FEATURE WITH PHILLIP M. PERRY

Catching the E-Billing Wave

Is it a blessing or a hassle? For a law firm, the benefits of e-invoicing may not seem immediate—but they're there.

For attorney Kevin P. Race, the era of electronic billing arrived when a major client insisted that all future invoices be submitted through an Internet-based service provider. Fiscal prudence demanded compliance: "This insurance company accounted for close to 20 percent of our billings," says Race, a partner at the Atlanta-based Insley & Race. "They essentially said 'you have to do it this way,' and then they told us how to do it."

That was three years ago, and Race has seen e-billing's profile grow larger ever since. Putting the pieces of the puzzle together wasn't easy, he says. Part of the problem was a limited staff. At that time, the firm had three lawyers, seven staff members and no office manager, and it fell upon Race to tackle the e-billing conundrum. "At first it was a little difficult. If we didn't have something exactly right, our invoices would bounce. That was an ordeal."

All the hassles, though, were in the initial stages of the transition. "Once we figured out the things that made invoices bounce, it all went smoothly," Race says. "Then we started to realize that this was a much more efficient way to do our billing."

Today, Race's firm has nine lawyers and just under two dozen employees, one of whom is an administrator. Three of the firm's largest dozen clients require e-billing, and some 25 percent of the firm's billings move that way. Race figures the portion will keep growing. "From our point of view, we wish all of our clients would use e-billing. Our biggest benefit is prompt payment—very often we will receive funds within 35 days when it would have taken up to 60 to 75 days using paper invoices." Among the contributing reasons are that invoices no longer get lost on people's desks. Client questions can be addressed, and adjustments made, in a matter of minutes instead of days.

Another advantage: Race calculates e-billing saves his firm some 10 hours a month in administrative time. "We don't have to print out invoices, make corrections and reprint them and stuff envelopes." Indeed, Race sees e-billing as a step on the road to the totally paperless law practice. "At one time I filled out paper-based time sheets, but now everyone in the office uses the Timeslips time billing software," he says. "It's all part of a need to reduce overhead and move toward a paperless environment."

E-Billing's Coming of Age

Race's story may strike a familiar chord among law firms large and small. Electronic billing is maturing out of infancy into early childhood.

Law firms that use e-billing create computerized invoices that conform in their arrangement of entries and their data file format to a preset model, most often LEDES, which stands for Legal Electronic Data Exchange Standard. Information on the standard is at www.ledes.org.

Into this standard LEDES format the firm enters numeric codes that describe actions taken on behalf of clients. These codes also conform to a preset format, usually UTBMS, which stands for Uniform Task-Based Management System. Details on those codes can be found at the American Bar Association Litigation Section's site at www.abanet.org/litigation/litnews/practice/uniform.html.

The law firm sends its e-bills over the Internet to a service provider, which processes the files to comply with the requirements of the firm's clients. Usually the service provider maintains a Web site on a server that can be accessed by both law firm and client. Examples of the most active service providers are DataCert (www.datacert.com), Tymetrix (www.tymetrix.com) and Serengeti (www.serengetilaw.com).

"E-billing still accounts for a small percentage of all invoicing," says David G. Briscoe, a senior consultant at Altman Weil. "But a lot of dollars are going through because of the involvement of insurance carriers." A great number of clients in that field demand e-billing, according to Briscoe, and the habit is spreading to other industries as well.

It's little wonder that corporate clients are driving e-billing: Its most obvious benefit is cost control. Sophisticated software can monitor law firm bills for compliance with expense category parameters. It can automate the approval of, and adjustments to,

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SITE WATCH

Favorite Legal Tech Tools

TechnoLawyer, the popular legal technology and practice management site (www.technolawyer.com), has handed out the 2003 TechnoLawyer Awards. Winners in 23 categories were chosen by TechnoLawyer subscribers—lawyers and legal IT managers who buy technology for tens of thousands of law firms. Here's a look at some of their number-one favorite programs and Web sites.

