



## E-billing Primer

This Primer is designed to provide an overview of legal electronic billing (e-billing) systems: how they work, the benefits to both corporate and law firm users, and what to consider in choosing a solution.

## Introduction to E-billing

Since the arrival of the desktop computer, companies have anticipated the paperless office. For corporate law departments, the emergence of e-billing solutions has helped reduce the amount of paper flowing through the organization.

The “For Services Rendered” bills of the past have evolved into detailed itemized bills. But reviewers can quickly get lost in the details with more legal work than ever going to outside law firms and invoices that contain dozens or even hundreds of entries. Most company resources lack the time to thoroughly and consistently review invoices, so often the invoices are only superficially reviewed before they are approved.

E-billing systems were developed to automate and streamline the invoice review process, catching billing errors and saving companies time and money through the process. Early systems did little more than provide an electronic (or scanned) version of the invoice for routing and approval. Today’s systems are much more robust, offering the ability to create budgets, audit invoices against multiple billing requirements, automatically route the invoice to the appropriate reviewers, and provide detailed reporting. Systems that include matter management capabilities – such as budgeting, document management, and calendaring – make it even easier for companies to capture and manage complete matter and financial data in one place.

The recent corporate scandals of Enron, WorldCom, and others have resulted in new regulations and greater scrutiny over corporate spending and compliance. To help gain greater control over law department spending, companies have implemented e-billing technology to introduce transparency into outside counsel costs and to provide consistent and auditable law department processes.

## How does it work?

Most current-generation e-billing applications are accessed over the Web and require no additional software or hardware support from the client. This delivery model is typically more cost-effective than traditional enterprise applications (see “*Understanding Software as a Service Applications*”, page 6). Leveraging Web-based technologies allows both corporate and law firm users to securely access the application at anytime and from anywhere they have an Internet connection.

## Legal E-billing Terms

### Legal Electronic Data Exchange Standard (LEDES)

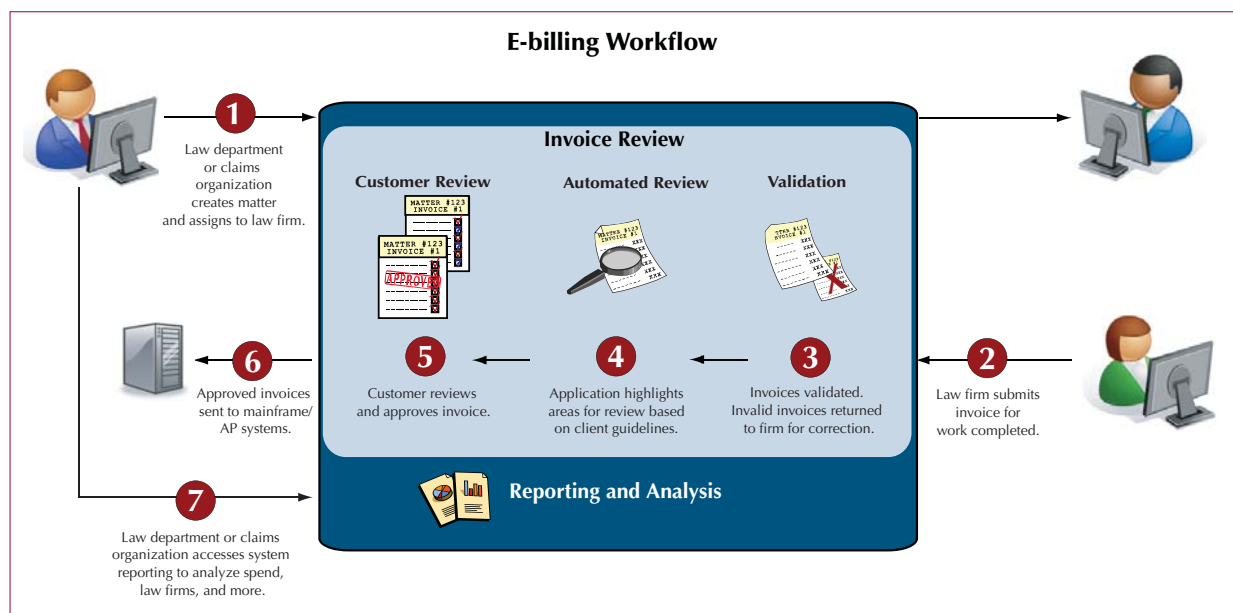
In 1995, Price Waterhouse, LLP convened a consortium to define a standard electronic billing format for use by the legal industry. This group evolved into the LEDES Oversight Committee (“LOC”), an international, voluntary, not-for-profit organization comprised of legal industry representatives. The LOC is charged with creating and maintaining open standard formats for the electronic exchange of billing and other information between corporations and law firms. The LEDES 98B format, introduced in 1998, quickly became the predominant electronic invoice data format standard. Additional standards have been developed based on the 98B format including the LEDES 2000, LEDES XML and the LEDES 98-B International format. For more information visit: [www.ledes.org](http://www.ledes.org)

