ELECTRONIC BILLING
THE NOT-SO-HIDDEN COSTS

E-billing has been embraced by many legal firms and organizations as a way to simplify the billing process, improve cash flow, and increase efficiency. If you are considering implementing an e-billing system, it pays to be aware of the pitfalls that exist in building and using one. Armed with this knowledge, you can sidestep issues that could leave you with a less than glowing result.

Three overall suggestions you can implement to help your billing department be the absolute best it can be in regard to e-billing are:

- Centralize your e-billing

- Implement a unified e-billing solution

- Validate your e-bills against billing guidelines

Before demonstrating how these suggestions can benefit you, let's create a generic law firm and delve into the hidden costs.

In the following scenario, all rates/data for an average mid-sized law firm are pulled from Thomson Reuters proprietary databases and information.

OUR LAW FIRM

The hypothetical "Our Law" firm is located in Detroit, Michigan, which is the 11th largest U.S. metro area and has the 14th largest U.S. metro economy. Our Law has the following configuration, which is the average for mid-sized law firms in this particular geographic area:

- 33 partners

- 51 total lawyers

- $300 per hour average billing rate (the average rate in the Detroit area is $305)

- A 0.54 partner-to-associate ratio (a typical ratio across medium and large law firms)

- $32 million in annual revenue (in line with 2012 average receipts per lawyer for firms with 30 to 60 lawyers)

- $18 million in e-billing (At 56% e-billed, this is slightly higher than the national average, which is close to 45%. Medium law firms e-bill 30% to 80%, depending on their client makeup.)

- Approximately 300 invoices per month, assuming an average invoice value of $5,000 (the median for all law firms)

BREAKDOWN OF BILLING COSTS FOR OUR LAW FIRM

A number of areas contribute to billing costs—some are to be expected, others not so much. How they are handled can affect the bottom line of a law firm, positively or negatively. These areas are:

- E-billing staffing

- Vendors

- Rejection and appeal rates

- Uncollectable write-offs

- Matter management

- Collections/reconciliation

- Payment turnaround delays

A review and analysis of each of these areas for Our Law firm turns up some surprises: areas with the highest hidden costs are not necessarily the ones that firms traditionally expect to incur costs at these levels.

BREAKDOWN OF BILLING COSTS

- E-billing Coordinator
- Vendor Costs
- Rejections and Appeals
- Uncollectable Write-offs
- Matter Management
- Collections and Reconciliations
- Payment Turnaround Delays
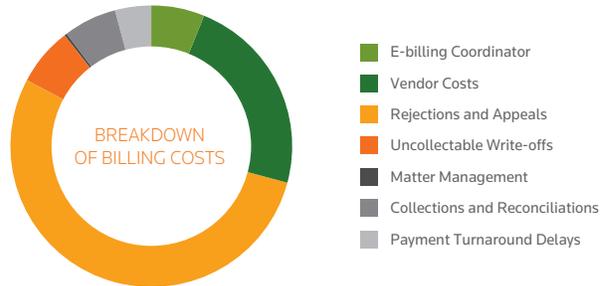
E-BILLING STAFFING
Distribution versus Consolidation

BREAKDOWN OF BILLING COSTS

E-billing Coordinator
$50,000 (6.29%)

Some firms distribute the job of e-billing to a team or parcel it out to a diverse staff. However, consolidating the activity is far more cost-efficient. Distributing the billing workload by, for instance, having billers do both paper bills and e-bills or having legal secretaries submit invoices, tends to reduce billing productivity and compliance.

Let's look at the figures, starting with the cost of a dedicated e-biller. On average, an e-biller can generate, submit, and track 260 invoices per month. In this scenario, Our Law has hired an e-biller who is 15% more productive than average and able to handle the 300 invoices Our Law generates per month. A dedicated e-biller in a mid-sized firm would pull down an average salary of $38,000. After factoring in the cost of benefits—paid vacation, health plan, and so on—the cost to the firm of this staffer is about $50,000.

