Finance:
Accounting in the Electronic Age

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About ILTA

Providing technology solutions to law firms and legal departments gets more complex every day. Connecting with your peers to exchange ideas with those who have "been there, done that" has never been more valuable.

For over two decades, the International Legal Technology Association (formerly known as LawNet) has led the way in sharing knowledge and experience for those faced with challenges in their firms and legal departments. ILTA members come from firms of all sizes and all areas of practice, all sharing a common need to have access to the latest information about products and support services that impact the legal profession.

ILTA's Statement of Purpose: ILTA is the premier peer networking organization providing information resources to members in order to make technology work for the legal profession.

Editors' Note

Technology affects every corner of a law firm's or law department's operations. The finance department was likely the early adopter of technology, and the electronic age continues to impact the tools and methodologies by which the accounting and budgeting functions are handled.

We've got a nifty collection of articles that are targeted to our finance and operations professionals. The usual suspects are here, as we take a look at the current state of business intelligence and the e-billing standard; we'll look at the nuts and bolts items: time capture and payroll; and applying technology to budgeting and profitability analysis rounds out the mix.

We gratefully acknowledge our authors, and we hope you budget some time to read their advice herein.

Andy Spiegel and Randi Mayes, Editors

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Business Process Management:

New Leadership in Process Execution

by Garvin Fouts of Thomson Elite

Differentiation and the ability to execute better than your competitors are keys to building and maintaining a competitive edge in the marketplace. Toward that end, many firms are focusing their budgets on technology, giving their employees best-of-breed systems for managing and analyzing data to improve service or product offerings to their clients.

These resources include customer relationship management systems to keep and manage contacts and potential clients, financial and accounting systems to manage the incoming and outgoing resources, and document management systems to manage the records of items relating to the business with a client.

One area previously overlooked but now getting well-deserved attention is the increasingly important task of business process management (BPM) — managing how the firm's data gets approved and entered into these various systems. All businesses have a "process" for getting core tasks completed, but the degree of data quality control and automation involved varies significantly, ranging from paper-pushing to partial automation — and ultimately, full automation, utilizing the full range of BPM software capabilities.

Levels of Business Process Automation

Firms today are using different technologies and methods to manage their data entry and business processes. These can be categorized into four stages, each presenting different challenges and inefficiencies.

Recognizing the Need

At the low end of the spectrum, some firms are still using paper forms and routing them around the office via inter-office or intra-office mail — or even manually moving the paper between the participants in the process. In this environment, many variables can affect the quality of data that is ultimately entered into the various systems, including loss of forms, illegible handwriting, data entry errors and partially completed forms. These inefficiencies and errors require time to address and correct, and as we all know, time is money. These small delays, data clarifications and the time to route these forms to the required participants quickly add up to big costs in countless staff hours. At this stage, standardization and ease of movement are two key drivers to get data through the process and to the right people much more efficiently.

Moving on Up

At this point, progressive firms have recognized the problem and have taken the initial steps to get closer to a full BPM system where they have leveraged the technical infrastructure of the firm to a limited degree. They have taken the paper form and transformed it into an electronic form, resulting in the ability to move that form around the firm through e-mail (*e.g.*, paperless proforma). These firms have addressed the manual routing delays to some extent and have also addressed the issue of standardizing the capture of data. Many of the forms are somewhat sophisticated, with limited validation built into the forms using macros or formulas. With these improvements, data capture standardization and increased collaboration have been addressed, but there are still efficiency issues associated with retyping data into other systems, data validation and partial data going through the routing system. The next step is to automate the data entry and ensure data integrity throughout the firm.

Tackling the Data Integration Challenge

The third stage requires much more from the IT professional, either internally or with consultants. Firms want to invest in their business process control and manage the data without requiring large amounts of rework and clerical activity. While they have the electronic forms and some limited data validation, they are moving toward full automation of the data, which includes database validations, field and form level validations such as protection and required status, and database updates for the various data repositories such as the accounting or CRM system. At this level, true efficiencies begin to be realized, such as multiple systems receiving clean data, retyping data is minimized, and data modeling saves input time. Up to this point, there was little control over the business rules and process, just data control. Firms operating at this level have almost reached the point of full business process management but are missing a few key components, which are addressed in level four.

Full Business Process Efficiency

This is the most advanced stage — and also the most challenging. Firms recognize the requirement for a full process management solution and have purchased, or will need to purchase, a full BPM system capable of automating and managing those processes. This level requires a substantial amount of time devoted to defining the needs of the organization, defining the processes and rules and deploying the system firmwide. Business process management consultants work closely with firms to customize the best BPM solution.

Getting Started

The biggest challenge for most firms is to define the business processes. This is the most critical success factor for firms using a business process management system, and it is generally also the most difficult. Why is this so challenging? Often the process that the firm's managers think is in place is very different from the process that the employees are using and following. Many firms are using "generational stories" to pass along the business activities inside the firm, including approval processes and exceptions to the rules. In the past, an *ad hoc* approach has been used where each staff member would have the ability to send the forms to the appropriate user and even bypass approvals if speed was of the essence. Firms may not have enforced process security, such as defining who can begin a process other than hiding the forms in a locked directory on the network. But many firms have never defined their business processes. The challenge is to convene the appropriate process owners and users to produce and agree to a definition that is usable and realistic.

Selecting BPM Software

Once the process is defined and accepted, the next challenge is to find an appropriate BPM software solution that is powerful, scaleable, flexible and fits with the organization's technology direction and capabilities. It must be easy for the end user to utilize and for the administrator to maintain and update. Other features to consider include deployment time and ease of development. It is also important that the firm match its resources and capabilities to the tools that it will use to build the business process solution. These solutions require a substantial amount of time and resources to achieve the intended long-term outcome of work and cost efficiencies.

The BPM Competitive Advantage

Firms that reach this level can fully expect to see a number of benefits that can take them to a new level of efficiency and control. The defined business process and deployed BPM system allows the firm to define who can start and participate in a process and how much they can see and do. The process can interact with disparate systems and aggregate data for review such as client, contact and AR information viewable for an approval stage. It can be started from another system or event in that any credit to an invoice would automatically kick off an approval process before allowing the credit to enter the system. The opportunities for automating the business rules and leveraging the system to control any process in the firm are virtually endless. Using the system, managers are able to look at processes and work history to determine load balances, process lifecycle times or even see what stage is holding up the process. In a non-automated process, these metrics are almost impossible to extract, but now firms have the ability to streamline and optimize their processes and enforce the business rules they require.

As a result of new laws such as the Sarbanes-Oxley Act, firms are now finding the need for an audit capability within the business processes, especially in the financial and accounting world, where auditors and managers are able to view and record the business practices going on in the firm. With a full BPM system, firms have that audit history available including data, attachments, participants — and it gives them a fully documented control system for auditor review.

In the hyper-competitive market today where any advantage, however small, can mean the difference between success and failure, firms need to embrace change and strive for operational excellence. Complacent firms are falling behind, and some will never be able to recover unless they reduce costs, create more efficient workers and maintain the processes that set them apart from their peers. Business process management can take the firm to a new level of performance, visibility and control.

Benefits of a BPM Solution

Speed
Data integrity
Security
Rules enforcement
Data aggregation
Analysis and optimization
Audit history

Driving Profitability:

Transforming the Business of Law

by Don Howren of ADERANT

Only recently have law firms demanded business intelligence solutions, as the legal business environment increasingly relies on business measures and indicators. The main objective of BI is to close the "fact gap," and selecting the right solution is a pivotal decision for law firms that expect to thrive in today's legal marketplace.

A law firm on the threshold of closing the fact gap must ask strategic questions, including:

Which measures and indicators can a BI solution help monitor and manage?

How can the effective use of a BI solution improve the operations of the firm?

What is the expected return on investment of a BI solution?

This article provides some answers to those questions and is intended to serve as a guide for the executives and managers of a law firm to evaluate the importance of BI for their firm.

The "Good Old Days" Are Gone

Change — no word describes the business of law better. It represents a daily challenge for law firms today. No longer can a firm assume that profitability goals will be achieved simply by meeting targets for billable hours. Increased competition is making firms more accountable to the dynamics of the free market, which is to deliver the best possible service at the lowest possible cost. To maximize firm performance, each member must know his or her contribution and objectives for the success of the firm and, ideally, have the right tools to monitor and meet those objectives.

