

Return on Investment (ROI) for Document Management

Version 1.0 2nd April 2013



1. The need for ROI

Some businesses purchase Document Management (DM) because they have to, either for compliance with legislation or driven by demand from their customers, but most do so because it offers significant cost savings or increases capacity, allowing the business to achieve more with the same resource.

A typical DM solution should provide an ROI in less than 12 months, making it an attractive proposition.

Cost savings can be both tangible (quantifiable) and intangible (harder to quantify) like customer satisfaction, customer retention, etc.

A return on investment (ROI) forms part of the Business Case for acquiring a new system. The ROI is derived from an analysis of the tangible savings and costs associated with deploying the system. It will provide useful information on which to base a purchasing decision, including the elapsed time in which the new system will have 'paid for itself' and the on-going annual savings potential of operating the system after the acquisition cost is covered.

The task of performing the ROI analysis usually falls to the Finance Director (FD) or to an internal project sponsor, but ultimately the FD has the responsibility for validating the ROI and ensuring the proposed project makes good business sense.

The purpose of this document is to highlight areas that typically provide savings or efficiency gains when implementing DM or related technologies, and advise how such savings can be quantified.

Many DM vendors offer to prepare an ROI for prospective customers but too frequently do not cover all the potential internal costs of the organisation, so they are at best optimistic. However, even such optimistic ROI assessments can be a useful starting point on which to build.

As a result of the ROI you will obtain a new monthly operating cost for a process, and a comparison with the existing monthly process cost. The difference is therefore the monthly cost of not implementing DM.

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2. Total Cost of ownership

All too often we focus on the savings and compare to the costs of current practises and the cost of acquiring the proposed system. There are additional costs which are frequently overlooked, and should be budgeted for, including but not limited to:

- Lifetime costs including
 - maintenance – software and hardware
 - upgrades – new software releases, integrations
 - consumables – scanner parts, tapes
 - replacements – end of life scanners
 - growth – adding more users or storage
- Training, both the cost of and the disruption to business during training
- Change management, ease of adoption, overcoming resistance to new systems and ways of working
- Management and auditing time of the new system

3. Where to Focus

DM can be applied to most business functions and yield savings, so where should you start? If you are reading this document you already have some idea where your focus lies whether it is Accounts Payable (AP), Human Resources (HR), Customer Services, Compliance, etc. but consider the wider opportunities. Hopefully this document will suggest other areas in which savings can be made.

Select an appropriate DM solution that can be applied to other areas of the business. If initially seeking a DM solution for AP, don't just consider DM products that focus on AP, but look at the wider picture and consider other business functions that may also benefit from the investment.

If you are considering generating an ROI model without a particular project in mind, look for the obvious signs of inefficiency. It is often fairly easy when walking into an office to spot opportunities, large amounts of paper filing, lots of documents on people's desks, heavy usage of copiers or printers. Take a look at the business processes and the jobs of different staff whose work relies heavily on documents and identify where their bottlenecks are.

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Here are some common opportunities for making savings by implementing DM:

- Storage – wasted office space for paper filing
- Filing – time taken to file documents
- Retrieval – time taken to locate and retrieve/replace a document
- Archive – time taken to manage archives, delete old documents etc...
- Duplication – where documents are copied for multiple staff, printing and paper costs
- Document loss – the cost of losing a document, time wasted, commercial value
- Offsite storage – costs and time for storage, retrieval and destruction
- Distribution – methods of distributing paper documents, time taken
- Process – time taken for different document-based processes
 - Length of time to 'approve' something
 - Cost of inefficiencies in the existing process
 - Cost of lack of enforcement by defined policies
 - Lack of visibility and management of the process

4. Disaster Recovery (DR)

All too often DR is omitted from ROI considerations and is considered a consequential benefit. But what would be the cost to the business of losing its documentation as a result of fire or flood; could the business continue to operate?

Well managed businesses have DR plans in place, but how many include a means of recovering information held in paper documentation? Even if the documents are still available following the disaster, what is the cost of not having access to them for a period while buildings are inaccessible?

90% of a business's information is held in paper format and not backed up but only 27% of businesses include paper in their DR plans.

Implementing DM makes replication and backup of business documents feasible, so your DR policy can encompass everything.

Placing a tangible value on DR as a business benefit is difficult as it has to be balanced with the probability of suffering a disaster. But DR is an increasing requirement for supplier selection and there may come a point

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when you will be required to have DR and need to analyse the implications of life after disaster without documentation.

5. Intangible Benefits

Intangible benefits are things that are difficult to quantify. Just how much value can you attribute to providing better customer service? Often you will not be able to measure them until sometime after adopting DM, maybe by comparing customer retention rates before and after, or performing customer satisfaction surveys before and after.

Most businesses adopting DM realise the intangible benefits but have never quantified them. It is worth measuring such things as customer retention before implementing DM so that it can be compared post implementation, otherwise measuring improvement is difficult.

Being able to answer a call in 3 minutes instead of 6 may be quantifiable in terms of the cost to answer the call, but what is the cost of retaining a customer or, conversely, of losing one?