While many mixed-mode billers are capable of handling both paper billing and e-billing, splitting workloads and context switching can lead to as much as a 40% reduction in productivity. For example, consider the hidden costs of using legal secretaries to perform e-billing. At a 5:1 ratio of lawyers to legal secretaries, which is about the norm for legal firms, 10 legal secretaries need to commit a minimum of 4 hours per week to e-billing. At an average of just under $27.00 per hour per secretary, those hours translate to a total cost of $55,260 per year, which is 10% more than the cost of a dedicated e-biller. Additionally, while legal secretaries may be more familiar with client billing guidelines than a dedicated e-biller, they would be less familiar with the various vendor sites and their requirements, leading to submission and tracking inefficiencies.

A Cautionary Note

Having a single dedicated e-biller also has its risks: vacation or other leave can directly impact the firm's ability to bill and can lead to delays and write-offs, which can lead to increased costs.

## VENDOR COSTS

Onerous but Unavoidable
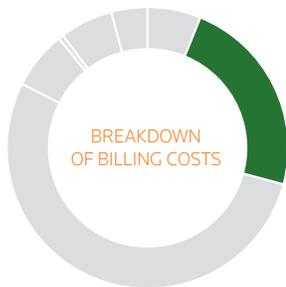
Vendor Costs
$182,000 (22.88%)

At $182,000, vendor charges are the second largest hidden cost. This should not be surprising, as about half of all client e-billing vendors charge fees to use their service, an unfortunate fact of life for any law firm using e-billing. Of those, 52% charge as a percentage of fees—from 0.12% to more than 3%—while the remaining 48% charge a flat or tiered rate. For Our Law, this rate works out to about 1% of all fees, including costs for support, onboarding assistance, and training.

Additionally, 1 in 5 firms have a client that switches vendor systems. Such a switch can result in additional overhead and retraining, which in Our Law ends up costing an average of $2,000 annually.

REJECTIONS AND APPEALS

The Biggest Hidden Cost of All
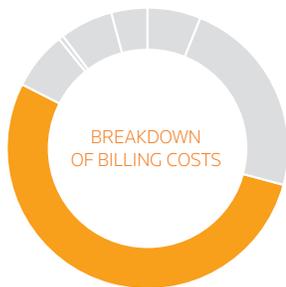

Rejections and Appeals
$426,600 (53.64%)

The area of rejections and appeals is the biggest hidden cost of all—something that many firms are just now beginning to recognize. Industry-wide, rejection rates for e-billing are around 30%, which, for Our Law, means 90 out of the 300 monthly e-bills are rejected and must be addressed. A number of factors contribute to these sky-high rates, including:

- Incorrect LEDES formatting
- Vendor-specific requirements
- Billing guideline non-compliance
- Client discretion

To address a rejected e-bill, a firm must first identify the problem and then resubmit an invoice. Both of these activities take time, which translates to money. One larger Midwestern law firm, for instance, determined that their lawyers were spending an average of three hours a month dealing with such invoices. The hypothetical Our Law is a bit more proficient, with its lawyers only spending two hours a month to straighten out the 90 rejected e-bills. However, those two hours still cost Our Law $600 per month of billable time per lawyer, plus some additional e-biller time to resolve these billing issues. All of this time translates to $35,550 per month, or $426,600 a year.

UNCOLLECTABLE WRITE-OFFS

The Numbers Add Up
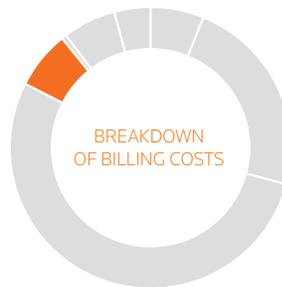
Uncollectable Write-offs
$54,000 (6.79%)

Then, there are the rejected invoices that may be too complicated or too small to be worth the investment of correcting. In some cases, these may be invoices that cannot be delivered within the time constraints of billing guidelines.

Overall, this is a small percentage, but even writing off 1% of all rejected invoices is 11 invoices per year at Our Law. While that may not seem like a lot, at almost $5,000 an invoice, they add up to cause a significant adverse effect to the realization rate. The total hidden cost for uncollectable write-offs at Our Law ends up being $54,000 annually.