The "New Days" Are Here

A new approach to business is mandatory. In order to ensure profitability, firms must take controlled, detailed and predictive action in the form of:

Planning *— Firms are creating highly detailed budgets and forecasts and are becoming increasingly aware of bottom-line results.*

Analysis *— Firms are gathering more data and monitoring more metrics. They now have a wealth of data to analyze from their practice management, HR, payroll, client relationship management (CRM) and other enterprise systems. To fully reap the benefits of these systems, the firm must consolidate and analyze this data, leveraging the information for strategic analysis.*

Accessibility of Information *— With all the data available, law firms have many ways to process and share information. All members of the firm can have access to data that was once limited to the boardroom.*

Accountability *— Every member of a competitive firm must see it as a business and take responsibility for their performance, costs and contribution to the firm's overall success.*

The right business intelligence solution is fundamental to the future success of the proactive law firm. It provides the tools for planning, analyzing, accessing information and establishing accountability. BI makes it possible for a law firm to keep its focus on profit — the main objective of any business.

Creating a Predictive Firm

Traditional — and today, less successful — businesses are reactive, measuring their performance based solely on what has already happened. By the time reports are run, it's too late to impact results. Real insight is gleaned when historical data is compared to current conditions and when information empowers people today to deliver optimal results for tomorrow. A complete BI solution provides the firm with past, present and future (predictive) views of data. BI can help to create a predictive firm that drives its operations toward positive, predictable results.

The predictive approach is characterized by its inclusion of past, present and future perspectives on the business.

> ***PAST.*** *Review historical performance and trends, identify past under- and over-performers and use this information to set goals for present and future performance.*
>
> ***PRESENT.*** *Inform timekeepers and managers of their current performance and provide metrics that are actionable by the individual. Monitor current budgets and variances to ensure cost control on an ongoing basis.*
>
> ***FUTURE.*** *Set goals for future performance, generate realistic budgets that optimize profits, price new business intelligently and predict the outcomes of new business opportunities.*

Predictive law firms are learning to leverage BI in all aspects of their business — in both backward- and forward-looking processes.

> ***Business Planning*** *— BI can transform business planning (budgeting, forecasting) from a once-per-year exercise into an ongoing performance measurement process that keeps the entire firm focused on its objectives. Additionally, BI can update the firm's business planning process to optimize profits through cost control.*
>
> ***Variances*** *— BI provides instant views of actual spending, allowing the firm to identify variances from the plan and enforce accountability.*
>
> ***Profitability and Performance*** *— Metrics are not only tracked but made available to all stakeholders. Individual timekeepers, partners and officers can easily identify both problems and successes within their areas of responsibility.*
>
> ***Pricing New Business*** *— By comparing the planned outcome of a new business opportunity to the firm performance targets, a firm can evaluate the value of a new client or matter before new business is signed. Proposals for new business can be optimized to guarantee that every new matter contributes positively to the firm's objectives.*

While firms may have some or all of these business applications in place, a regular audit indicates which pieces are missing or due for re-engineering to optimize firm performance.

One Size Doesn't Fit All

Lawyers know the law — they need not delve into multidimensional statistical analysis. However, some BI solutions support only one type of user — the power user or data analyst. The actual "endusers" of the business intelligence simply receive static reports when the power user is able to provide them.

Every member of the firm who has performance objectives should have access to business intelligence. But not every member requires access to all of the data or all of the features that a BI solution might offer. Targeted distribution of business intelligence requires that a BI solution provide different user experiences to different user groups. These roles and their needs are:

Timekeeper — To reach targets for billable hours; to achieve timely entry of billable hours

Practice Group Leader — To monitor billable hours within the group; to reach profit targets on matters; to control costs within the group

Office Managing Partner — To monitor revenue generated by the office; to control costs within the office; to evaluate partners at this location

Executive Level Management — To manage the firm to profitability; to advise the firm leadership on financial results and strategies.

In order to give each member of the firm the appropriate level of information and functionality, law firms should look for a solution that supports multiple user types.

> ***Front Office Interface*** *— End-users (timekeepers and partners) need a dashboard, a set of indicators that illustrates, at a glance, the most important metrics for the individual user's responsibilities.*
>
> ***Back Office Solution*** *— A few specialists (typically in the finance department) require the ability to generate reports, maintain data and perform strategic analysis.*

Keep it Simple

Business intelligence, for most of the members of the firm, is best when kept simple. In everyday operations, professionals will not need to run reports. Instead, they need visual cues and alerts that are not only easy to read but tied directly to their actions (such as billing hours or incurring expenses):

> *A simple frame of reference for their indicators, such as averages, goals or past performance*
>
> *Actionable data to manage exceptions. The system should not overwhelm timekeepers with unnecessary information and functionality*

Dashboards are easy-to-read, straightforward desktop views of individuals' most important performance indicators. A dashboard empowers timekeepers and decision makers to quickly review their key performance indicators (KPIs). If all of the KPI values are acceptable, the employee can immediately switch back to billable tasks. If one of the KPIs requires attention, the employee can drill down on the KPI to get actionable information to correct the situation. To allow information to be easily "pushed" to each user, BI solutions must support Web or intranet deployments.

In addition to dashboards, sophisticated business activity monitoring (BAM) systems can deliver timely and relevant information when predefined events occur, such as spending over budget, an approaching deadline or other indicators crossing into a firm-defined "danger zone." BAM technology automates the information flow, keeping timekeepers and decision makers alerted to urgent events requiring attention.

OLAP — Use Only as Directed

OLAP (on-line analytical pocessing) is the technology that makes fast, multilevel queries possible. Direct OLAP cube access should remain with the back office "power-user." A BI solution should not distract timekeepers from their billable work by putting complicated software packages on their desktops. A well-engineered BI solution will not require front office users to understand or interact directly with OLAP cubes.

That said, the stability and long-term future of the underlying technology is critical to the viability of a BI solution for any business. Microsoft is the leading OLAP provider, offering the industry standard for OLAP: Microsoft Analysis Services. Microsoft distributes Analysis Services at no cost with its SQL Server database product.

It's Your Data — Put It to Work

For optimal performance, a firm must take ownership of its people, processes and data. Law firms implement BI in order to take control of business results, and to control those results the firm must have control over its BI applications. Superior BI solutions provide this control by simplifying and automating technical processes so that the firm maintains ownership of its data and, ultimately, the quality of its results.

Bridge Islands of Data

All businesses, including law firms, have bought into the Information Age by investing in IT. But despite their best intentions, many organizations have unintentionally created "islands" of data: multiple instances of similar or overlapping data that are complex to administer and costly to maintain. These "islands" may include:

> ***Time and Billing*** *— Tme entries and expenses, categorized by client and matter*
>
> ***HR/Payroll*** *— Compensation data including benefits, used to determine the "fully loaded" costs of staffing a matter*
>
> ***Financials*** *— Accounts receivable, accounts payable and general ledger for financial analysis*
>
> ***Customer Relationship Management (CRM)*** *— All aspects of client information*

When your firm has data from multiple sources, it is imperative that your BI solution is able to seamlessly merge that data into a single repository. As law offices continue to invest in solutions to support analysis and decision-making, their BI solution must be flexible enough to integrate with any of these systems.

Own and Manage the Process

Strategically oriented businesses want to take control of the processes of consolidating and analyzing their data so that they can be competitive, protect security and control the costs of BI. But some law firms are tempted by the convenience of outsourcing the maintenance of their BI solution to third-party consultants. This can be an expensive option that potentially compromises the security of your data during offsite transfers. Don't make this strategic mistake. Take 100 percent ownership of the BI solution and all the processes of delivering business intelligence within your firm. As in any competitive business, law firms need to be responsive to business challenges and protect the security and integrity of their data. Therefore, seek a BI solution that keeps the firm in control of the solution and the processes for generating and distributing information. Solutions that automate many of the back-end processes — especially those designed for use in law firms — can help the firm to conserve expenses while maintaining ownership and control.