Some possible intangible benefits:

- Better response times with customers
 - Happier customers – improved sales, customer advocacy and referrals
 - Answer the question immediately – no call backs
 - More motivated staff, better staff morale, better customer service
 - Customer retention / reduced drop off
 - Fewer complaints, less time spent managing complaints
- Availability of information
 - Better informed decision making
 - More timely decision making
- Improved Security / Traceability
 - Reduced leaking of or access to confidential information
 - Ability to review individual staff performance / activity
- Consistency
 - One controlled way of doing things, apply the rules

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6. Generic Tangible Benefits

The following are specific measurable benefits to be gained from DM. You should identify which can be applied to your business and try to quantify each.

Paper Filing – For each type of document (application, invoice etc...) identify		
Time taken to file a document		With DM varies depending on indexing requirements but typically a few seconds.
Number of documents filed/month		
Time taken to retrieve a document		With DM typically seconds or less.
Number of documents retrieved/month		Also consider time taken to put back retrieved documents.
Administration hours spent / month		Removing unwanted files, etc.
Hourly rate of Admin Staff		
% of documents Printed/Copied		Copied so they can be 'shared' or 'sent' to customers.
Cost of printing a document		Toner, paper, servicing.
% of documents misfiled		Mis-filing is not impossible with DM but can be significantly reduced if not eliminated, and finding mis-filed documents is easier.
Cost of losing a document		Either in terms of time taken to replace it or damage to the business as a result; for example, loss of a proof of delivery when the customer claims a non-delivery and compensation may be due.

Paper Storage		
Cost per Square meter		We assume 1 m ² per cabinet allowing for opening space.
Number of cabinets		There is approximately 1GB of disk space per 4 drawer cabinet.
Annual offsite storage costs		The storage, deposit, recovery and destruction costs.
Time to retrieve from offsite		
Cost to business for waiting		There may also be a cost for scanning/retrieval.

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Workflow – for each step of the process (Register, Allocate, Code, Approve, Pay etc....)		
Number of people involved		How many approvers, how many coders, etc.
Documents per month processed per person		How many documents does each approver approve?
Average time taken to process (excluding document retrieval time)		Will need to compare on a case by case basis when implemented using DM.
Time to allocate to next person in the process.		How do they pass the document to the next person, latency.
Management hours (allocating, monitoring, exception handling, reporting)		DM can automate much of this, or at least make it more readily available.
Cost of missing SLA in process		Missing early settlement discounts, for example.
Number of missed SLA's / month		
Cost to the business per document for latency		Time cost for delays using manual process that can be removed if automated.

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7. Cost Benefits of Automatic Data Capture

Automated data capture entails capturing data from documents that would have otherwise been manually keyed into an application, like an accounts payable package.

As well as the obvious reduction in the amount of manual data entry, there are also savings to be made in consistency of data captured. For example, machine captured data, typically Optical Character Recognition (OCR), repeatedly uses rules and validation to find and extract data. Manually entered data is prone to errors and inconsistency, for example, entering Limited or Ltd, which results in duplication and additional costs for data cleansing.

It is typical to be able to reduce data entry effort by 50% or more, thereby either saving costs or enabling the team to take on additional volume or more productive work.

The savings that can be made will vary depending on the quality and structure of the documents being used to capture the data, and the accuracy and availability of the master data to which the extracted data can be compared, for example, a list of known suppliers.

Any process that requires high volume data entry of consistent information from documents is a prime candidate for automation. Once the following statistics have been gathered, together with sample documents, your DM vendor should be able to provide cost reduction estimates.

Data Capture – for each type of document (Invoice, Application etc...)		
Number of documents per month		
Average number of pages per document		
Number of fields entered per document		For example Invoice number, supplier name, Date.
Time taken per document to manually enter		For example, 30 seconds.
Is cross-reference data available for each field?		Is there a database or file that contains the valid values for each field, like supplier names?
What systems is the data entered into		For example Oracle Financials.
Percentage of incorrect data entered		Details of which fields typically contain errors or inconsistency.

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8. Cost benefits of System Integration

System Integration is loosely defined as the interfacing of different systems to provide functional benefits over using the different systems in a disconnected manner.

For example, with a non-integrated DM system and an AP system one would look at an invoice details screen in the AP system and then switch to the DM system and enter the Invoice number to locate and view the Invoice. In an integrated DM / AP system one would simply click a button or press a key to open the Invoice being shown in the AP system.

Obviously the Integrated method is quicker and has time and cost savings.

More sophisticated integrations can automate parts of business processes that are currently performed manually. For example, when a purchase invoice is entered, a check can be made automatically to look for the corresponding Purchase Order and Goods Receipt to flag the invoice for automatic approval, rather than require a manual matching/approval process.

9. On Premise or Hosted?

The decision to implement DM on-premise or in a hosted environment is not within the scope of this document as there are both options have financial and technical merits.

From an ROI perspective a hosted implementation can offer a faster ROI as it avoids the initial infrastructure and software license costs, but compare the potential lifetime returns over say 3 or 5 years when doing the ROI analysis. However, hosted solutions can provide an almost instant ROI.

10. And finally

Document Logistix can provide ROI analysis tools to help you perform an ROI evaluation; we can even do one for you given some of the information outlined in this document. Contact us to book a consultation.