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Legal Spend Management

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Electronic Billing: A Starting Point

Anyone who has managed outside counsel has struggled with the size of their legal bills. True, today's itemized legal bills provide more information than yesterday's catch-all "for services rendered" summaries, but the detail can get overwhelming when bills take up so many pages they get delivered in boxes. For legal departments, it's a no-win dilemma: either devote precious resources to processing these paper bills, or simply approve them for payment without review.

Beginning in the mid-1990s, progressive insurance companies and corporate law departments began requiring their outside firms to send invoices electronically. Simply removing the flood of paper added enormous efficiency to the process of receiving and managing invoices, and enabled law departments to become more attentive to other matters at hand. Over time, these electronic billing systems evolved into tools that could automate the approval process itself by comparing invoices to established billing guidelines. Today, electronic billing systems can offer a wealth of functionality, including integrated budgeting, the ability to handle documents and receipts, integration with matter management systems, and comprehensive reporting tools. This combination of capabilities and functionality for analysis and reporting has transformed sophisticated electronic billing solutions into powerful tools for planning, processing and measuring outside legal costs. This is the basis of Legal Spend Management (LSM).

Powerful Insight Leads to Better Business Decisions

It's no surprise that one of the most prevalent trends in the legal industry during the past few years has been adoption of Legal Spend Management systems, which not only allow law departments to efficiently process and approve legal bills, but also to budget matters and benchmark law firm performance. According to research conducted by Bottomline Technologies, a leading provider of legal spend management solutions, more than 20% of Fortune 500 legal departments now employ some sort of Legal Spend Management system, up dramatically from just a few years ago. With widespread law firm participation and compelling cost and efficiency benefits, usage is quickly spreading from the world's largest corporations to small and mid-sized companies seeking to implement legal best practices.

The practice of Legal Spend Management provides value to law departments in a number of different ways. Easy-to-use software solutions that create a framework for analyzing large amounts of data from law firm bills provide insight into expenditures that would otherwise be difficult to attain. These systems deliver Return on Investment in three major areas: process improvement, outside counsel guideline compliance, and proactive data analysis for performance measurement and decision making.

Process Improvement

The most basic benefit of Legal Spend Management systems is the ability to significantly streamline the time-consuming, labor-intensive processes of legal invoice receipt, discrepancy resolution and approval.

Using traditional billing methods, after a paper invoice arrives in a company's mailroom, it is delivered to the addressee and then forwarded to whoever manages the bills. The invoice is then often routed to a series of approvers, any of whom is likely to delay their authorization based upon time constraints and/or the effort it takes to study the invoice. This continues until the invoice is fully approved (or lost, in which case the process starts over.) Most disconcerting is the near total lack of visibility for the status of the invoice as it travels this unwieldy path to payment.

The electronic billing component of a Legal Spend Management system allows this entire process to occur electronically. The invoice is received directly by the system, which flags or rejects individual line items not in compliance with pre-established billing rules. The electronic invoice is then automatically forwarded to each approving party. Email reminders are sent to approvers, whose jobs are now made easier through the automated flagging system.

Unlike manual processes, Legal Spend Management systems can be set to "auto-approve" any invoice clear of mistakes, or those where the approver has not acted in time. Once the invoice is approved, accounts payable can be automatically updated. Role-based user privileges enable those with permission to see the status of any invoice, at any time.

The benefits of this paperless process are clear. Every invoice is reviewed and nothing is lost. Administrative staff can spend time on higher-level work, such as analyzing law firm performance rather than sifting through paper invoices. Corporate Counsel spend less time approving invoices, and more time doing legal work. Managers have instant access to all invoices received from the moment they're submitted. Studies show that cycle time is reduced by up to 90%, which creates a tangible, financial return for the law department.

