

INTRODUCTION:

When you are building a business case to invest in purchasing or expanding an ECM system, determining your organization's return on investment (ROI) is essential to securing funding. Calculating ROI is an exercise that helps you identify and quantify the business value you will gain from investing in ECM, but many organizations struggle to find an accurate methodology for calculating ROI.

This guide contains two battle-tested approaches to calculating ROI from organizations that have successfully secured funding for their ECM implementation.

- ▶ Ramsey County, MN, has put together an approach to ROI that highlights the quantitative benefits of ECM. This approach can be easily adapted to help you identify the cost savings that are possible within your organization.
- ▶ PSALM Corporation has created a cost-benefit analysis designed to help organizations that have already invested in ECM secure buy-in from additional departments. This analysis will help you identify the process improvements associated with ECM and quantify them using an efficiency rate.

We invite you to tap into their knowledge to help your organization make an informed decision to invest in ECM, reaping the benefits for many years to come!

WHAT IS THE VALUE AND ROI OF ECM

With ECM, organizations can recapture lost hours, reduce overhead expenses, increase profitability and improve client service.

The average cost of processing an invoice in an environment with a low level of automation can be up to **20-times greater** than in an environment with a high level of automation.

The average cost of processing an expense report in an environment with a high level of automation is **39% Lower** than in an environment with a low level of automation. For an organization processing 1,000 expense reports monthly, that's an **annual savings of \$97,680**.

http://cdn2.hubspot.net/hubfs/490680/ROI_Guide_for_ECM.pdf?utm_source=text&utm_medium=corporatewebsite&utm_campaign=what-is-ecm (Kindly embed this link into the following text “ Download our ROI Guide for ECM to calculate your organizations potential cost savings

STEP ONE

1. Estimate current document handling and storage costs.

For each cost factor, find out how much is currently spent on a monthly basis. The example below is for a relatively small office, with only 10 employees that handle paper documents. Expand and adjust accordingly for your unit.

| Cost Factor | Example | Monthly Calculation |
|--|------------|--|
| Labor Costs | | |
| Number of FTEs who handle paper documents | 10 | Assume 8 hours/day and 22 working days/month |
| Average hourly salary of paper-handling staff | \$15/hour | Monthly cost of a minute's worth of work by each employee per day: = $(\$15/\text{hr} \times 22 \text{ days} \times 10 \text{ FTEs}) / 60 = \55 |
| Time spent by each FTE retrieving documents each day | 40 minutes | = $40 \text{ min} \times \$55 = \$2,200/\text{month}$ |
| Time spent by each FTE filing each day | 20 minutes | = $20 \text{ min} \times \$55 = \$1,100$ |
| Time spent by each FTE making copies each day | 5 minutes | = $5 \text{ min} \times \$55 = \275 |
| Time spent by each FTE recreating existing information | 20 minutes | = $20 \text{ min} \times \$55 = \$1,100$ |
| Time spent by each FTE faxing documents each day | 5 minutes | = $5 \text{ min} \times \$55 = \275 |
| Total Labor Costs | | \$4,950 |
| Copying Costs | | |
| Number of paper copies generated each day (pages) | 200 | = $200/\text{day} \times 22 \text{ days} \times \$0.015/\text{copy} = \$66$ |
| Cost per copy (paper, toner, ink) | \$0.015 | |

| | | |
|---|-----------|--|
| Total Copying Costs | | \$66 |
| Storage Costs | | |
| Amount spent on physical offsite storage per month | \$150 | = \$150 |
| Hours spent per month accessing offsite storage | 2 hours | = 2 hrs x \$15/hr = \$50 |
| Amount spent on filing supplies | \$50 | = \$50 |
| Total Storage Costs | | \$230 |
| Distribution Costs | | |
| Amount spent on overnight delivery services and postage per month | \$150 | = \$150 |
| Number of faxes sent per day (pages) Cost per fax (page) | 20 \$0.15 | = 20/day x 22 days x \$0.015/copy = \$66 |
| Total Storage Costs | | \$216 |
| Total Document Handling Costs | | \$5,462 |

