

## Small Legal Departments Reap The Benefits Of E-Billing

### Is E-Billing Ready For Prime Time?

BY SCOTT GAWLICKI

IN HIS BEST-SELLING book "The Tipping Point," Malcolm Gladwell describes a "tipping point" as that dramatic moment when the circumstances surrounding a product suddenly change and large-scale acceptance is fully—and sometimes swiftly—realized.

When e-billing entered the legal services marketplace several years ago, it was regarded as an innovation that would not only streamline a legal department's accounting processes, but also allow GCs to easily measure outside attorney performance and costs on a case-by-case and firm-by-firm basis.

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—Rees Morrison  
Director of Law Department Consulting  
Hildebrandt International

Better managing the department's legal spend, e-billing vendors argued, would more than justify six-figure startup costs, as well as substantial annual licensing and technical support fees.

For the most part they were right. Legal departments in the Fortune 200 that spent \$20 million and more on legal fees jumped in with both feet and, in many cases, were rewarded with significant cost savings. Equally large law firms quickly followed suit.

However, because it is expensive to

### TECHNOLOGY

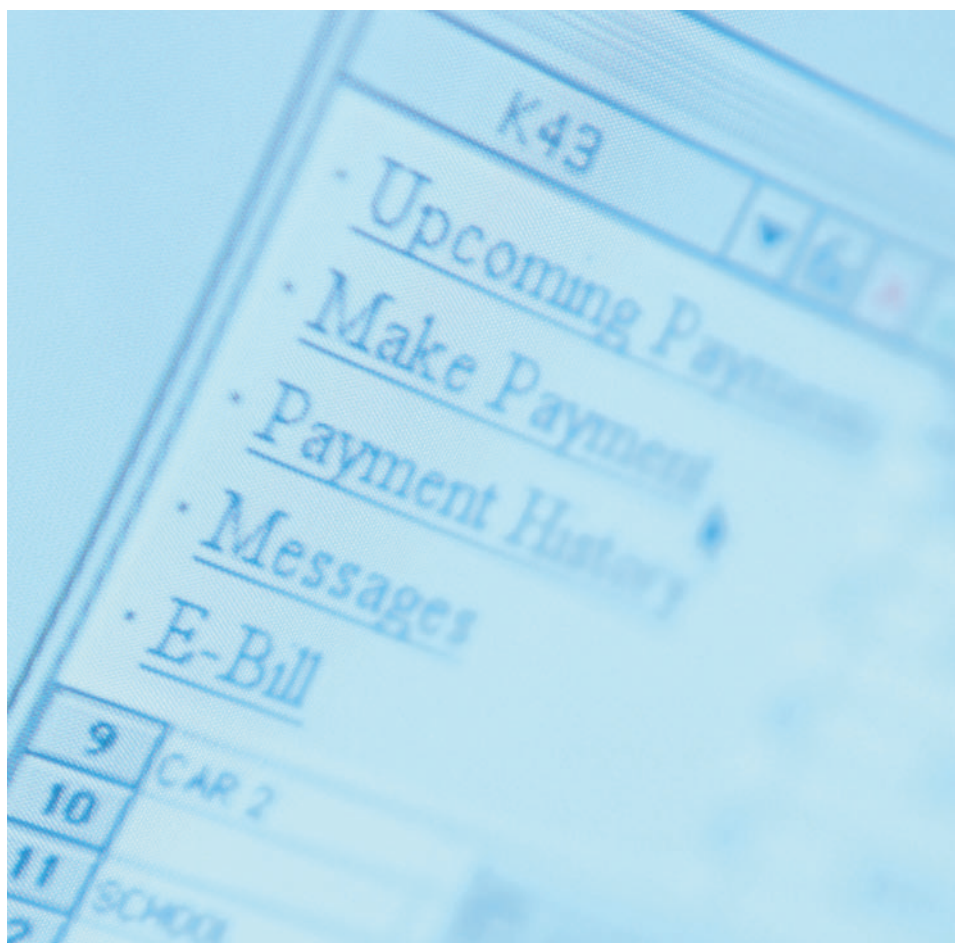
implement an e-billing system, small departments have been slow to adopt the product. The majority of potential users—smaller Fortune 1000 law departments with an annual outside spend of under \$10 million—still haven't crossed e-billing's technological divide. Alas, the "tipping point" has yet to occur.