Without electronic billing, companies often struggle to pay their legal bills within 60 or even 90 days. By processing invoices electronically, companies can choose to pay in 15 days or less, which can improve their relationships with outside firms. Additionally, the improved cycle time gives firms the option of negotiating discounts for prompt payment, often in amounts exceeding

Benefits of Electronic Billing

- Every invoice is reviewed
- Better visibility – no lost invoices
- More efficient workflows
- Reduced cycle time
- Avails prompt payment discounts
- Enables additional Legal Spend Management

the time value of money provided by delaying payment. The discount rate can often be as much as two to three percent. While law departments can find ROI from Legal Spend Management systems in many areas, savings accrued from reducing the receipt-to-pay cycle time and

negotiating prompt-payment discounts is some of the easiest to accrue. A typical Fortune 500 law department can reduce its annual outside legal spend by hundreds of thousands of dollars – savings that go directly to the bottom line.

Outside Counsel Management

One way clients can assert themselves in relationships with outside counsel to manage costs is to define the “rules of engagement.” These rules include billing guidelines outlining policies ranging from how much the client will pay for photocopies, to specifying which months of the year a firm can raise its rates.

In the world of paper invoices, enforcement of these guidelines is often a practical impossibility. For example, guidelines typically reflect negotiated rates for each timekeeper. Since a law department may use hundreds of law firms and thousands of timekeepers, manually enforcing this guideline is simply not viable. As such, many law departments do not enforce their guidelines, overlooking potential savings. Legal Spend Management systems provide the tools to enforce outside counsel guidelines by electronically comparing a bill to the guidelines set for that specific engagement.

Flexible systems can be customized to automatically reject non-compliant invoices. According to recent research by Bottomline Technologies, law departments using automated guideline compliance in 2004 reduced annual outside legal spend by an average of nearly 12%, another example of relatively easy-to-achieve ROI. For a typical Fortune 500 client, this savings can quickly climb into the millions.

Budgeting and Performance Metrics

Law departments that continue to rely on paper bills have little insight into their legal spend. In fact, some do not even know exactly how much they are spending or the precise number of firms they are using. Even basic data, such as the total cost to defend a specific kind of case, is often unattainable. In contrast, law departments using a Legal Spend Management system for processing invoices have this data at their fingertips: by law firm, timekeeper, matter and task. Armed with this data, they can answer critical questions, such as:

- Lifetime cost of a particular matter
- Amount spent per year by practice area, such as litigation or intellectual property
- Amount spent per year on a common task, such as deposition preparation
- Number of hours spent by each level of timekeeper (partner, associate, paralegal, etc.)
- Comparative costs from year to year in any area
- Real-time reports on budget vs. actual expenditures

Benefits of Outside Counsel Guidelines and Enforcement

- Better control over law firm activity
- Invoices can be reviewed with minimal human intervention

- Helps law firms better understand client expectations
- Huge monetary savings

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While legal expenses by nature – particularly litigation – can be unpredictable, Legal Spend Management systems can help law departments determine anticipated costs based upon past performance and collaborative planning. Budgeting allows for strategy to be set forth in the initial stages of a matter, rooting out wasted cost and inefficiencies early and setting a framework for better decision making. Budgeting and other benefits of proactive planning, such as avoidance of recurring management issues, will be covered more fully in future essays in this series.

Optimizing the Law Firm Relationship

More and more law departments are using the clarity gained from Legal Spend Management solutions to get more from their law firms. Analyzing invoice data against results reveals trends that can instigate management decisions for cost control. For example, if firms in a certain geographic area (or other demography) handle certain types of matters more cost-effectively, work can be transferred to those firms for best results. With insight into historical matter costs, law departments can compare their firms' performance to expectations and, if necessary, pressure them to bring costs in line.

In recent years, law departments have learned what many corporate procurement professionals have known for some time: that costs can be reduced by limiting the number of vendors. Law departments often refer to this process as "convergence." Not only can clients leverage the promise of additional work to receive price breaks, but firms can be more efficient and effective as they achieve a better understanding of their clients. The knowledge gained from Legal Spend Management is often used by law departments during the convergence process to assist them in determining what types of work may be consolidated, and with whom.

Summary

The practice of Legal Spend Management embraces electronic billing processes at its core to provide a platform for understanding, planning, controlling and even reducing a company's overall legal spend. It includes a collection of innovative technologies that provide layers of process improvement, automated workflow and data analysis, each of which provide unique value and return to a company's legal function.