Creating Value

The ultimate measure of the value of a BI solution is in its return on investment (ROI) and the additional value it creates for the firm. To ensure that the firm realizes benefits from business intelligence, evaluation and planning of the anticipated ROI before selecting a solution should be undertaken in this manner:

> ***Correctly Price New Business*** *— If the firm does a better job of pricing new business, revenue could be increased by an estimated one percent annually*
>
> ***Streamline Business Planning Process*** *— A new business planning application could reduce the effort to an estimated six man-months*

__Streamline Report Distribution__ — Automating this process would eliminate analysts

__Identify Unprofitable Clients__ — Renegotiating or severing those relationships would increase profitability by an estimated one percent

__Catch Budget Variances Early__ — This would reduce over-spending on variable expenses by an estimated two percent

__Empower Timekeepers to Meet Billable Hours Targets__ — With a dashboard application more timekeepers would meet their billable hours targets. This would increase revenue an estimated one percent annually

Conclusion

As the business of law continues to change, firm demands, technology advances and global influences provide challenges to business managers today that were not anticipated just a few years ago. To meet these challenges, prudent firms attempt to respond to current conditions in a timely fashion and plan for the future based upon available information. They try to encourage teamwork between disparate groups with differing roles and functions by engaging in detailed and sophisticated planning processes. Often the primary source of information is a practice management solution, which is based on data from the company general ledger. Sadly, the general ledger, while a perfect predictor of the past, is of limited practical use in budgeting, forecasting and planning for the future. Hence, enterprise-wide budgeting and planning processes are becoming increasingly important to business success, and many organizations are completely redesigning this vital business function.

Firms are seeking more sophisticated business intelligence tools to aid in strategic planning and business management. The recent proliferation in profitability and analysis initiatives has resulted in more information being gathered by organizations than ever before. How to use this data in the budgeting and planning cycle challenges even the most experienced information users. To understand how to more fully take advantage of these new processes and technologies, firms must clearly understand their own internal objectives and the BI solutions available to them.

Business Intelligence: A Must-Have for Firms

by Jim Hammond of RainMaker Software, Inc.

Law firms today are experiencing pressure to manage and grow business. As management grapples with how most effectively to address the challenge of improving bottom-line performance, administrators increasingly find a dearth of quality "intelligence" in the vast data stores found in most firms. Executive directors are being challenged as never before to provide much more than the routine financial reporting of the past.

Firms need tools that allow them to analyze scenarios and support critical business decisions, for existing financial management systems alone do not provide this type of information in any practical format. For management to realize the tangible value of the information contained in their data stores, it is essential that they have access to tools that provide for simple analysis and intuitive presentation of the data. That's why business intelligence (BI) has become the latest "must-have" product for growth-oriented firms.

That Was Then . . .

How many times have you wanted to create a report from your financial management system only to bring it to an end because it would take too long or the information wasn't available in a usable format? This is a common problem typically experienced in firms because traditional systems (*i.e.*, time and billing) are built to be used as powerful transactional databases, not analysis tools. As a result of the millions of transactions in the system's history, extracting data can be a very time-consuming process, not to mention that it often results in reams of flat sheet reporting instead of targeted analysis.

This Is Now . . .

Now you can tap into the wealth of information that resides in your database, with no custom programming, thanks to BI software. It proactively pulls information from your existing data, and then pushes it to end users in a practical format for analysis and use in supporting business decisions and strategy development.

The three major components of business intelligence software are data warehouse, user interface and the presentation layer (*i.e.*, information output).

Data Warehouse

The data warehouse is a database that's separate from a transactional production system and designed specifically to provide fast analysis of interrelated "cube"-type information, such as information about clients, attorneys, billings, cash receipts and expenses, in the lowest form of detail. Since the data warehouse is built to store and retrieve information in these categories, reports can be generated in seconds.

Furthermore, the data warehouse can build data components into summary levels on the fly, enabling *ad hoc* analysis. A typical data warehouse also provides the ability to view data from a historic prospective, a snapshot in time. For example, the firm's CFO is reviewing the historic aging information for the clients of one billing attorney and wants an exact copy of an aging report as it was on 12/31/03. Without a date-in-time snapshot, it's nearly impossible to generate reports that reflect prior accounting periods. An aged A/R report run today for the period ending 12/31/03 will not look the same as the report that was actually generated on that date. The concept of aging receivables is standard in all systems — what isn't standard is maintaining a true historic prospective of the information. In an attempt to circumvent this issue, some firms archive a static copy of all month-end reports for later reprint. Not only does this approach lack the flexibility for later analysis, but if a report wasn't generated on the date in question, then it could never be recreated again.

User Interface
The user interface provides access to the data stored in the data warehouse and may contain several screens or options for customizing information retrieval according to both firm- and user-specific needs. The latest business intelligence products provide this user interface in a standard browser window, allowing the software to be used from any PC connected to a secured Internet or intranet connection. The analysis tools are built into this layer, such as the ability to select sets of clients, attorneys, date ranges and other reporting variables. The more "includes" and "excludes" the better.

Presentation Layer
The presentation layer enables the end user to select viewing and distribution methods for the information retrieved. Options may include report templates, graphs, exporting to secondary databases, digital scorecards, spreadsheets or Pivot Tables, all of which could be viewed on screen, printed, saved to an intranet portal or sent via e-mail. Business intelligence software is built not for the programmer but for the businessperson who needs information at his/her fingertips. It does not require custom programming, complex report writers or query tools. This ease-of-use allows end-users to access information themselves, thereby relieving IT professionals from having to develop new reports to suit various needs.

Practical Applications
The benefit of business intelligence software is that it enables firms to leverage the information automatically captured via daily transactions in a meaningful way. For example, business intelligence software can be used to evaluate the success of branch offices, as well as to compare actual numbers to budget numbers.

Here are two in-depth examples of how business intelligence software can be used to help firms better manage and grow their practices:

Measuring Profitability. A CFO can use business intelligence software to identify the areas of law that are most profitable to the firm, as well as the clients that drag down the firm's profitability by:

Measuring billing realization by matter area of law on a quarter-by-quarter basis

Comparing that to cash receipts realization

Examining average rate by quarter for each area of law

Further examining each attorney and his or her average rate

Examining accounts receivable write-offs by area of law, then by clients

Making decisions about resource allocation as well as whether or not to adjust new matter intake rates for these clients

Measuring Productivity. A managing partner can use business intelligence software to identify attorneys who are not as profitable as the firm average and analyze the factors that contribute to that shortfall by:

Analyzing each attorney's hours produced

Comparing those hours to others at the same level (e.g., partner, associate), as well as by practice area

Examining the average billing rate for those attorneys and their average accounts receivable write-offs

Working with attorneys who are falling below firm averages to identify and resolve any issues impeding productivity

BI: An Intelligent Choice

According to Mark D. Grant, CPA and president of his own financial system consulting firm, many firms are choosing to use data warehousing, rightly so. He says that an accounting system is designed to process transactions rapidly, whereas a data warehouse is designed for fast generation of reports. From a technical perspective, the two systems are tuned very differently to achieve maximum speed. By pulling the information into a data warehouse, firms can efficiently and effectively manipulate the data for further analysis as needed.

Once a BI system is in place, your firm's financial history provides numerous benefits and strategic planning opportunities. The value of the information that resides in your financial system extends beyond billable hours, WIP and A/R — and today's numbers don't tell the full story. While isolated numbers are important, they are more meaningful when paired with information from prior months and years in order to identify trends and the direction your firm is heading in relation to those trends. For example, is your firm collecting slower than usual as evidenced by an increasing percentage in the over-90 day's column? What are the reasons behind this trend? Could the billing rates be too high? Is the collections department understaffed? Is this a problem across all practice areas or just isolated to a particular billing attorney? Once you identify the trends and explore the "whys" behind the numbers, bringing about the changes necessary is a slam-dunk.

E-Billing on Demand: Is Your Firm Ready?

by Donald Gall of Omega Legal Systems
and Don Holland of HSV Consulting Group

When clients of Lane & Waterman LLP first began demanding that they be sent invoices electronically and in a standard file format, the firm felt a bit uneasy. While the idea behind e-billing — to standardize and streamline the billing/collection cycle — was appealing to the firm, it opened up the possibility of extending the billing-to-collection cycle.