Accounting: QuickBooks—www.quickbooks.com

Case/Practice Management: Time Matters—www.timematters.com

Client Relationship Management: Time Matters—www.timematters.com

Document Assembly/Automation: HotDocs/HotDocs Pro—www.hotdocs.com

Document Management: Time Matters—www.timematters.com

Electronic Discovery: Summation Blaze/iBlaze—www.summation.com

Legal Forms: LexisNexis Automated Forms—www.lexisnexis.com

Legal Knowledge Management: Time Matters—www.timematters.com

Legal Research Tool: LexisNexis—www.lexisnexis.com

Litigation ASP: RealLegal iBinder—www.reallegal.com

Litigation Support: CaseMap/TimeMap—www.casesoft.com

Online CLE Provider: West LegalEdcenter—http://westlegaledcenter.com

Time-Billing: Time Matters—www.timematters.com

Transcript Management: RealLegal Binder/iBinder—www.reallegal.com

Trial Presentation: TimeMap—www.casesoft.com

Practice Area: CaseMap/TimeMap—www.casesoft.com

Legal Web Site: lexisONE—www.lexisone.com

Favorite New Legal Product of 2002: CaseMap 4.0—www.casesoft.com invoices. It can assure accurate payments and reduce costly manual data entry. Also, the system can automate the answers to questions such as these:

- Is the lawyer authorized to work on this case?
- Is the law firm complying with usage rules for Federal Express and UPS?
- Are the expense categories (such as travel) approved?
- Do the indicated percentages of such expenses comply with the client's rules?

On a longer-term basis, the coding system allows for sophisticated hard data analysis in which the corporation can determine average costs for the components of legal service, then use those averages as benchmarks to analyze future bids.

Finally, after months and years of use, the corporation can use the accumulated data from the system to make judgments about the efficiency of law firms. "The corporate law department gains the ability to make quantitative analyses of who is being efficient, who is fudging and who isn't," Briscoe says. "The data is hard, rather than the soft data on paper from which clients tended to make gut checks."

Law Firms: Winners or Losers?

The benefits for law firms are less direct. Top of mind for most lawyers is the prospect of getting paid more quickly. Yet— as seems to be the case with everything else about e-billing— experiences vary widely. "Some law firms report they are getting paid faster," says Briscoe. "But others report mixed results."

The experience of Wyatt, Tarrant & Combs, a Louisville-based firm with 200-plus lawyers, is typical: "We get our payments more quickly from many clients, but not from others," says Scott Kerr, the firm's business systems manager. "So you can only quantify the benefit in general terms."

Quick pay or not, some firms value the ability, offered by some e-billing service providers, to audit the trail of the invoice from submission through approval and adjustment, right to actual payment. "It's interesting to see what the system checks for," Kerr says. "After we upload an invoice, we can watch it go through the process of acceptance. The system checks the validity of the UTBMS codes and the descriptions of task entries. After that, if the bill gets accepted right away, you can see it go through and check its status from 'pending' to 'paid' status. A lot of the Web sites will send billing coordinators e-mails alerting to the final acceptance for payment. It's nice knowing when the money is coming in, and also you can see which invoices are being paid, questioned or rejected. Sometimes a delay is just a mistake in the bill that we can correct on the fly."

The electronic approval process also means that any client questions about an invoice arise more quickly and can be handled more efficiently. "It's easier for in-house attorneys or the client's accounting personnel to send an e-mail saying 'on invoice number so-and-so we have a question about a time entry expense,'" says Robert L. Crawford, a partner at Wyatt. "In the old paper days we used phone calls or surface mail, sending the marked up invoices back and forth. E-billing makes all that happen faster with less costly overhead."

Further, e-billing can put firms in a better competitive posture. "A lot of my work is relationship management," says Crawford. "Electronic billing and communications help me keep up with the kind of work we are doing. If a client calls with a question, I will be up to speed on a particular file or an issue."

"It's little wonder that corporate clients are driving e-billing: Its most obvious benefit is cost control."

The Pain Before the Gain

Nothing worthwhile comes free, and e-billing is no exception. "Although it all sounds very cool, law firms find they have to spend some time and money adjusting their billing procedures," says Storm Evans, a Philadelphia-based law firm consultant who helps automate billing systems and trains staff members.

Perhaps the most obvious cost is the annual fee paid to some service providers. Attorney Race, for example, was taken aback when he realized he would have to start paying for sending invoices. "For a small firm, it hurt to write a $2,000 check for an annual fee for something from which I saw no immediate benefit. But after the first couple of months, I found the efficiency and ease worth the cost."

The actual fee varies by provider and size of law firm. Some firms spend thousands of dollars annually for the basket of service providers required to satisfy all their clients. Some providers even take a percentage of the invoices. At the other end of the scale, the provider Serengeti does not charge law firms anything.