"E-billing still hasn't gained widespread

acceptance," says Brad Blickstein, founder of the Blickstein Group, a Chicago-based legal consulting firm. "I would say only 20 percent to 25 percent of the Fortune 500 use it. Even with the Fortune 100, only half use it. That means 50 percent of the huge companies with lots of money to spend are still out there."

Rees Morrison, director of law department consulting at Hildebrandt International agrees.

"E-billing suppliers penetrated the big corporate law departments first and for



E-billing was once considered the sole province of behemoth law departments. But new programs and innovations are beginning to make e-billing more affordable and effective for smaller law departments.

good reason,” he says. “The early adopters were insurance companies, which use thousands of law firms. They use it as a filtering system to check the math on invoices, and compare law firm bidding rates and disbursements. But it’s gone untouched in smaller law departments. For a legal department using seven to 10 law firms and spending \$1.5 million a year, e-billing is not worth it.”

## Big Benefits

Perhaps that’s true, but vendors say it’s the number of invoices, not the amount spent on outside counsel, that determines e-billing’s net value. Under the right circumstances, they say, a small legal department with outside legal services budget in the \$5 million or less range can derive the same operational and financial benefits as a Fortune 100 behemoth.

For example, one e-billing vendor, TrialNet, reports half of its clients are small law departments that typically spend \$6 million or less on outside legal services. TrialNet is an ASP, which means each client’s e-billing solution resides on TrialNet’s server. Most of its clients are in the healthcare industry and generate a substantial number of outside invoices, says Debra Weaver, the

company’s vice president of marketing and sales.

One such client is Quest Diagnostics Inc., which performs 250 million diagnostic laboratory tests on more than 100 million patients annually. Melissa Margulies, one of two in-house litigation attorneys, has been using a TrialNet matter-management and e-billing system for nearly four years. The system helps her monitor and process the 100 to 150 invoices that nine regional U.S. law firms submit each month to handle the company’s professional liability cases.

“Professional liability work involves a suit against the lab, rather than the doctor,” she explains. “And we only use the system for professional liability billings, which total far less than \$5 million annually. We felt e-billing was the best and most efficient option because the data it provides lets us evaluate each matter and determine how much it’s costing us.”

Margulies accesses the system via the Internet to process invoices and manage cases electronically. The matter management system allows both in-house and outside counsel to download documents and files and review them online.

While she declines to reveal the system’s cost, or return on investment, Margulies is

happy with the system.

“The e-billing function really cuts the time needed to review invoices,” she says. “We use ABA task-based codes to catch any mathematical errors or guidelines violations. I would definitely recommend it. There was a learning curve, but that really involved the shift in the way we manage cases.”

While the e-billing cost varies by client, Weaver says it generally works out to 1.5 percent of the invoice value. Further, there’s a one-time design fee and an annual maintenance fee. Some clients use only e-billing, others just matter management, and some use both. Some pay for their law firms to use it, others leave it to the law firm.

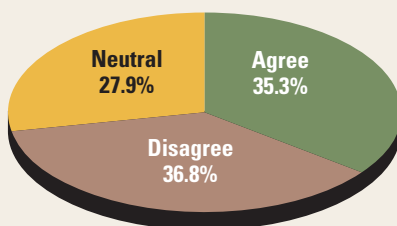
## Modular Approach

Another ASP vendor, TyMetrix, is making a concerted effort to expand from its more-traditional Fortune 200 client base to smaller legal departments. Earlier this year it introduced the TyMetrix 360°, a scalable, module-based system that includes e-billing, case management and reporting and data analysis tools. Depending on which modules a company chooses, TyMetrix says the system will cost in the

## Billing Blues

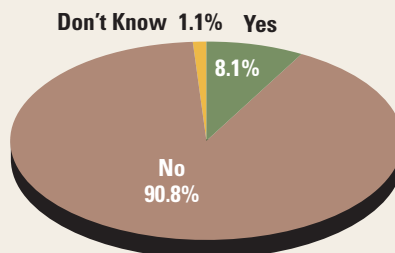
In a recent *Corporate Legal Times* survey of in-house and outside counsel (“Peace At Last,” July 2005, p. 36), most GCs said their two biggest challenges are budget constraints and finding ways to reduce costs. Further, because they are under pressure to reduce spending on outside counsel, many are employing alternative billing methods such as variations on the hourly bill, and fixed-fee and contingent arrangements. However, even though one-third said they believe law firms pad their bills, nearly 90 percent said they do not employ e-billing—a proven method for monitoring law firm performance and enforcing billing guidelines to better control outside legal costs.