And there was another, more immediate concern: Would L&W's time, billing and accounting software even support the LEDES (Legal Electronic Data Exchange Standard) e-billing format and the emerging variations of the standard? If not, would it be willing to invest in updating its software so that it could support them?

Fortunately, the firm's time, billing and accounting provider had developed its LEDES interface shortly after the standard was released and was able to quickly make the necessary modifications as requested, making implementation from paper billing to e-billing nearly seamless. As a result, e-billing has actually given the firm many of the benefits its clients had originally promised.

Unfortunately, L&W's relative success from e-billing isn't currently all that common. According to ILTA's 2004 E-Billing Survey, setting up a new e-billing client requires an average of 76 hours of work initially and costs firms an average of $711. Each invoice also costs an average of $68. That's more time and money than originally expected, and for the most part, it isn't delivering the expected results.

This article will describe how law firms are handling the challenges associated with e-billing and offer recommendations on how they actually use it, along with their time, billing and accounting software, to increase their bottom line. We'll examine the pros and cons.

Promised Benefits for All? Not Quite

Ask any law firm why it's doing e-billing, and you'll likely get this answer: A client requires it. According to corporate law department clients, e-billing reduces the cost of paying bills and enables them to track outside spending for legal services more closely. For example, with e-billing, law departments can seamlessly import the billing data into their own systems to:

***Manage cases more efficiently**. An insurance company wanting to keep track of the bills related to a case moves the billing data into a case management system to help it see what steps its outside counsel is taking in the case, what its lawyers have been doing, as well as whether they're complying with contracted billing and staffing guidelines such as not overlawyering or unnecessary travel costs.*

***Audit outside counsel.** The same insurance company can seamlessly filter a law firm's bill in-house or pass the information on to auditing companies whose job it is to review and ensure compliance to task budgets, ensure that calculations are correct, hourly rates and expenses reflect agreement or whether any of the work is excessive. Some auditing companies actually get paid based on the amount of overbilling found in a law firm's invoices.*

***Compare partner/lawyer time.** Companies looking to assign work to new law firms can study bills and compare partner or lawyer time in one firm to the average at another firm to determine how efficient one is over the other.*

***Analyze data.** E-billing supports reporting and benchmarking to analyze data for trends, analysis and metrics. For example, e-billing reports can highlight a specific law firm's billings, break down the company's* *legal cases by wins, losses and other factors and even focus on the types of legal mechanisms the firm has used successfully.*

Of course, many of these processes can be — and in the past have always been — done with paper billing. But with paper bills frequently 25 pages or more, this is often inefficient and time-consuming. With e-billing, paper-shuffling declines and invoices actually get paid faster. At least that's the goal.

Clients require firms to send their invoices in electronic form either directly to the legal department's website or through the website of a third-party e-billing vendor. The goal of the LEDES format developed by PricewaterhouseCoopers in 1998, was to settle on a standard, industry-wide e-billing file format. This failed to happen for a number of reasons:

Moving into a website environment is motivating some firms to require XML format over the ASCII format that results from LEDES.

Clients found the standard format could be modified to capture information for their specific business lines.

Clients began modifying the standard format to capture information they needed to provide to governmental agencies.

E-billing is no longer confined to U.S. boundaries. In fact, the LEDES Oversight Committee recently approved LEDES 98B International Beta, which adds a number of fields requested by European organizations to the original LEDES 98B.

Clients were never content to settle upon one paper-billing format — why expect a different attitude with e-billing?

Nevertheless, it would be shortsighted to argue that PricewaterhouseCoopers' idea to develop an e-billing standard was a failure; rather, it has been so successful that it has outgrown the initial concept.

In ILTA's survey, nearly one-third of responding law firms reported they were using three or more different e-billing formats to bill their clients. One even reported using 10 different formats! Lane & Waterman interfaces with three e-billing vendors; with the help of its time, billing and accounting provider, it can now download into most formats the client wants.

Other law firms turn to their time, billing and accounting providers to put their invoices into an e-billing format that conforms with the client's requirements so the format can be submitted to an e-billing vendor or directly to the client. If the format is supported, the law firm is able to automatically put its data into the required format without manipulating the data or doing extra work, and submit it directly to the client or through the e-billing vendor to the client. If the format is not supported, it must be developed and completed by the client's deadline.

The client or e-billing vendor then reviews the data and might send it back to the law firm — or reject it outright — for any number of reasons, including a timekeeper not being approved or the system's inability to process a credit.

When the client receives the final, detailed e-bill, complete with codes created by the American Bar Association in 1995 for specific legal services, it's able to import their bills into a separate database or case management system for analysis in-house or with third-party auditing firms.

A Matter of Cost

Naturally, different firms view e-billing differently. For example, "a necessary evil" is how Jones, Skelton & Huchuli, PLC characterizes the process. At the outset, the firm was frustrated by the high startup costs just to send bills, actually refusing one client's e-billing initiative because it felt the cost factor to the firm was too high. And JS&H found the e-billing process cumbersome because the bill had to be processed in their billing software, converted to the e-billing format, then, for some clients, uploaded and run through the client or e-billing vendor website. Sometimes the bill had to be processed up to three times!

Usually, the majority of the costs associated with e-billing are borne by the law firm itself, as is the cost for training its staff to comply with the various format nuances. Costs to implement an e-billing system can range from less than $1,000 to several thousands of dollars a year in fees paid to the third-party e-billing vendor the client has commissioned; charges may include a setup fee and a percentage of each invoice sent or a percentage of the total billed for the month.

So far this year, JS&H has received a number of new e-billing guidelines from clients — an increase it's not thrilled about. One source of frustration is its clients tweaking the LEDES (or other) format to better suit their needs, forcing the firm to have to remember all the extra rules, procedures, etc. in order to conform. The firm may have five different clients using one e-billing vendor, with each client needing to be processed differently. This makes it necessary to train and retrain to ensure that the data is entered correctly the first time, to avoid having the bill rejected for any reason. Of course, JS&H does what is necessary to please their clients.

A Matter of Time

For Gallagher & Kennedy P.A., the implementation curve was steep. It now has the system down pat, but early on a great deal of time was spent training the billing clerks.

Some of the firm's largest clients require e-billing, and several actually have the system in-house and don't require a third-party vendor. In these cases, payments are generally made much faster than with paper bills.

But despite the potential for faster payments, G&K was compelled to tell a new client that it wouldn't provide e-billing because the volume of work just didn't justify the price its time, billing and accounting provider was going to charge for the client's very specific format. Yet, after the firm explained they either needed more work to justify the cost or would keep doing the paper billing, the client understood.

Unfortunately, G&K has found that clients who demand e-billing despite any cost to the firm often nitpick every dime, forcing the attorneys to observe much more carefully how much time they spend on each and every task — which isn't easy. It's especially time-consuming for them when the third-party vendors reject the entire invoice for one small infraction. But more often than not, the attorneys are able to prove to their clients that they're not overbilling them for the quality service they're getting.

What Are Firms Doing Right?