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STEP TWO

2. Estimate the impact of a document management system on your operations. For each cost item, estimate how much of a reduction can be expected as a result of implementing ECM. Think realistically about the effect the new system will have on the enterprise operations. Build sensitivity analysis into calculations through the use of best-case and worst-case scenarios for various factors. The values below are simply suggestions.

| Cost Item | Best-Case | Worst-Case |
|--|-----------|------------|
| Time spent locating and retrieving documents | 75% | 50% |
| Time spent filing documents | 75% | 50% |

| | | |
|---|-----|-----|
| Time spent copying documents | 50% | 25% |
| Number of copies generated | 50% | 25% |
| Time spent recreating existing information | 90% | 75% |
| Time spent faxing documents | 50% | 25% |
| Amount spent on offsite storage | 75% | 50% |
| Time spent accessing offsite storage | 50% | 25% |
| Amount spent on filing supplies | 50% | 25% |
| Amount spent on overnight delivery services and postage | 50% | 25% |
| Number of faxes sent | 50% | 25% |

STEP THREE

3. Multiply the savings (percentages) by your initial cost factors.

This provides a best- and worst-case scenario of the monthly savings that your unit will realize as a result of more efficient content management.

| Cost Factor | Example | Best-Case | Worst-Case |
|--|-----------------|---|---|
| Labor Costs | | | |
| Number of FTEs who handle paper documents | 10 \$15/hour | Assume 8 hours/day and 22 working days/month | Assume 8 hours/day and 22 working days/month. |
| Average hourly salary of paper-handling staff | | Monthly cost of $\frac{1}{60}$ a minute's worth of work by each employee per day: = $(\$15/\text{hr} \times 22 \text{ days} \times 10 \text{ FTEs}) / 60 = \55 | Monthly cost of $\frac{1}{60}$ a minute's worth of work by each employee per day: = $(\$15/\text{hr} \times 22 \text{ days} \times 10 \text{ FTEs}) / 60 = \55 |
| Time spent by each FTE retrieving documents each day | 40 minutes | Assuming 75% time savings: = $40 (0.25) \text{ min} \times \$55 = \$550/\text{month}$ | Assuming 50% time savings: = $40 (0.5) \text{ min} \times \$55 = \$1,100/\text{month}$ |

| | | | |
|--|------------|--|--|
| Time spent by each FTE filing ^[1] each day | 20 minutes | Assuming 75% time savings: = 20 (0.25) min x \$55 = \$275/month | Assuming 50% time savings: = 20 (0.5) min x \$55 = \$550/month |
| Time spent by each FTE making copies each day | 5 minutes | Assuming 50% time savings: = 5 (0.5) min x \$55 = \$136/month | Assuming 50% time savings: = 5 (0.75) min x \$55 = \$206 |
| Time spent by each FTE recreating existing information | 20 minutes | Assuming 90% time savings: = 20 (0.1) min x \$55 = \$110/month | Assuming 75% time savings: = 20 (0.25) min x \$55 = \$275/month |
| Time spent by each FTE faxing documents each day | 5 minutes | Assuming 50% time savings: = 5 (0.5) min x \$55 = \$136 | Assuming 25% time savings: = 5 (0.75) min x \$55 = \$206 |
| New Labor Costs | | \$1,207 | \$2,337 |
| Total Labor Savings | | = \$4,950 – \$1,207 = \$3,743 | = \$4,950 – \$2,337 = \$2,613 |

STEP THREE CONT.

| | | | Worst-Case |
|--|---------|--|---|
| Copying Costs | | | |
| Number of paper copies generated each day (pages) | 200 | Assume 50% reduction: = 200/day (0.5) x 22 days | Assume 25% reduction: = 200/day (0.75) x 22 days |
| Cost per copy (paper, toner, ink) | \$0.015 | x \$0.015/copy = \$33 | x \$0.015/copy = \$50 |
| New Copying Costs | | \$33 | \$50 |
| Total Copying Savings | | = \$66 – \$33 = \$33 | = \$66 – \$50 = \$16 |
| Storage Costs | | | |
| Amount spent on physical offsite storage per month | \$150 | Assume 75% savings: | Assume 50% savings: |