Do most law firms pad their bills?



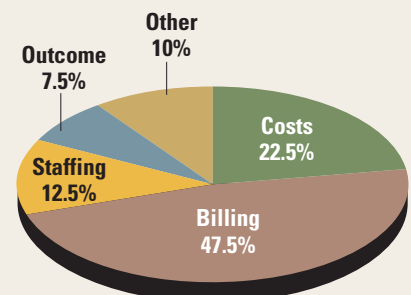
A third of GC respondents to our survey believe law firms pad their bills.

Do you require firms to submit bills through an e-billing system?



Although many GCs believe law firms pad their bills, 90% of survey respondents don't require their firms to use an e-billing system.

What causes the most friction with your clients?



Law firm lawyers believe the No. 1 source of friction in the GC-law firm relationship is billing.

low six figures to implement, with an annual cost of half that thereafter.

"It's really a case of what the market used to be and what it is now," says Matt DenOuden, national director of strategic accounts at TyMetrix. "From 2002 to 2004, a company had to be spending more than \$10 million—and oftentimes a lot more—to go with an e-billing system. E-billing was really a custom-built application. With the TyMetrix 360°, we expect to see the average ROI as being 8 percent to 15 percent of your outside spend."

The Convex Group Inc., an Atlanta-based, privately held media and entertain-

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—Brad Blickstein  
Founder  
Blickstein Group

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ment company with an outside legal spend described as "well-below" \$10 million, is among the first adopters of TyMetrix 360°.

"We're a growing company with a growing number of consumer brands," explains General Counsel Bradley T. Zimmer. "Our business relationships and intellectual property holdings are growing too. With offices in Atlanta, New York and Los Angeles, we wanted a matter management system with a document control function

that would let us collaborate across physical boundaries. With this system, every team member has an immediate and identical document-review capability."

In place since December 2004, the TyMetrix solution includes an e-billing module that Zimmer says makes it easier to monitor and analyze outside counsel budgets, performance, fees and invoices. Zimmer declined to say what the system cost and added it hasn't been in place long enough to assess its return on investment. Nevertheless, he is pleased with the results.

"In my opinion, matter management is the primary driver for a smaller company," Zimmer says. "But what's nice about the e-billing module is it lets us create a new level of accountability for our law firms. It reduces our costs because it helps us hold our law firms to their budgets. We can compare the budget performance of each firm, or even individual attorneys if we want to."

### Controlling Costs

Granted, e-billing still has a long way to go before it becomes a must for every company. But for those legal departments that have taken the plunge, e-billing has streamlined what has long been a tedious function—the submission, review and settlement of law firm invoices. Further, the systems automatically flag or reject exceptions to internal billing guidelines, and can integrate financial data and case information—all of which helps a legal department better analyze the costs associated with each legal matter.

"Nothing provides such a clear return

on investment as e-billing," Blickstein says. "If you don't have it, there are two things you're probably not doing well. First, because you're unable to process billings quickly, you're giving up the opportunity for a prompt payment discount. Second, law department guidelines are difficult to enforce. With e-billing, enforcement is a functional possibility. We've seen savings of 10 percent and up on total outside spend just by enforcing the guidelines."

Indeed, with legal departments under increasing pressure to rein in legal spending, it appears it will only be a matter of time before e-billing becomes the norm, rather than the exception. That's especially true when considering yet another variable—the next generation of corporate counsel. Younger lawyers who are more comfortable with technology in all its various forms will surely expect technological management tools like e-billing to be in place when it's their turn to move into the GC's office.

Weaver already sees that happening. TrialNet is currently putting together a proposal for a new, tech-savvy attorney who recently joined a relatively small corporate law office.

"She's used to doing things electronically and now she's in a total paper environment," he says. "It's driving her crazy. So she's the one spearheading the department's drive for a matter management and e-billing system." ♦



# TRIALNET

Web-Based Integration of Client & Counsel