So what are firms doing to help meet the challenges associated with e-billing? Following are some of their recommendations:

> ***Be involved in e-billing vendor selection.*** *Work with your clients to choose a vendor that's easy to implement; easy to use; and even better, charges the client for the e-billing process, not the firm. Examine the vendor's past implementations to determine how long they took, how complete they were, etc.*
>
> ***Make the transition slowly.*** *Plan ahead and give yourself plenty of time before stopping paper copies. Train multiple people on how to do e-billing, and test the system for a month or two before going live. While some corporate law departments demand that law firms stop paper billing by a certain deadline, chances are most will be flexible to your needs.*
>
> ***Get help from the financial management vendor.*** *Work closely with your time, billing and accounting provider to make the output of data as easy as possible in whatever format the client demands. Most likely, requirements you may find hard to understand or to comply with have already been encountered and a solution is available from your vendor.*
>
> ***Do your homework.*** *Memorize each client's guidelines or at least have a checklist of all task and activity codes you need accessible so that you're inputting information correctly the first time. The software may make this painless for you if it has pre-loaded the ABA Uniform Task-Based Management System (UTBMS) code sets, which can be linked to the appropriate clients to make entering time with the right task and/or activity easy for the user. If the client has its own code set, your software should let you set up the code set you need to accommodate the time entry (and cost entry) seamlessly in the same manner as the UTBMS code sets.*
>
> ***Keep your staff trained and consistent.*** *While training is initially time-consuming (one to five hours per client, according to 63 percent of firms in the survey), it is necessary.*
>
> ***Keep your client trained.*** *Many of the issues associated with e-billing can be traced back to incomplete information communicated between the law firm and the client. For example, law firms get frustrated when the clients don't reference the invoice number when sending payment, or when taking deductions without telling the firm the purpose of those deductions.*

E-Billing Is Here to Stay

A recent national survey of law firms, referenced in the October issue of *ACC Docket*, provides some interesting insight into the thinking about e-billing:

> ***63 percent*** *see a trend toward clients requiring e-billing.*
>
> ***31 percent*** *say they get paid faster when a client institutes e-billing.*
>
> ***78 percent*** *say they are either in favor or somewhat in favor of e-billing.*

Based on those numbers and other indicators, it's likely that sooner rather than later, e-billing in one form or another will be the norm, and users will regard e-billing to paper billing much like people view online banking to writing a check. As more and more firms are discovering, e-billing is an opportunity to demonstrate the value they bring to their clients and to differentiate themselves from competitors. The result: more work and ultimately, greater profitability.

LEDES on Steroids: 2K Is Coming!

by Jeff Hodge of DataCert, Inc.

LEDES (Legal Electronic Data Exchange Standard) has been the *de facto* format for moving legal invoices from law firms to corporations worldwide since its introduction in 1998. This ASCII-based file format has been embraced by law firm time and billing system vendors, corporate matter management vendors and e-billing and spend management vendors serving corporations, firms and others. Some estimates show that more than 90 percent of the legal invoices moving electronically today move in the original LEDES 98B ASCII version of the standard.

With the introduction of beta-version LEDES 98B International (ASCII file format) by the LEDES Oversight Committee (LOC) on February 2, 2005, LEDES is now truly an international standard, having received endorsement by the United Nations and by legal technology groups in Europe. While even this latest release is not perfect, the widespread use of LEDES proves its great value.

While LEDES 98B does get the job done, it was recognized early-on by the LOC that the ASCII-delimited approach upon which it's based was not robust enough or extensible to serve long-term future needs. So in 1999, to pave the way for these future needs, the LOC undertook to create an XML version of LEDES. The mission of the Change Subcommittee was to incorporate all existing requirements of 98B — but to go further.

2000 Reasons for XML Invoices

LEDES 2000 (LEDES 2K or LEDES XML) was developed "to take LEDES to the next level as a ubiquitous, available and serviceable data-formatting standard for legal e-billing." Inherent in the design decision was that the information contained in the format "must" already exist in the law firm's time and billing system. Also inherent in the choice of XML as a base architecture on which to build the new standard was its ability to be "self-contained." Eric M. Elfman, the Chair of the Change Subcommittee, recalls that "if a copy of the standard was found on the street, it should have all of the information required for someone at a law firm to create the file."

Obviously, however, simply taking the existing standard and reformatting it for XML was not enough to warrant the change.

LEDES 2K goes well beyond a simple one-for-one replacement. Its data-rich format potentially includes everything that a law firm or a corporation would need in order to request payment, make payment or reconcile payment. In addition to simply describing the work and the charges for it, 2K looks to describe in new ways the elements about the firm-client relationship that could potentially impact payment and reconciliation, including:

- *Taxes (fees and expenses)*
- *Discounts*
- *EFT reference support*
- *Alternative fee arrangements (time and expense, flat fee, contingency, staged billing)*
- *Fee sharing*
- *Multiple clients*
- *Multiple matters within an invoice*
- *Currency type*

Because the standard was developed with the intent that it be modifiable without breaking it as a standard, firms and clients may agree to add new data elements or descriptors in order to further streamline payment and processing.

Why XML?

The choice of XML was a relatively easy one back in 1999. Faced with the limitations of ASCII and the industry's inability to widely adopt Electronic Data Interchange (EDI) as it existed, the LOC looked at available options. In 1999 XML was yet to become the driving force for Internet-based EDI that it has now become. In fact, at that time XML had competition, and it was uncertain whether it would be the right choice. But international forces seemed to be lining up behind XML because of its simplicity and extensibility, precisely what the legal industry needed.

The goals of XML spoke directly to the realities of the U.S. legal industry in 1999. The developers said that XML should be straightforward, compatible, extensible, easy, reasonable, clear, quickly prepared, formal and concise, with terseness being of minimal importance. Like its forerunner, HTML, XML is a computer language standard, developed by the Worldwide Web Consortium and intended specifically for Web-based software applications. XML is ideally suited for complex data interchange between trading partners and is much more flexible and cost effective than old-line EDI which has served its purpose since the 1960s.

For legal, XML makes tremendous sense. Before, an ASCII file could only lay out the pieces of a legal invoice in a precise and predictable way in order to be understood. But to be useful, the file had to be put into software, which already understood the business rules surrounding the information. All of that context and logic had to be pre-programmed, agreed upon and expected. XML-formatted invoices are self-describing, providing their own context for the invoice data and even offer firms the ability to provide instructions about how to interpret invoices and how to handle them.
These attributes are incredibly important in an industry in which technologies are relatively simple and technologies must be inexpensive and readily adoptable. So long as firms can produce XML invoices in a standard way (*e.g.*, LEDES 2K) and clients have software to use them (*e.g.*, Web-based cost management applications), the parties can submit, pay, adjust and reconcile invoices via the Internet — which, using ASCII, was tricky, if not impossible.

In short, if one could read, understand, construct and outline the basic premise underlying XML, he/she should, with minimal training, be able to construct and understand an XML document. When compared to its ASCII predecessor or its old-line EDI ancestor, XML is far more useful and far easier to use.

Current Status

Despite its simplicity and XML's now universal appeal, LEDES 2000 has yet to find widespread adoption. The primary reason for the difficulty is in the general inability or reluctance of law firms to produce XML. Seeing law firms as generally understaffed in IT or equipped with systems unable to generate XML invoices, clients have been generally unwilling to push for XML. Even though many law firms' time and billing systems now natively produce LEDES 2000 invoices for export, corporate legal departments already using electronic invoicing with their firms have been reluctant to push. Those companies new to electronic invoicing are less hesitant. Perhaps in part because of the resistance they have experienced in asking firms to create even the most simple ASCII invoices, and in part because LEDES 98B is "getting the job done," clients have not pushed firms despite the obvious advantages to both.

New Value Regognition

Once again, however, the sands are shifting for clients and their firms. Spurred on by the dramatic efficiencies of electronic invoicing at corporate legal departments, clients are now sensing that there is even more value to be gained. But they need their firms' cooperation — and changes are not only for the client, as clients themselves understand the need to give more information, more feedback and more context to their firms. XML documents of all types offer clients these possibilities.

Armed with more capability but needing more data inside of the electronic invoice, and pushed by corporate IT to move ahead, legal is beginning to ask for LEDES 2000 where it feels it can get it and only settle for LEDES 98B where it can't. Vendors are responding, and law firms are, once again, struggling to keep pace. The more technically advanced firms are proactively offering XML, knowing that it will soon be asked for and using the interim as an opportunity to market themselves as "cutting edge."

LEDES 2000: A Matter of Time

LEDES (ASCII) remains a strong and viable industry standard for electronic invoicing. But the widespread adoption of LEDES 2000 is rapidly coming. And, as historically with LEDES 98B, clients will drive its adoption based upon their own needs regardless of their firm's willingness to come along. XML invoices are simply the first in what is expected to be a long lineage of Web-friendly documents for clients and firms. The good news is that while offering tremendous client benefits, LEDES 2000, and XML generally, is less than difficult for firms to accommodate and more important for the future than they might imagine.

RESOURCES

For more information about LEDES go to www.LEDES.org.
For more information about XML go to www.w3.org.

