

THE REAL COST OF ELECTRONIC BILLING

Since electronic billing became a legal industry trend in the 1990s, corporate law departments have been touting its advantages to their law firms. Typically, they claim that processing electronic billing is almost no additional work for law firms, that the invoice approval process is faster, and that the firms will be able to shorten bill-to-payment times. But for many law firms, the reality has been very different. Firms are finding they are doing much more work and getting paid no faster—and sometimes not at all.

Law firms have not gained the same process and informational advantages from electronic billing as their in-house counterparts, so the idea that law firms will recoup their extra effort and expense when their invoices are paid faster has not come to pass. Some law firms, however, have implemented a product called eBillingHub®, which is specifically designed to simplify electronic billing for law firms and help them gain many of the expected process and informational advantages. By comparing—in terms of dollars—the experiences of four major law firms, we can properly quantify the real costs of electronic billing.

UNEXPECTED COSTS

Many in-house counsel and other clients have historically requested or even required electronic billing from firms and to bill back client-related expenses, such as photocopies and faxes. Most firms have complied with these requests. Of course, the client chooses to install whichever electronic billing system it prefers, leaving it up to the firm to implement the system on their end and to upload invoices. However, there are more than a dozen different electronic billing systems in operation, so each law firm is forced to work with a multitude of different systems, each with its own process for creating and sending electronic invoices. While each e-billing provider touts simplicity, implementing any new system takes time and energy. Even setting up new templates for new clients on e-billing systems already in use at the firm can take substantial effort.

Worse, while most clients work with the standard LEDES format (designed to allow most time and billing systems to work seamlessly with most electronic billing systems) and UTBMS codes (a system of common codes for law firm tasks and activities), most clients require at least some additional codes or other deviation from the standards. While many simply require changing or adding a custom code or two, when multiplied by dozens of clients over numerous different systems, this manual coding can be a lot of work.

Once the system is set up, the firm must upload each invoice to the e-billing system. Each application handles this differently. Some are slower than others. Some allow for batch processing, and some do not. Some are clunky and error-ridden. The uploading of bills has turned out to be a time-consuming process and is the full-time job of some staff members at some firms.

For many corporate law departments, much of the value incumbent in their e-billing systems is the ability to automatically analyze invoices to ensure they comply with the company's outside counsel guidelines. As a result, a fair percentage of invoices get automatically rejected and

returned to the law firm for revision. Again, some e-billing applications handle this better than others. For a firm that creates and sends hundreds or thousands of electronic bills each month, keeping track of these rejections can be a time-consuming and extremely expensive proposition.

One reason that rejected invoices can cause so much trouble is a lack of transparency. Most e-billing systems do not include a dashboard for tracking the status of invoices, but even if they all did, the firm would have to use multiple dashboards to see the status of all of them. Instead, firms usually track with some type of spreadsheet, which typically only can be accessed by certain team members. This information also is usually entered manually, creating levels of inaccuracy and causing invoices to be lost. The reasons for invoice rejection may be hidden away in emails, causing a clunky lookup procedure to understand why any invoice has been rejected. The resultant lack of transparency has a substantial financial impact on the firm, largely in terms of the speed of collection (and the time-value of this money) and the firm's realization and write-off rates.

MORE STAFF TIME

Each of the four firms interviewed reported substantial time spent by staff to manage electronic billing. This included time spent creating and changing templates, uploading invoices, tracking down rejections, and making changes and adjustments. The additional staff time ranges from one half of a full-time equivalent (FTE) employee per month to six additional FTEs per month, depending on the size and the complexity of the electronic billing operation.

As an example, firm #1, a Midwestern-based firm with more than 400 lawyers, has approximately 6,000 clients, of which about 35% are on e-billing. There are about 12,000 active matters, and the firm sends out between 500 and 1,000 electronic bills per month. At this firm, 6 people were working an average of 42.5 hours per week. These staff members were paid an average hourly rate of \$16, but the firm considers full time to be 37.5 hours per week, so it was time-and-a-half on approximately 5 hours each week.

With overtime, average compensation per person was \$720 per week or \$37,440 per year. With 6 employees involved, the total was \$224,640. After implementation of eBillingHub, the firm now dedicates only 3/4 of one FTE to electronic billing, or a total of \$23,400 per year.

There are numerous ways for a firm to actually accrue this financial benefit. Some firms reduce their staff; many firms decide to simply not staff up as the number of electronic bills grow. Staff members previously dedicated to churning out electronic bills are now focusing on higher value activities, such as improving the overall billing process and focusing on collections and realization rates.

Another issue is the over-reliance on the firm's electronic billing experts to get the bills out. Firm #2, a "white-shoe" firm with only a limited amount of electronic billings, centralized all uploading of all electronic bills with one staff member. When that staffer went on bereavement leave, billing was delayed until he returned.