There is another expense involved in doing e-business. Evans says law firms often need to purchase a software component that plugs into their current time and billing software. This component translates financial and activity data into a plain-text file that complies with the client's required format. Once the plug-in is installed, the firm can then click a button on the computer screen to upload the electronic invoice to the client.

Firms with the latest versions of their time and billing software programs may not need to change a thing. "The newer versions of more popular time and billing software programs already have the built-in capability of outputting data in LEDES format but may require a module," says Annette Jimenez, firm implementation manager at DataCert.

Some smaller law firms, though, still keep their data in programs such as Word, Excel, QuickBooks and Peachtree accounting. "In those cases, firms cannot output a file in the LEDES format," says Jimenez. "For these firms we provide a small free program called EZLEDES to output invoices in the LEDES format." Rather than a module that plugs into the current software, this is a stand-alone program that requires the law firm to re-key its data. Although the process is not as streamlined as one might like, it is usable for a small caseload.

Whatever program is used, it often happens that a firm must manipulate the resulting data to get it just right for some client's special needs. Evans says, "Very often the problem is that you can't just press a file and get a text file—the client's special needs require the file to be produced in a way that most billing systems can't do automatically." In such cases, the law firm or the client must pay for the required programming. "They can spend a couple of thousand dollars on the software and for technical help," says Evans.

At Wyatt, business systems manager Kerr has written custom programs that extract data from the firm's time and billing software to satisfy the specific requirements of certain clients. "The reason I write custom programs is this—even though clients say they want standard LEDES, it's not really standard. One client might want an invoice ID field. Another client may

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want the total dollars billed to date. One client will accept our number as its ID. Another may want its name spelled out in a certain format." All told, Kerr spends perhaps a third of his time on e-billing programming and related matters.

And what about smaller firms that don't have a full-time technical person? "Interfacing with clients could be tough," Kerr says. "Sometimes the client company can provide you with the necessary software to extract data from your accounting system in the form required. In other cases, the Web site of the service provider will provide you with a piece of software that allows you to key in numbers from your paper bill on the screen. Finally, the smaller firm might hire a local programmer to write the necessary software."

Jimenez agrees that in many cases, clients require law firms to modify the standard LEDES data format. "When a client wants certain information that does not fit easily into the LEDES format, it may require manual manipulation of the files." If the law firm does not want to pay for the modification of the time and billing program, it may simply manually change the plain-text LEDES file prior to uploading it to the service provider's site.

Before uploading files to DataCert, the law firm must first take a security step. This involves visiting the service provider's site to download a small software file called a digital certificate. Once on the law firm's hard disk, this certificate will validate that computer as belonging to a genuine DataCert client. As a second layer of security, the law firm creates a password.

When the firm is ready to upload an invoice, it logs in to a special area of the DataCert site and selects a client from a drop-down list of names. The next step is to fill in text fields for "Subject" and "Memo." Then the user clicks a button to attach a file, using a standard Windows dialog box, and indicates the type of file (such as "LEDES 1998B Invoice") from another drop-down list. Finally, the user clicks a button to send the invoice.

The system responds with either an "OK" message or an error message that asks the user to review the invoice to see what went wrong. Depending on the time and billing software being used, the user may either view the original invoice or go to the text file and manually fix any problems.

Learning the Codes

For e-billing to work, it is vital that lawyers invest time in learning and applying the UTBMS codes. Typical is the experience at Couch White, a firm with 31 lawyers in Albany and Washington, D.C. "The attorneys balked a little bit at first," says Terri Cook, the firm's accounting supervisor. "Instead of just writing what they have done, they need to think about what codes apply."

The firm's accounting staff must also be trained to upload the bills

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E-Billing Avenues

When your law firm is asked to start e-billing, your clients will specify the Internet-based service providers to which you send your invoices. But wait—does all this e-billing stuff have to be client driven? Your firm may want to experiment with some e-billing and e-payments of your own.

You could set up your own Web-based system to send bills and receive payments by using an application service provider (ASP). To find one, visit www.aspindustry.org and search for "billing" to explore some possible vendors.

In addition, a professional services automation (PSA) organization can coordinate and track all your projects as well as handle e-billing. Some law firms, for example, use OpenAir (www.openair.com).