| | | | |
|---|---------|---|--|
| | | = \$150 (0.25) = \$38 | = \$150 (0.5) = \$75 |
| Hours spent per month accessing offsite storage | 2 hours | Assume 50% savings: = 2 hours (0.5) x \$15/hr = \$15 | Assume 25% savings: = 2 hours (0.75) x 15/hr = \$23 |
| Amount spent on filing supplies | \$50 | Assume 50% savings: = \$50 (0.5) = \$25 | Assume 25% savings: = \$50 (0.75) = \$38 |
| New Storage Costs | | \$78 | \$136 |
| Total Storage Savings | | = \$230 – \$78 = \$152 | = \$230 – \$136 = \$94 |
| Distribution Costs | | | |
| Amount spent on overnight delivery services and postage per month | \$150 | Assume 50% reduction: = \$150 (0.5) = \$75 | Assume 25% reduction: = \$150 (0.75) = \$113 |
| Number of faxes sent per day (pages) | 20 | Assume 50% reduction: = 20/day (0.5) x 22 days x | Assume 25% reduction: = 20/day (0.75) x 22 days |
| Cost per fax (page) | \$0.15 | $\$0.15 \times \frac{1}{\text{SEP}} = \33 | $\times \$0.15 \times \frac{1}{\text{SEP}} = \50 |
| New Distribution Costs | | \$108 | \$163 |
| Total Distribution Savings | | = \$216 – \$108 = \$108 | = \$216 – \$163 = \$53 |
| New Document Handling Costs (Monthly) | | \$1,426 | \$2,686 |
| Total Monthly Document Handling Savings | | \$4,036 | \$2,686 |
| Annualized Document Handling Savings | | \$48,432 | \$33,312 |

STEP FOUR

Outline the costs associated with ECM.

These costs will vary significantly from department to department, especially in the area of conversion expenses (i.e. document imaging required to convert paper documents into digital files).

STEP FIVE

Calculate ROI.

The return on investment should be the net annualized document handling^[L]savings divided by the total ECM costs, as a percentage. Using best- and worst-case scenarios should enable managers to arrive at a high and low estimate for the ROI.

$$\frac{\text{Annualized Document - Total ECM}}{\text{Total ECM Cost}} \times 100 = \text{ROI \%}$$

STEP SIX

List additional savings and benefits gleaned from ECM.

The ROI calculations above only take into account acutely measurable benefits. Consider as well the following categories when making a business case in support of ECM. If any of the items below can be quantified, they should certainly be added to the calculations above.

- ▶ ↓Regulatory compliance. An ECM system may be less of a choice, and more a requirement. Regulations such as HIPAA enforce guidelines for document retention and retrieval in public entities. ^[L]_[SEP]
- ▶ ↓Communication and collaboration. More readily available documents improve collaboration and idea-sharing among employees. ^[L]_[SEP]

- ▶ ↓Project management. Better access to information can shorten cycle times for projects and improve teamwork. [L] [SEP]
- ▶ ↓Security and access control. Digitization of information allows a greater degree of control and monitoring of access to sensitive information. [L] [SEP]
- ▶ ↓Disaster recovery planning. Computer archives can be easily backed up or sent to off-site locations. Digitized data is much less likely to be lost or misplaced. [L] [SEP]
- ▶ ↓Consolidation of information. A central information repository makes it easier to access information, reduces error rates and multiple copies, allows easier version control and better serves clients because all client information is in one place. [L] [SEP]
- ▶ ↓Reduced carbon footprint. The amount of paper wasted by an enterprise can be significantly reduced when using digital documents instead of paper. This not only saves on excessive cost, it also optimizes workflow. [L] [SEP]

CREATE YOUR OWN BENEFIT COST ANALYSIS FOR CALCULATING ROI

What information do you need to create a cost-benefit analysis?

In order to create an effective cost-benefit analysis, you need to know your pre-ECM process. Ask yourself these questions:

- ▶ ↓How many employees dealt with documents on a daily basis? [L] [SEP]
- ▶ ↓On average, how many documents were retrieved, copied, scanned [L] [SEP] and stored daily? [L] [SEP]
- ▶ ↓How long did it take to process those documents? [L] [SEP]
- ▶ ↓What were your expenses?