MATTER MANAGEMENT

Small, but Who's Going to Do It?
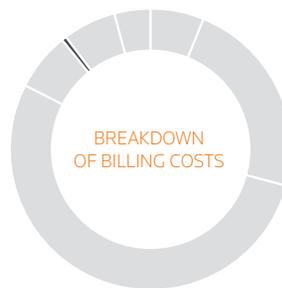
Matter Management
$1,200 (0.15%)

Many firms overlook the fact that, on top of the e-billing activity itself, a number of matter management tasks need to be done to support the e-billing effort. Such tasks include the time and effort needed to update fee earners and rates, and to submit budgets and accruals. Some larger firms may invest several weeks in updating fee earners and rates in the beginning of a new financial year, depending on the complexity.

Our Law has about 4.5 invoices per matter (which is the legal average), or 65 matters that require updating. This translates to about 24 hours of fee earner updates annually. Although budget and accrual submissions are not tied to a firm's financial year, they require additional time to submit and update at the different vendor sites. How much time depends on a firm's makeup of clients and vendors; for Our Law, this activity adds another 24 hours per year of time.

In this scenario, the e-biller is responsible for taking care of these various matter management updates and submissions. However, the e-biller is already working full-time on e-bill activities, so taking on this additional task may require six days of overtime. While not a huge investment, it's one more task asked of an e-biller who's already stretched to the limit, which may impact the biller's overall productivity. Those six days of overtime adds up to $1,200 annually in hidden costs.

COLLECTIONS AND RECONCILIATIONS

Someone Needs to Be in Charge

Collections and Reconciliations
$50,000 (6.29%)

Another area where hidden costs occur is with tasks involving collections and reconciliations. Someone must be responsible for staying on top of whether clients are paying and when the payments are being received. This is often a full-time job. In this scenario, the Our Law billers are already busy tracking status updates for e-bills; if they are also responsible for collections, their productivity will be negatively impacted.

Two possible options exist, both of which will require, at a minimum, additional resources and yet another hidden cost:

1. Hire a second, full-time e-billing coordinator, who would be responsible for making sure the bills are getting out the door and being paid

2. Have a collections department be responsible for collections and reconciliations. In this case, an employee from the department would need access to all the vendor sites to reconcile the invoices and payments (or the e-biller would need to put together a report for them—yet another task for the e-biller), and identify write-offs and short payments. This second option may be the more expensive route, if it involves a staffer who is in a finance/collections position.

Assuming the hypothetical Our Law firm opts for the less expensive option—hiring a second e-biller—the hidden cost would be $50,000.

PAYMENT TURNAROUND DELAYS

Time Is Money
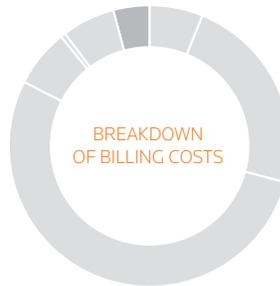
Payment Turnaround Delays
$31,500 (3.96%)

Payment turnaround delays include the money lost due to cash-flow delays, primarily by increasing the interest expense on the money the firm is borrowing or by reducing the investment income for the law firm. For example, one large eBillingHub® client found that, compared to their paper billing process, an 11-day delay in e-billing was costing them $2,500 or 0.25% per million dollars billed. While that's an extreme case, our data shows that a one-week payment delay typically costs firms at least 0.1% of their billings and that firms typically see a 9-day delay in this process. For the Our Law firm, these delays work out to a hidden cost of $31,500.

ADDING IT UP...

In total, that's an aggregate cost just shy of $800,000 for a firm electronically billing $18 million annually. This translates to:

• 4.4% of e-billing revenue

• $220.91 per e-bill

If nothing else, this little exercise should indicate that it pays to consider all the costs involved in e-billing, and that there is probably room for any firm (not just the theoretical Our Law firm) to gain efficiency. For some suggestions on where to start cutting those hidden costs, read on.

SHRINKING THE HIDDEN COSTS OF E-BILLING

Here at Thomson Reuters, we have deep experience with law firms of all sizes working with e-billing, particularly using eBillingHub, the industry-leading e-billing solution. Through that experience, we have developed some suggestions that can help any firm contain and reduce their hidden e-billing costs.