Using Profitability Analytics

to Profit Your Firm

by Barbara Schane Jackson of Baker Robbins & Company

The headlines tell the story:

"Sales, Profits Surge At Business Objects"

"Ascential Software Reports Sales Jump"

"SAS Revenues Pass Through $1.5 Billion Mark"

A recent Gartner Group survey of 1,300 CIOs worldwide put business intelligence initiatives second only to security enhancement initiatives for 2005. And informal polls of law firms and recent sales history of our industry leaders reflect the same strong interest in business intelligence solutions in the law firm market.

Hand-in-hand with the interest in BI solutions is the interest in profitability analysis solutions. Many law firms have begun a foray into business intelligence via initiatives to measure component profitability — that is, the ability to evaluate on an ongoing, consistent basis the relative net income contribution of types of work, matters managed by billing attorney, clients, practice teams, etc. While component profitability analysis has been performed for many years on an *ad hoc* basis to make specific decisions such as the decision to expand a particular practice, the ability to have component profitability information readily and consistently available across all product lines and business units is new for many law firms.

Seeing the Big Picture

Component profitability analysis provides a means to cluster similar business areas in performance groups. For example, the net profit contribution of all matters for a specific practice can be plotted against total revenue to show the top performers — those with high profit margins and high revenue. The objective of profitability analysis is to understand why some matters were top performers and others were not and then act upon this information. By evaluating the underlying factors that lead to high margin and high revenue, firms can then apply this knowledge to underperformers and improve overall profits.

The underlying factors are our old friends: revenue, expenses, rates, realization, utilization, leverage and capacity. Virtually every law firm reports on the first five metrics on a monthly basis at a minimum, and most have inquiry systems that allow responsible parties such as the billing attorney to see the revenue, rates and realization for their own book of business. But without component profitability analysis, it's difficult to demonstrate the impact of the cost of providing these services. Attorneys focus almost exclusively on revenue generation; they do not focus on the differential between revenue and the associated cost of producing the revenue — that is, they don't focus on profit.

The singular focus on revenue generation is compounded by performance management systems. For example, billing attorney goals are often centered on the concepts of origination and billing credit. Although we attempt to consider some "cost" measures in performance assessment, such as realization measures and inventory aging, most billing attorneys tell us that they focus on the top line — high WIP values and high billing values — because they believe other factors are secondary to the top line in the performance evaluation process.

Business intelligence solutions, coupled with sustained profitability analysis, provide the opportunity to establish performance metrics that are more closely aligned with evaluating contribution to profit and evaluate an individual's performance against profit-related metrics beyond revenue. As firms deploy their business intelligence solutions, building the right metrics into the solution will be a significant first step to realizing the benefits of business intelligence applications.

Additional Metrics

If we already measure revenue in the form of total WIP, total accounts receivable and total collections, what should be added to the billing attorney metric set? We can look to some basic inventory concepts for guidance, and we should consider the cost of holding inventory in performance management metrics. Capital tied up in inventory cannot be used to fund growth in the form of marketing or expansion. Because overall growth is critical to many of our businesses, we need to encourage billing attorneys to "turn" their inventory as quickly as possible. This means establishing a goal for optimal inventory turn in the form of average days from date worked to date collected and measuring individual billing attorney performance against the optimal goal. Most firms will not have one goal; there are obvious, legitimate reasons for some types of work to have a longer inventory turn than others.

An important metric, already provided in some form by almost all firms, is the rate of discounting applied to services. Realization — measured as the percent of value collected against standard billing rate value for time worked — provides a single focus metric for goal-setting related to discounting. It incorporates every discount decision in the collection process, from the decision to begin work with an already discounted rate through the decision to write off some portion of accounts receivable value. Again, effective performance measurement practices will set a goal that is realistic for each billing attorney and measure performance against this goal. Some clients demand a discounted rate at the outset of an engagement; 100 percent realization is not always possible, but there is still almost always room for improvement in overall collection realization. Total collections — the total value of work in inventory and inventory turn — measure overall top line performance; collection realization measures the degree of discounting.

Leverage — the ratio of non-partner work to partner work — is another valuable metric. It establishes a means to measure the billing attorney's performance in managing the cost of his/her product. Different legal products, often defined in terms of area of law coding on the matter, will have different optimal leverage. Establishing leverage performance goals for billing attorneys based on the products they manage can help them deliver legal services at optimal costs.

Using Business Intelligence Intelligently

Well-implemented business intelligence systems can provide the billing attorney with one, single focal point to evaluate performance on a constant basis. Tying the performance metrics delivered by the business intelligence system to profit-focused goals can allow the firm to realize a direct improvement in profits.

Put your business intelligence system into action — don't let it become just another reporting tool. Begin by spending time analyzing component profitability results to establish solid, realistic goals for each billing attorney. Educate billing attorneys on profitable inventory management practices. Provide him/her with a "my page" view that displays the performance YTD goal, actual and annualized performance ratio for collections (revenue), inventory (WIP and AR), average inventory turn days, collection realization percentage and product leverage. Establish a drill-down path that quickly navigates to maximum impact improvement opportunities (open AR displayed by highest value then most aged, for example) so they can quickly adjust their personal performance by taking action on items with the highest potential for profit improvement.

Your billing attorneys will spend minimum time on inventory management, and your firm will yield maximized profit results.

Interactive Solutions — Budgets That Talk Back

by Norm Mullock of Redwood Analytics

The heightened competitiveness of today's legal market has driven law firms to reevaluate many of their internal processes. As the industry embraces advanced analytic tools such as data warehouses, business intelligence platforms and dashboards, there is one significant area that risks being overlooked: budgeting.

Firm managers require detailed data about the precise areas in which the firm is not performing as expected and explanations as to what is causing the discrepancy. The aforementioned tools provide the details needed to understand actual performance multidimensionally. But for this information to have its greatest impact, firms should develop budgets with the same level of detail — and do so efficiently.

For example, recognition that staff expenses are rising beyond expectations is only the first step toward effectively controlling these administrative costs; a firm also must know the factors driving that increase: which offices, which practices and even which timekeepers are responsible?

While this information typically can be determined, eventually, by running multiple spreadsheet reports, so many variables affect law firm budgets that waiting for a bundle of reports to examine every performance glitch can paralyze those charged with financial planning.

In the above example, a firm would have to run one spreadsheet tracking staff cost by title by office, another by practice group and, if secretarial expenses appeared to be a problem, a third that tracked such costs against timekeepers by experience level. That's not taking into account associated linkages such as ratio of timekeepers to secretary, staff sharing across timekeepers, subpractices and any number of other variables. Once an analysis is developed to explain actual performance, the next step is to develop a model that allows for the ability to track these expenses with changes to other budgeted items such as growth in timekeepers.

Multitasked Budgeting

Fortunately, some law firms are beginning to wean themselves from the traditional budget process, structured primarily to estimate how much the partners stand to earn in the coming year. Increasingly, firms are taking steps to create budgets that do more than forecast the bottom line. They are looking to use budgets as financial planning tools to explain performance at every level of operation.

To use a budget as a true financial planning tool, it needs to be interactive; planners must be able to plug in a range of variables and instantly calculate how those variables will affect performance. Because we live in a multidimensional world in which performance is affected by many variables at once, deriving such results through two-dimensional spreadsheets is time-consuming and difficult. Hence, some financial planners are turning to budgeting applications that allow them to create multidimensional modeling engines customized to their firm's strategic needs. Once these tools have been incorporated, those charged with developing and managing the budget can plug in an array of variables to see instantly how financial decisions will ripple through to firm performance across office, practice and timekeeper.

Going back to the example regarding staff cost overruns, a law firm with a customized accounting module instantly can project next year's growth in timekeepers, including lateral additions. Using output reports highlighting various operational ratios, financial managers can detect whether the firm's projected secretarial expenses are in line with maintaining existing staff/timekeeper ratios as the firm grows. Alternatively, if targeting improvement of these ratios is the goal, a firm can work backwards to derive the number of recommended new secretarial hires. Two clicks to see how these costs stack up two different ways.

The data driving these performance modules are fed automatically from the firm's accounting systems — billing and compensation. There's no need to spend time inputting information to obtain such results.