Onsite/offsite storage. [L] [SEP]

Printing (paper and ink). [L] [SEP]

Labor costs of employees. [L] [SEP] Think about your transition to ECM.

Consider: ▶ How much did your implementation cost? •
Software. • Licensing. • Hardware. ▶ How much time did
you save on document processing? • Retrieving. • Scanning. •
Copying. • Storing. ▶ How much did you save on hard costs? •
Paper.

Freight charges.

Storage charges.

Printer maintenance. ▶ Next set a timeframe for which you will generate
the cost-benefit analysis. We chose a month, but you can choose
whichever timeframe works for you.

HOW DO YOU PUT TOGETHER A COST BENEFIT ANALYSIS

It is now time to compile all of this information into one document.

Note: The process described below relates to our particular case—your analysis
may look different based on your organization's business requirements.

1. We compiled everything in Microsoft Excel. The analysis was divided into
several sections: ▶ Document filing and retrieval. ▶ Document
printing and reproduction. ▶ Document storage and freight
charges. ▶ Laserfiche investment (expenses associated with Laserfiche
implementation).
2. In each section, we inserted one column for expenses associated with the pre-
ECM practice and another column for the expenses post-implementation.
3. In order to calculate the post-implementation expenses, we used an Efficiency
Rate (a rate by which time or expenses were reduced after implementation
of Laserfiche). We obtained this rate from a consulting firm and then
modified it based on our own experience. The Efficiency Rate varied by
process.
4. We used the Efficiency Rate to calculate the new expenses as follows:
$$\text{Expense after ECM} = \text{Expense before ECM} * (1 - \text{Efficiency Rate})$$

Example: To analyze the cost of offsite storage we took into account

both the monthly cost of renting the storage facility and the cost of document retrieval. Since we are now only storing 25% of all hard-copies of documents in the facility, we used an Efficiency Rate of 75%. We calculated the post-ECM expense by using the formula described above.

| | Description | Pre-ECM Expense | Efficiency Rate | Post-ECM Expense |
|---|----------------------------------|-----------------|-----------------|------------------|
| Cost of offsite storage in a month (including search, retrieval, delivery, etc) | Monthly Offsite + Retrieval Cost | 33,406.47 | 75% | 8,351.62 |

5. Finally, in order to make this analysis easier to share with others, we condensed the major sections:

ECM COST-BENEFIT ANALYSIS

| Particulars | Current Practice | Laserfiche | |
|--|--------------------|-----------------|--------------------|
| | Amount (per month) | Efficiency Rate | Amount (per month) |
| DOCUMENT FILING AND RETRIEVAL | | | |
| Cost of Document Filing | 25,033.00 | 75% | 6,258.25 |
| Cost of Document Retrieval | 12,516.50 | 75% | 3,129.13 |
| Total Cost of Document Filing and Retrieval | 37,549.50 | | 9,387.38 |
| DOCUMENT PRINTING AND PHOTOCOPYING | | | |
| Office Supplies Consumption Source: AGSD | 97,135.48 | 50% | 48,567.74 |
| Labor Cost of Printing/Photocopying | 25,033.00 | 50% | 12,516.50 |
| Total Cost of Printing/Photocopying | 122,168.48 | | 61,084.24 |
| DOCUMENT STORAGE & FREIGHT | | | |

| | | | |
|---|------------|-----|------------|
| Off-site Storage Cost (including search, retrieval, delivery, etc.) | 33,406.47 | 75% | 8,351.62 |
| In-house Storage Cost | 35,000.00 | 75% | 8,750.00 |
| Freight Charges | 3,000.00 | 50% | 1,500.00 |
| Total Cost of Document Storage and Freight | 71,406.47 | | 18,601.62 |
| Total Labor Cost, Supplies & Freight | 231,124.45 | | 89,073.23 |
| Laserfiche Investment | | | 103,713.06 |
| TOTAL: | 231,124.45 | | 192,786.30 |
| SAVINGS: | | | 38,338.15 |
| % | | | 17% |