients approach their legal spending, as well as how the firm compares to others within each industry.

Generating greater understanding of clients' industries allows law firms to make better decisions on e-billing issues, including how best to allocate staff resources, apportion time for rejections and appeals, and establish cash flow expectations within the firm.

PUT METRICS TO WORK FOR YOU

For law firms seeking value-adding, actionable insights from their e-billing initiatives, the five key metrics listed in this paper, though not comprehensive, provide an important framework for action.

Every law firm faces its own unique pressures and challenges in ensuring its e-billing operation achieves high performance and return on investment. In seeking to tackle these challenges, law firms should remember the three steps to creating an effective e-billing strategy:

1. Identify your firm's greatest concerns
2. Quantify them with meaningful metrics
3. Monitor each metric regularly and take corrective action

Following these steps will ensure law firms are on the right path towards building an effective and efficient e-billing function.

If you have questions about how to improve your e-billing operations, please reach out to the eBillingHub team at info@ebillinghub.com for more details.