With the ability to cross-analyze data through a single click, time and effort spent churning data and running reports can be better used to plot and adjust the strategic course of the firm. That's the power of integrating the budgeting process with planning and performance measurement.

The Value of Budgeting

The static nature of most law firm budgets stems from the traditional purpose of the budget — to inform partners of the profits they can expect in the coming year. Once the sometimes excruciating process of arriving at those numbers is complete, the budget process at many firms is dropped for the remainder of the year, except for persistent reminders to make the numbers.

But to thrive in today's business world, law firms must measure and adjust their performance continuously. As firms grow, it becomes increasingly important to spot performance discrepancies early, to keep small variations from becoming major revenue shortfalls and expense overruns. Firm financial planners have to be able to use the budget to explain in real time why the firm isn't performing as predicted. They have to be able to understand and model the drivers of the business.

Are collections off? A firm has to know, as soon as possible, whether it's because of the timing of the billing cycle or whether production is low. To get at this kind of information quickly, a firm needs a budgeting platform that automatically takes financial data from the firm's time and billing systems, and processes that information using modeling engines. Such tools allow planners to stress test the assumptions of the budget by running multiple scenarios.

Increasingly, firms are searching for these types of sophisticated solutions to replace their existing budget processes.
A typical example is a law firm that sought a more dynamic revenue model to replace its work value budget. Its chief financial officer wanted a model that could project, by office and practice group, cash flow and its timing for beginning inventory and each month's production. Principally, he wanted a model that would allow him to distinguish timing variances arising from changes in firm performance.

Drawing on an automated feed of actual information, a model was created that used the firm's historic patterns to capture monthly cyclicality. Because the model was dynamic, the CFO was able to stress test his revenue projections by adjusting assumptions. It allowed for rolling forecasts to generate projections on a monthly basis.

By creating a budget that speaks back — that answers fundamental questions concerning law firm performance — finance staff and management can use the budget as a tactical, strategic tool in planning efforts.

Key Budget Tools

Once firm management recognizes the impetus to increase the power of its budgeting process, the next step is to examine whether the firm's existing budgeting platform can address planning needs.

Most firms currently rely on multiple files of disconnected spreadsheets to produce their financial data. But better tools exist to predict performance and assist with strategic planning. This new generation of budgeting tools offers law firms several advantages. They automate the budgeting process and allow for the increased need to solicit input and buy-in from a larger group of budget contributors. In addition, these applications are better equipped to accommodate the increased complexities caused by the many variables affecting today's budgets.

The first characteristic of an effective budgeting platform is the ability to automate the process. Budget templates should be fed by the firm's billing and compensation systems so the numbers are current and the finance staff can spend more time analyzing data and less crunching numbers.

For some firms, it is simply the ability to automate that is a driver to revamp the budget process.

The director of finance at one law firm sought to change its budget platform because too much time was being spent each year maintaining its existing model. The desired solution would automate the current process without changing it. With several smooth budget cycles following automation, the finance director is looking to automate the firm's monthly reporting system as a next step.

A second component to improving the budget process is moving from e-mail to an online platform for the dissemination of budget templates and solicitation of feedback from contributors. As firms grow and increasingly manage their budgets by practice group and office, the number of people involved in the budget process increases. Budgeting is an opportunity to create buy-in from practice group leaders and managers throughout the firm, and such buy-in leads to greater accountability.

Web-based applications allow multiple budget contributors to plug in their information directly into single combined templates, replacing the need to create one worksheet per contributor. Users only access the templates relevant to the components of the budget for which they have responsibility. However, financial planners can view all information as soon as it is entered, literally watching the budget as it is being built.

The chief financial officer of one law firm noted that although his firm's traditional budget process generally worked well, the dissemination and compilation of information was so time-consuming and inefficient that it had become onerous. The firm switched to a Web backbone to distribute its budget information, and the CFO was pleased with how this change alone improved the budget process.

The first two components of better budgeting concern process — installing automation and moving to Web-based workspaces. The third key is to improve actual performance of the budget itself. This is accomplished by employing multidimensional technology reflecting the reality that multiple variables affect outcomes at every level of budgeting. Budget platforms that organize data into three-dimensional modeling engines, or "cubes," can process data at multiple data intersections. One such cube often can do what it takes more than a dozen spreadsheets to accomplish.

Modeling engines can be employed effectively on both the revenue and expense side of the budget. Through modeling, financial planners can analyze the economics of change across multiple dimensions quickly. For example, potential rate increases of three percent, five percent and seven percent, and realizations of 92 percent, 95 percent and 98 percent, can be run through the entire revenue process, producing nine different numbers at the push of a single button, without having to create and save nine separate workbooks.

In an effort to develop optimal staffing mixes, one law firm had a modeling tool created that allowed for analysis by skill sets, availability and billing rates. The firm's CFO was especially pleased with the ability to account for capacity (productivity of each timekeeper as measured against overall firm workload), an often-overlooked component in profitability analysis.

This type of modeling helps to identify more accurately the types of billable work that is interchangeable and can be completed by multiple timekeepers in the same class, versus work that is more specialized and only can be completed by select timekeepers.

The capability to analyze staffing arrangements and corresponding profitability has helped this firm respond more accurately to client requests for alternative billing arrangements. It uses modeling to analyze pricing and staffing scenarios to assure profitability before agreeing to a particular rate. When a client requests a blended rate, the staffing can be adjusted or the firm can counter with a more appropriate rate. The ability to price matters more precisely helps the firm keep its rates competitive.

Additionally, the same firm uses modeling to evaluate collections, analyzing current data against historical payment patterns. This analysis helped the firm meet its collections budget from the first quarter the firm switched budget platforms.

On the expense side, a typical module is the income statement cube, which summarizes expenses by office, department, month or time of year and year-to-year comparison.

Considering the endless variables that figure into budgetary adjustments, the power to instantly change assumptions is indispensable.

Best Practices Budgeting

Not surprisingly in today's electronic world, enhancing the budget process is a project that requires both finance and IT expertise. To do it effectively also requires a broad knowledge of industry budgetary best practices.

Many law firms repeat the same budget process for years — even as they grow, diversify geographically and by practice area, and as the timeframe required to respond to business realities shortens. Often, this creates a mismatch between the existing process and the data needed. Firms are forced to oversimplify their budgets, producing imprecise results.

For example, in the ongoing struggle to forecast realized income, law firms have developed homegrown approximations based on realization rates, growth and the cash that came in the door the previous year.

This approach has several shortcomings. The first problem is that such estimations begin to fall apart at the practice group level. The law of large numbers — which protects approximations made at the firmwide level — does not protect such estimates made at the practice level, because variations by practice don't have the opportunity to cancel each other out. As practice group management has taken hold in firm financial planning, a better way is needed to forecast income.

Another inherent weakness with law firm cash estimations is the tendency to over-budget revenue in a growing firm or practice, because the traditional approach fails to account for the lag time between growth in work value and the realization of collected cash. Firms have used a historic haircut to right this wrong, reducing annual budgeted collections by the firm's current growth rate. But in today's consolidating and competitive environment, the assumption of steady, predictable growth often does not hold true.

Most importantly, this approach to predicting cash fails to deliver one of the most fundamental values of budgeting: to provide a benchmark against which to measure actual performance, as well as a means to understand and analyze monthly variances. Under the typical approach, if a firm collects less in one month than budgeted, determining the cause is difficult. It's hard to judge whether the variance is driven by lower than expected production, billing and/or collection realization, or it's only a factor of timing and will be made up. The cause is difficult to identify, even at a firmwide level, because the relationships between these factors have been assumed rather than proven.

There is a more reliable way to conduct revenue modeling. By using historic billing and collection information, in terms of how work value actually translates into cash, firms can create more accurate forecasts — and at a multidimensional level (*e.g.*, by timekeeper, practice group and office).

But building such models can be complex. It requires analyzing historic billing and collections information to identify seasonality patterns, and applying such patterns to develop monthly billing projections. The more precise modeling engine a firm seeks, the more sense it may make to seek outside assistance from those with budgetary design experience across several firms.