COLLECTION COSTS AND THE TIME VALUE OF MONEY

While most clients and electronic billing providers have held out quicker payment as a benefit for law firms, the law firms interviewed have not seen the actual benefit, largely because more invoices are rejected. Overall, approved invoices were getting into the hands of their clients' accounts payable systems slower, causing delayed payments.

Firm #2 has tracked its cycle time using a metric called "diary to cash:" a basic calculation of the average number of days between when a lawyer spends the billable time and when the firm receives payment (weighted by invoice amount). In the first half of 2007, the firm was waiting an average of 88 days from the day the time was spent until payment was received. In the second half of 2007—after implementation of eBillingHub—the diary-to-cash time was reduced to 77 days.

This firm uses detailed analytics to calculate the time value of their money. According to this system, the additional 11 days was costing the firm \$2,500 per million dollars billed, either by increasing the interest expense on money the firm is borrowing or diminishing investment income available to the firm or its partners.

As another example, firm #3, a multi-national firm based in Washington, DC with more than 300 lawyers, sends electronic bills totaling an average of \$10 million per month and has tracked quicker payments on an average of 7 days. Assuming the firm borrows at 5% interest per annum (or the partners are investing at the same rate), a one-week payment delay costs the firm \$115,385 each year.

The additional cost related to collections of electronic invoices is not limited to the time value of money. While much of collection time is spent by administrative and billing staff, many firms also must dedicate at least some otherwise billable partner time to the management and tracking of client invoices.

Firm #1 estimates that 75% of its lawyers work for clients that require electronic billing. Those lawyers, on average were spending three hours each month tracking invoices, identifying problems, resubmitting bills, and helping to collect payment usually related to invoices that had at one point been rejected by the electronic billing system. Since the lawyers at this firm bill \$300 per hour on average—and there is no shortage of billable work to be done—the three hours each month spent on electronic billing was costing the firm \$270,000 per year in billable time.

At firm #4, a 600-lawyer national firm also based in the Midwest, one large client requires thousands of electronic bills each month, all for relatively small amounts. The two partners who manage this client report spending more than half their time on collections and clearing up confusion related to billing. While this is an extreme example, electronic billing was costing this firm more than \$1 million per year in billable time.

An additional but less quantifiable issue is the politics of rejected invoices. Most firms interviewed reported at least some instances of making collection calls on invoices that had been rejected by the client's system that were eventually lost. The result is frustrated and

angry partners—and clients that may question the firm's competence. Worse, some partners are reluctant to make calls at all if they cannot be sure there is not some administrative reason for the trouble, and this creates further delays and sometimes uncollectible invoices.

REALIZATION RATES

In some cases, time and dollar amount requirements can cause some invoices to be rejected with no chance of being resubmitted. Some clients have limits to how much time may elapse between when time is booked and when it may be invoiced, and invoices that do not get approved can be overlooked until the time limit has expired. In addition, some clients require firms to combine invoices if the dollar amount is small. Some firms choose not to create small invoices as the invoicing cost can exceed the value of the payment. The result can be a pile of small invoices that never get billed.

Firm #4, for example, sends many small invoices of less than \$2,500 each and finds itself frequently simply writing off rejected or noncompliant invoices to save on staff costs and prevent client alienation. This firm was writing off hundreds of invoices every month, totaling more than \$500,000. While most firms only write off a small percentage of invoices, even a few thousand dollars a year can have a meaningful adverse effect on the firm's realization rate.

CONCLUSION

For years, corporate law departments have been receiving real value from their electronic billing systems, believing that these systems also benefit—or at least do not hurt—their law firms. However, these firms are required to use a myriad of different electronic billing systems, often needing to customize each one. Additionally, the process of uploading invoices, training, tracking, and resubmitting rejected invoices can cause meaningful delays in the payment cycle.

Electronic billing costs law departments much more than reasonably thought:

- Much more staff is required. At least one firm pegs this cost at an additional \$224,640 per year.
- Average diary-to-cash time is actually slower—11 days slower according to one firm's analysis, costing that firm \$2,500 per \$1 million billed
- More lawyer time must be spent on billing and collections, at an opportunity cost (to one firm) of \$270,000 per year in billable time
- Firms are more likely to write off small or disputed invoices, costing a firm up to \$500,000 per year

The key for law firms is to develop systems designed to counteract these costs. Firms can leverage technology and implement good processes to ease invoice upload, avoid costly and time-consuming invoice rejections, and provide transparency into the entire electronic billing operation. The right system, such as eBillingHub, can help firms minimize the real cost of electronic billing.

To learn more about eBillingHub or for a global list of office locations, visit ebillinghub.com.