On a more rudimentary level, you could take payments by credit card. Clients could log in to your Web site, fill in their credit card information and click a button to authorize payment. Job done. But beware: Your current credit card merchant account provider (if you have one) will likely not allow you to take payments over the Internet. That's because such payments, which lack a signature, are considered riskier. You must get a separate merchant account, which will have higher rates. For leads, ask your bank or your current merchant account provider.

If you want to take credit card payments without bothering to set up a system on your site, consider the ever-more-popular PayPal (www.paypal.com). Use of this outfit, which is a kind of clearinghouse for payments between clients and vendors, does require that your clients join as members.

—Phil Perry

correctly and to deal with any resulting error reports. Cook was able to learn everything she needed by talking with DataCert reps on the phone. "Once I got the hang of it, it was easy," she says. "As we take on new e-billing clients that are converting, it becomes even easier."

At Wyatt, "there was a couple of hours of training for each billing coordinator," according to Kerr. "For a new client I will actually do the electronic billing the first couple of months. Once the procedure is in place, I call the billing coordinators and we walk through it step by step. Then the following month, they do it on their own."

One big problem is that the choice of service provider is out of the law firm's hands. "The client makes the decision as to what provider to use," says Wyatt partner Crawford. "And they say that if you are going to be part of their close network, here is something you need to look at."

Because different clients are linked to different service providers, law firms find themselves dealing with a basket of services. Wyatt e-bills 14 clients using seven service providers, including TyMetrix, DataCert and Serengeti. Owing to its size, it enjoys one resource many smaller law firms lack: a full-time technical support person. It falls to Kerr to learn each of the many service provider's quirks.

Still additional costs may accrue. "In some cases, clients see quicker payments as a benefit to the law firm, and therefore take a percentage off the top of the invoice," says Evans. Roll all the costs together and "for small firms it causes a lot of angst and expense. And yet there are many times when they can't retain the client if they are not willing to do that."

How It Works: One Firm's Experience

So how does this e-billing thing actually work? For a real-world illustration, let's look at the experience at Couch White. This firm uses several e-billing service providers. One is DataCert, the use for which the firm pays a flat annual fee of $3,500.

The process begins when the lawyers add UTBMS codes to their handwritten time sheets. Then the secretaries read those time sheets and input the time spent into the firm's computerized accounting package. (The firm uses STI, which stands for Software Technology, Inc.)

At the beginning of each month, the accounting department pulls a draft of the final bills from the items that have been entered into the accounting package. The accounting staff prints the bills and the lawyers look them over for accuracy in work done, names and spelling. They send the corrected bills back to the accounting department, which then makes any corrections in the accounting package.

Next, the accounting department clicks a button on the computer screen and the data is converted into a LEDES format used by DataCert. Finally, another button is clicked and the reports go over the Internet to DataCert's server. Once the information is posted, the staff can watch the Web site to monitor the approval process.

"Time wise, it's wonderful," says accounting supervisor Cook. "No more copies and folding and stuffing envelopes and missing the postman. It's easy to send 10 invoices at a time."

"Tracking the invoices is easy," Cook adds. "Either we did send an invoice or we didn't, and you can access the Web site to find out where it is in the approval cycle. Whereas by surface mail, you send an invoice and you don't know if they got it unless you're not paid for six months." Furthermore, any unintentional errors come back by e-mail immediately to the firm for correction and resubmittal. In the paper days, such alterations would mean days and weeks of delay in receiving payment. It often results in faster payments, according to Cook. Checks that may have taken months to receive in past years now arrive in two weeks.

There is no doubt in his mind, Cook says, that e-billing will constitute more and more of the invoicing activity at Couch White. A dozen of the firm's clients now use e-billing, and he sees two or three new ones every year. Of the 600 or so invoices sent out monthly by the firm, some 40 to 50 move electronically. "At first I was surprised that we would be paying to send out invoices, but the ease of it is worth it," he says.

A Future-Driven Profile

E-billing is very much a phenomenon in a state of flux. Some law firms love it; others find it a hassle. Some clients will accept electronic invoices in standard LEDES format; others require modifications. Some clients pay faster and expect coordinated discounts; others do neither. Some service providers require use of UTBMS codes; others do not. Some demand payment from firms; others are free. Only one thing is certain: E-billing will increase its profile in the law firm universe.

"Time marches on," says Cook. "An increasing amount of our revenues now come through e-billing, and it is becoming a necessity. It's the wave of the future. You can take it or leave it ° but if you leave it, you aren't going to get anywhere." ■

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