Beyond Budgeting

To compete for business and improve performance on a daily basis, today's law firm budget must go beyond earnings forecasts to give law firm managers, financial planners and business developers real tools. And to be useful, a budget must be dynamic. Creating one that speaks intelligently when queried gives financial managers the ability to produce real-time answers when they need them most.

Increasingly, the failure to create an interactive budgeting process puts a firm at a major disadvantage. In the time it traditionally takes to identify and solve budget variances, the business realities often change. Firms that cannot react quickly to shifts in their business risk being left behind.

E-Payroll: "Canceled Checks"

by Mary Ann Hallemann of Thompson Coburn LLP

The accounting department at Thompson Coburn LLP had a dream that someday we would convert to 100 percent electronic payment to our employees.

With direct deposit and ACH becoming more commonplace in the banking world, we knew employees would benefit, since they wouldn't have to make trips to the bank to deposit their checks (of particular relief for those who travel) or wait for funds to be declared "good." Accounting would benefit, too, for while it would take about the same amount of time to process payments, there'd be no burden of distribution. So in 2002, we set out to make our dream come true.

We began working on the project as part of converting our payroll system. At that time, the firm was already somewhat ahead of the curve, with over 75 percent of our staff using some form of direct deposit associated with their paychecks. With our new payroll system, we also planned eventually to roll out Employee Self Service (ESS), a browser-based application that gives employees secure access to certain personal information, including their paychecks. All of our employees have access to a computer, so we decided direct deposit would be mandated as the payment method.* And because direct deposit is a standard feature in the payroll software, we had no software changes to make.

Step One: Preparing Employees

We gave employees plenty of notice that required direct deposit was on the horizon. We also arranged for a bank representative to visit each of our offices to facilitate establishing a checking account for any employee who needed one. All went fairly smoothly, and by the required deadline of November 2003, all employees had direct deposit and were using ESS for pay stub information.

Since an employee could view and print his/her paycheck information online in ESS, distribution of remittance advice was discontinued. To accommodate those who were uncomfortable printing paycheck information to a shared printer, we installed kiosks in private areas in each of our offices (these kiosks are rarely used). ESS has now been expanded to include W-2s, although we still distribute the paper form to all employees. We also use ESS for Open Enrollment of our insurance benefits.

Step Two: Simplifying Reimbursements

In the fall of 2004, we replaced reimbursement checks to employees (but not partners) with ACH transfers to directly deposit the payment to their bank account. We did some customized programming with our accounts payable application, linked to the bank account information contained in our payroll system, created an output file that met the bank's electronic transfer requirement. And "*voila*" — we were in the business of electronically reimbursing employees once a week. A system-generated e-mail notifies the employee about the details of the reimbursement.

Step Three: Converting the Partners' Draws

It was now time to convert the partners, and in January 2005, we announced a voluntary program for this group, giving them the choice to be paid via ACH and reducing their personal banking activities or continue to be paid by check. Converting a partner's monthly draw payment is easy, as we have historically paid it through the payroll system. Direct deposit of the draw check was done at the same time we mandated it for all employees. However, expense reimbursement and supplemental draws have proved to be a bit more cumbersome. We've found that sometimes the partner wants the payment to go to different accounts depending on the type of payment. The system we established within our accounts payable application required that all amounts paid to an individual be either always paid by check or always ACH to a single account. By doing some one-on-one education about the features available today from most banks online and with the use of ATM machines, some partners are able to see a new way of approaching their personal banking. Within the first three weeks of the announcement, almost 50 percent of the partners had signed up. We anticipate that the majority will ultimately switch to ACH.

Total Success — Almost!

While the whole project turned out to be a bit more complex than we originally thought and though it took a lot longer than anyone imagined, we are quite happy with the end result. The accounting department's dream of 100 percent electronic payment to our employees is about to come true.

**Under federal law, employers may require direct deposit if employees are given a choice of financial institutions. However, some states prohibit mandatory direct deposit.*

Note: Thompson Coburn LLP uses the following software:

Payroll system: UltiPro from Ultimate Software Group, Inc.

Accounts Payable: CMS.Net from ADERANT

Zero Click Time Capture

by Ray Deck of of Element55

Billable hours are the lifeblood of any major law firm, and capturing those hours accurately and in a timely manner is critical.

But recording billable activity to timesheets is often a pain for attorneys, and enforcing timely recording a headache for many firm administrators — with the frequent result that legitimate billable time goes unrecorded and unbilled.

The law firm of Edwards & Angell LLP found a pain remedy — and a way to reclaim additional billable hours with less effort. Last year, the 300-attorney firm implemented a fully-automated time capture system which records most time as it is worked, even when the attorney does not keep contemporaneous notes. It's called zero click time capture.

A Timesaving Timesheet

The heart of the system is a timesheet that is automatically pre-populated with activities conducted over the course of the day, such that it is mostly filled out when the attorney first opens it. He sees, for example:

> *.10 hours on an e-mail message to a client in re the schedule for completing a deal this month*
>
> *.80 hours on a phone conference with opposing counsel*
>
> *1.4 hours revising the pleading for another case*

According to Keith Kotler, Director of Accounting at the firm, the system allows attorneys to find out exactly what they did during the day, and he says attorneys are amazed to learn all the little, yet billable, things they actually did. Some of them have an idea, of course, based on what they wrote down on a notepad. But what a surprise when they open up the timesheet and see the actual duration of their phone calls and quantity of their e-mail responses.

Integrating with Information Systems

The underlying power of zero-click time capture lies in its ability to communicate with the various applications and communication systems throughout the office to contribute to the automatic time entries without the attorney having to start or stop the clock or keep manual journals for most common activities. The system provides the following capabilities:

Integrates with the phone system to record the time, duration and phone number for outgoing and, when caller ID is available, incoming calls

Communicates with applications on the desktop and which document or e-mail message is being worked on or viewed in a given moment

Queries scheduling software on the attorney's calendar for appointments and meetings

Information management systems "fill the gaps" to provide better information on a captured activity:

Document management systems identify the proper client and matter for a document.

Contact and relationship management systems identify the person so attorneys don't merely get the phone number or e-mail address on the timesheet.

By collating information from multiple systems, automatic time capture gives the attorney the best possible picture of the day, with some time attributed to the proper client-matter and the balance containing enough description to make an intelligent decision how to assign the time.

Rollout and Attorney Reception

Rolling out the automatic time capture system at Edwards & Angell was relatively easy. According to Michael Morris, Training Director at Edwards & Angell, there was minimal resistance to the new automatic time entry system because almost everyone immediately recognized the benefit and realized that the new system would not be demanding more work on their part.

Some attorneys initially expressed concern that the system might enable closer scrutiny of their daily activities by accounting. But very soon they became convinced that was not the case. In fact, the new system proved to be incentivizing, as attorneys saw that all phone calls, e-mail and other time was being automatically recorded on the fly — and at the end the day all they had to do was put on the finishing touches by assigning to a matter and tweaking the narrative. They loved that they wouldn't have to pull out rag-tag sheets of paper at the end of the week to piece the whole thing together.

The automatic time capture serves as a memory jog for everyone. It has helped track time that would otherwise have fallen by the wayside. And by automatically ensuring that time is captured completely and in a timely manner, timesheets are more complete and detailed — a great benefit for clients who demand extremely detailed time records.

Reality Check

The firm conducted a review to quantify the increase in time captured. It was learned that attorneys and paralegals who used the automatic time capture software were, on average, capturing an additional six hours per month — valuable time that otherwise would have been missed and gone unbilled.

Two Lessons Learned

The system can be customized for individual work styles. Professionals have different styles of work that need to be considered when tracking their time. For example, some get more value out of tracking all their e-mail, while for others, only those that account for a significant amount of time need to be captured. Adjusting to the variation in work style was important to attorney adoption.

Technical support is minimal. The firm's user support team reported that the majority of inquiries they fielded regarding the automatic time capture were easily resolved simply by tweaking the thresholds for time capture to better reflect the attorney's working style.

ROI the Firm Can't Deny

The firm has concluded that the new system is the best example to date of direct return on investment in clear dollars, thanks to the combination of firm-level financial benefit, convenience for individual attorneys and client benefits.

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