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TECHNOLOGY TO CONTROL LEGAL OPERATIONS.

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ON THE JOB

IN-HOUSE TECH

## E-Billing Grows Up

Automated invoicing was supposed to bring great savings to legal departments. But real success requires pairing it with matter management.

E-BILLING WAS SUPPOSED TO BE A money-saving boon for in-house legal departments. Companies would be able to enforce spending rules on law firms and analyze data to more efficiently manage their budgets. It was a great idea, and many corporations are putting the technology to good use.

But there is a significant difference between a promise and its realization. To get the full benefit of e-billing, a company has to have the right infrastructure and resources to get up and running the right way, and to make use of what it learns. Only then can it actually find where it can make savings and how to manage its legal expenses more intelligently.

For Johnson & Johnson, the initial benefit of e-billing was “reduction of confusion in payment,” says Christopher Potter, law department finance manager. Rather than sift through a hodgepodge of invoice formats, passing paper from one person to the next, J&J could instill order. All law firms would apply American Bar Association billing codes to invoices in a uniform way. Each invoice would be automatically routed to the appropriate J&J company with an indication

of the matter responsible for the charges. A standard format made invoices easier to read, and electronic rules enforced billing guidelines, immediately kicking some mistakes back to the firms to correct. J&J personnel could use keyword searches to seek indications of more subtle problems. “Also, invoices don’t get lost in the mail or on people’s desks. I’d say we probably cut a good month out of the payment cycle,” Potter adds.

But this isn’t a case of savings automatically coming from the mere purchase and installation of software. It took Johnson & Johnson “the better part of a year” researching different systems and talking to outside counsel about their experiences before they could make an informed decision. Not only were there the typical questions a company might have, but there were significant privacy concerns from being in a regulated industry.

Getting to that higher level of usefulness requires a significant commitment. “You’ve got to look at it in a comprehensive way, not



only from a technology perspective, but also a resource perspective,” says Joy Saphla, a managing director of Huron Consulting Group. When correctly implemented, e-billing actually changes the way attorneys and support staff do business. Call it business process reengineering brought down to the legal department.

Also, while the business process improvements can be significant, they cannot provide all of the real savings that vendors promise. The real money comes from analyzing the resulting information and finding better ways of managing legal matters, managing cases and risk—and more efficiently using resources. Saphla reports seeing some clients document savings between 17 and 20 percent. A company can find patterns, determine risk and probabilities that certain strategies will win, and see when continued action, even if successful, will cost more than settlement.

**When Pfizer Inc** first implemented e-billing three years ago, it wanted to update old-fashioned billing processes. The legal finance group was swimming in paper and had to frequently collaborate with accounting to get work done, according to Frederick Paulmann, director of the company's partnering program for outside counsel. But beyond greater efficiency, Pfizer wanted to make use of the data it could glean from e-billing, analyzing the results to find better ways to manage its legal work.

"You can see now that X percent of a case is being spent at the pleading stage," Paulmann says. "We can see within a [given case] how the effort is going. What is the relative amount of time that is being spent on the matter at the partner level versus the associate level versus the paralegal level, and does that make sense to us based on the matter? We can also see across matters. We can and do look at the distribution of efforts."

However, such insights do not all come at once, and they require significant efforts to achieve. "Part of this is about technology, but part of it is about behavior. About thinking of ways that we can make the entry of data more uniform and more amenable to these sorts of analysis," he says.

The company had to walk before running—getting the invoicing process in place so it could turn its attention to the information it had and start to understand exactly

what they could learn. For example, ABA standard billing codes actually allow significant variation in how firms and even individual lawyers apply them. "Two very well-intentioned people can use something differently," Paulmann says. For example, does a deposition analysis fall under the deposition billing code or that for strategy? As Pfizer has extended its analysis, it finds that numbers aren't necessarily all they seem on the surface.

"Something we noticed early on is [that] analysis takes a lot more work than you think it does," says Ron Denton, manager of legal business services at ConocoPhillips. "Secondly, to do broad analysis, you need a lot of data. Certainly three months or six months is not enough." In his experience, a full year of data is the starting point, with more information providing the chance to develop a more thorough view.

If legal departments want analysis, they have to devote the personnel and money to make it possible. People skilled in analysis will need to work with IT to take data and turn it into information that can offer insight. The results can be surprising: ConocoPhillips found that "10–15 percent of the firms weren't fully abiding by our billing guidelines," Denton says.

ConocoPhillips's legal business services department does not perform strict cost analysis, instead relying on a general sense that a given project will pay off. Then, instead of immersing itself in economic minutiae, it looks at what functions cost before implementing a system and then after. By comparing the results with the baseline figures, managers can see if the department saved money.

In this case, it did. The projected savings of 2–3 percent of expenses for the legal department now appear "well in excess of 5 percent." Such results can come from even simple steps like having only one attorney from a firm at a deposition in certain types of cases that lend themselves to such treatment. The combination reduced

costs in one area of the docket by almost 30 percent.

A legal department also must recognize that not all companies will see the highest end of savings, and e-billing in isolation will not bring the sweep of promised benefits. Companies must combine the billing data with that from matter management, which sometimes means explicit technical integration of the two systems. Some vendors are even combining the two types of software.

Of course, not every company will save a bundle of cash, and e-billing by itself certainly isn't enough. But legal departments that do it right know this much: If you combine e-billing with matter management and make good use of the data you collect, the promises of e-billing do eventually come true. ■



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