Centralize Your E-billing

Centralizing e-billing activities can increase efficiencies and cut costs in a number of ways. It reduces errors and inconsistencies by having a trained staff dealing with the task full-time. Additionally, by having a trained coordinator (or a team of coordinators) handling e-billing, a firm can take advantage of the speed and quality that comes with specialization. Centralizing also allows a firm to effectively utilize its resources, rather than requiring more costly and less efficient personnel to complete the e-billing process. If your firm has multiple offices, the benefits of centralizing are even greater, as it will be easier to standardize approaches and practices with a single team being responsible.

Implement a Unified E-billing Solution

Through its own studies and research, Thomson Reuters has determined that billers using eBillingHub can process 2.5 times as many e-bills on average than those tackling the process without a coordinated system. Additionally, a unified solution allows teams to coordinate seamlessly and for centralized reports to be generated easily. Even if a firm decides to take the decentralized approach to e-billing, a unified solution will be an invaluable tool for coordinating billing teams.

Validate Against Billing Guidelines

Validating e-bills against billing guidelines reduces rejections in a number of areas. And keep in mind: rejections and appeals are the biggest hidden cost of all. If you can cut even a small percent of your costs here, you stand to win in a big way.

First, taking the automated approach allows a firm to reduce rejections drastically and also reduces both biller time and lawyer time in dealing with rejections. Second, validating against guidelines also increases the chance that your small and complex bills will be submitted in a timely manner and accepted, leading to fewer uncollectable write-offs and increased cash flow for the firm. Finally, such validations reduce payment delays; fewer rejections means invoices are submitted for payment faster.

PULLING IT TOGETHER

Three steps for uncovering (and controlling) not-so-hidden costs:

First Step: Bring Your Hidden Costs Out of the Dark and into the Light

Given that every firm is different, Our Law firm's areas of not-so-hidden costs may not track with your law firm's challenges. But the first step to finding out if this is or is not the case is to analyze the true costs of these areas:

- **E-bill coordination**—Whether you centralize with one person or distribute the workload, there are salaries and benefits (and perhaps even overtime) to consider

- **Vendor costs**—These fees, like death and taxes, are inescapable, so know whether your vendors charge a percentage or a flat or tiered rate and how much your firm is paying

- **Rejections and appeals**—How much time do your lawyers spend each month on these problematic invoices? It's all (hidden) billable time!

- **Uncollectable write-offs**—These are the costs of rejected invoices that are too complicated or small to bother with or those that that can't be delivered by the required deadlines. The number of write-offs may be small, but their costs still add up.

- **Matter management**—While managing matters (the time and effort of updating fee earners and rates, submitting budgets and accruals, and paying someone to perform the tasks) is not a huge cost on its own, someone still needs to complete this work while not letting the e-billing workload slip. If you ask too much of your e-billing team, it could actually cost you more in the long run in dealing with increased rejections and write-offs.

- **Collections and reconciliations**—Who is making sure the firm gets paid? Are your billers also your collectors? Do you have a collections department, and, if so, who keeps them updated on the various vendor sites? Does your biller need to be involved? Someone needs to handle collections, but inefficiencies here can drive up personnel costs and lost revenue.

- **Payment turnaround delays**—The time between sending out an invoice and receiving payment is money lost, either through increased interest expense on monies borrowed by the firm or reduced investment income. The more you can shrink this time gap, the better it looks on the firm's bottom line.

Second Step: Implement Solutions

Once your firm knows what it is dealing with, it can decide where to begin to shrink some of those costs. Possible solutions to explore could include (1) centralizing e-billing activities, (2) implementing a unified e-billing solution, and (3) validating against billing guidelines.

Last Step: Check Back Regularly

Finally, once solutions have been put in place, continue to monitor and analyze on a regular basis, and tweak as necessary. Regular re-examination of problem areas will determine whether your implemented solutions are working and whether those not-so-hidden costs are under control, increasing your firm's profits and efficiencies.

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