### Uniform Task-Based Management System (UTBMS)

The Uniform Task-Based Management System is a budgeting and billing system designed to provide corporate counsel and law firms with a common language to describe tasks performed and expenses incurred. This industry standard was created in the mid-1990s by a large group which included the ABA, the ACC, corporate clients and law firms, and PriceWaterhouseCoopers (PWC) LLP. For more information visit: [www.utbms.com](http://www.utbms.com)

The standard workflow for an invoice processed within an e-billing system follows.

1. You create a matter within your e-billing system and assign it to a law firm.
2. Your law firm uploads an invoice for work completed to the e-billing system. Most systems allow firms to upload electronic invoices created directly from their time and billing systems. Some systems can also transform other invoice formats (paper, email) into a uniform electronic format that captures all the line-item details. The standard legal electronic invoice format was created by the LEDES (Legal Electronic Data Exchange Standard) Oversight Committee (see “Legal E-billing Terms” sidebar on previous page).
3. The application automatically reviews the invoice for formatting errors with some systems even identifying math errors, duplicate entries or block billing. Invoices with errors may be returned to the law firm for correction and resubmission.
4. Once the invoice enters the system, it is compared to system-generated requirements or, in some cases, your own billing or engagement guidelines. Charges outside of the guidelines are flagged or adjusted.
5. E-billing systems with configurable workflows will automatically route the invoices to the appropriate reviewers to ensure the appropriate level of approval is received for all invoices. Reviewers are often notified by email that an invoice needs their attention. The reviewers will review the invoice – saving time by focusing on the exceptions highlighted by the system’s review. Most systems will allow reviewers to either accept, adjust, or reject those exceptions. (Some systems also allow your law firms to monitor the status of the invoices and view any changes or comments throughout the review process.)
6. If the e-billing system is integrated with your internal accounting system, the e-billing system can send notification to your A/P system for payment once the invoice is approved.
7. In the best systems, all of your spend information, down to the line-item charges, is captured within the e-billing system for easy retrieval and reporting on your spending, matters, and more.



## The Benefits of E-billing Systems

Recent surveys of Fortune 500 corporate counsel have identified four main objectives for implementing e-billing solutions:

- insight into how dollars and resources (internal and external) are being allocated and greater financial transparency to the larger enterprise
- greater law department productivity
- enhanced communication and collaboration with their law firms
- savings through objective application of billing guidelines and error reduction

In short, the best e-billing applications must deliver beyond simple bill processing to provide the greatest customer value. Some of these capabilities include advanced reporting and analysis, sophisticated budgeting, and matter and business data integration.

**Greater insight.** As law departments become more decentralized, it becomes more difficult to capture and report on matter and spend information. E-billing applications make it easier to analyze all of your legal spending information to help identify trends, mitigate risks, and improve expense forecasting for the future.

By capturing all of your legal spending information in one system (be sure any paper invoices are included), you can easily access a comprehensive view into your spending and analyze the data for greater insight into how your costs breakout by matters, firms, business units and more. Greater visibility into your spending can help you identify developing trends where spending has increased and take steps to mitigate your liability.

If you create and manage matter budgets in an e-billing system, you can track and oversee matter status and spending to date. You can quickly compare your budgets against the actual costs and provide more accurate, timely financial reporting to your management team. Leveraging the historical spending can also help determine future budget projections for similar matter types.

E-billing and matter disposition information can also help you optimize your use of outside counsel. You can evaluate and compare your outside counsel on a number of dimensions (past performance, responsiveness, costs, expertise) and leverage that information to help make the best decisions for future assignments.

**Greater productivity.** E-billing should enhance the legal department's productivity through every step of the invoice management process. E-billing applications streamline the time-consuming invoice review and approval process by transforming it into a completely electronic process. The system automatically reviews invoices against your billing requirements, flags any questionable charges, and routes it to the appropriate reviewers reducing the overall invoice processing time. Automated alerts can be set to remind reviewers of tasks that need their attention to keep the invoice moving through the review cycle. The automated process ensures that every invoice is consistently reviewed and that invoices are not lost or misplaced during the process. Your team can reduce the time spent reviewing invoices, by focusing on the areas highlighted by the system, and spend more time focusing on legal work.

Recommended payments and matter disposition data, as well as other customizable data, can be integrated seamlessly into your current enterprise accounting systems, helping your company achieve even greater productivity and giving you access to all relevant matter and spend information.

**Enhanced communication and collaboration.** You value your relationships with your law firms. The last thing you want is to spend time talking about their bills. E-billing applications help to regularly and consistently communicate your company's billing requirements to your law firms, reducing the need to talk about billing irregularities, and providing your staff with a consistent and even-handed rationale for charge adjustments.

E-billing systems can also facilitate greater collaboration with your law firms. Tools such as budgeting, provide a common platform to work with your law firms on spending expectations. Budget thresholds and notifications generated by some e-billing systems will help alert you to spending issues before a budget is exceeded, and allow you to work with your law firms in tracking actual spending and milestones. The ability of advanced systems to manage other matter details such as documents, notes, and calendars, help both you and your law firms understand the matter status by sharing a single source for matter information.

**Savings.** E-billing systems should also generate savings either by reducing erroneous or unacceptable charges or by influencing law firms to submit invoices in line with your expectations.

Cost savings from e-billing solutions range from about 3-10 percent, depending on a customer's billing requirements and the sophistication of the invoice review component. In addition to hard savings, soft dollar savings are achieved by substantially reducing human review time and eliminating the need for manually transferring invoice data into other systems.

### Benefits for Law Firms

Most e-billing systems provide benefits to help law firms strengthen their client relationships as well as deliver new efficiencies to the billing process. Some of the benefits are described below:

- Billing errors, such as duplicate invoices, invalid billers and math errors, are caught early in the submission process so that law firms can correct the invoices before you ever see it.
- Invoices are reviewed and processed faster. This means payments are more current and the overall payment cycle can even be reduced.
- Firms have access to the invoice status throughout the review process. Any adjustments are clearly communicated along with the reason for the adjustment.
- Client relations can improve with greater transparency into activities and associated costs.

## Summary

E-billing applications can cost-effectively improve your law department's productivity, cost savings, and communications. Through consistent, objective invoice processing, these applications reduce the burden on your department by automating review and approval activities. Advanced features, such as budgeting and matter management capabilities, can boost your department's efficiency and help you make the most of your law department budget. Furthermore, data collected within e-billing applications can provide you with a wealth of meaningful information on law firm performance, expenses, staffing and trends, and enable you to make the best decisions for your business.

### Understanding Software as a Service Applications

According to Gartner, a leading global IT research firm, the annual cost to own and manage traditional software applications can be up to four times the cost of the initial purchase. In a Software as a Service (SaaS) model, customers subscribe to software applications and outsource the back-end infrastructure and operations to the vendor.

SaaS systems are securely accessed and run over the Internet to deliver business applications anywhere, anytime. A typical SaaS deployment does not require the customer to purchase or maintain any hardware or deploy internal staff to support the software. The SaaS vendor is responsible for the system support, training, infrastructure and security.

In most cases, using a SaaS application can be more cost effective than traditional enterprise software. The key costs involved in any software purchase include the software application, the hardware required, and the people resources to implement, manage, maintain and support the system. Traditional software pricing is limited to the cost of the software application, in most cases an upfront fee in exchange for a user license. The customer would assume any additional costs for the hardware and people resources required. SaaS applications are typically priced on a subscription basis and include the cost of the application, the hardware, and the people resources. The analyst firm IDC reviewed several SaaS versus traditional software deployments and found that when people, resources, and cost of upgrades are correctly taken in consideration, this break-even point (where traditional software becomes cheaper) may never be realized.<sup>1</sup>

*1. Software and Information Industry Association, "Software as a Service: A Comprehensive Look at the Total Cost of Ownership of Software Applications," September 2006*

## E-billing Checklist

Before beginning your search for an e-billing application, take a few minutes to answer the questions below. This checklist can help you define the challenges you need to address and understand your company's specific requirements to make the best choice for your company's needs.

- What are we trying to solve in implementing an e-billing system (save money, analyze spending, reduce the number of law firms)?
- What are the key features we need in an e-billing application (budgeting, matter management, reporting)?
- What additional features would we use if available?
- Who needs to access and use the system (internal and external users)?
- Do we have custom data that needs to be captured?
- How many of our firms/vendors have the ability to submit bills electronically?
- Do we need sophisticated workflow to manage and route the invoice after submission? Do we require multiple reviews? Multiple approvals?
- Do we have historical information that needs to be incorporated into a new system?
- Do we need to integrate with other systems (existing matter management, account payable)?
- What types of reports do we currently provide to our management? What additional reports would be helpful?
- Who needs to be involved in the selection and implementation of such a system?

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