

Cost Benefit Analysis

Successful RIM professionals are successful business professionals. Being familiar with many business disciplines is no longer a choice. One strategic tool that we must all be skilled in using is cost benefit analysis. What is a cost benefit analysis; how can it make you more effective as a RIM professional? Why and how would you conduct a cost benefit analysis? This article answers these questions and provides an introduction to this strategic management tool.

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Today's Records and Information Management (RIM) professionals must be proficient in all aspects of business management as organizations seek to cut costs, improve productivity, and justify every aspect of their operations. Conducting a cost benefit analysis is the most strategic way to support these business decisions. It is a process that should be aggressively employed, and if done correctly makes its case on its own.

WHAT IS COST BENEFIT ANALYSIS?

A Cost Benefit Analysis (CBA) is the analysis of an opportunity to demonstrate the benefits in cost saving in order to receive management commitment and support to implement. Of course, the most important part of that definition is the management commitment. Getting this commitment requires that

RIM professionals are skilled in conducting and presenting a CBA.

What types of opportunities should require a CBA? Usually the big ticket equipment purchases are thought to be the main type of opportunities. Certainly recommending the purchase of a new computer, microfilm camera, or mobile shelving system requires a thorough, documented justification. Today, however, CBA is being used for a wider range of opportunities, which are no longer limited to the purchase of high priced equipment.

Generally, the change in business climate has resulted in an increased focus on an organization's bottom-line. This has affected business decision making, requiring CBA to be utilized for all major purchases, expansions, organizational changes, etc. The types of CBA opportunities can include:

- ? Adding staff
- ? Introducing technologies
- ? Purchasing equipment
- ? Upgrading existing software and/or hardware
- ? Outsourcing or bringing service(s) in-house
- ? Changing vendors
- ? Modifying workflow
- ? Implementing (new) procedures
- ? Remodeling facilities
- ? Relocating offices or a function

CBA JUSTIFICATION

CBA justification can be organized into hard and soft dollar savings and cost avoidance. CBAs have the potential of including any one or all of these, and all should be addressed in the CBA

Report. Following are explanations and examples of each:

Hard dollar savings are quantitative and easy to calculate. They represent actual savings that the opportunity will realize. Hard dollar savings include *reductions or elimination of existing expenses* such as for staff or supplies. Example:

- ? CBA Opportunity: Outsourcing an in-house microfilm operation.
- ? Opportunity Background: RIM provides microfilm services. This currently includes four Microfilm Clerks and in-house microfilming, processing, duplicating, and quality control. All of the equipment is over the years old and requires regular repair.
- ? Hard Dollar Savings: Elimination of in-house microfilm staff and microfilm supplies.

Hard dollar savings are easy to quantify and are broadly accepted. If they positively support a CBA opportunity, they provide the strongest case for justification.

Soft dollar savings are qualitative and less tangible to calculate. They represent *savings that cannot be recouped*. Soft dollar savings include saving management time, or freeing up records center space, both result in a benefit, but the expense still continues. Example:

- ? CBA Opportunity: Automating a records management operation
- ? Opportunity Background: The Records Department is currently a manual operation. The Records Manager spends approximately ten hours per

month tracking and calculating operational statistics and preparing records management reports.
? Soft Dollar Savings: Reduction in management hours in support of management reports.

In the above example, the reduction is in management time (soft savings) not in management staff (hard savings). This soft dollar saving will gain back time which can now be applied to other management tasks. Soft dollar savings are *valid* savings, however, it is important to note that some organizations do not readily accept them as *justifiable* savings.

Cost avoidance addresses *reduction or elimination of a future cost*. The types of expense items that could be considered a cost avoidance are numerous from overtime and temporary staff to additional file equipment and leased space. Example:
? CBA Opportunity: Upgrading the Records Center with high density (efficient) open shelving
? Opportunity Background: The Records Center currently uses (inefficient) file cabinets. The Center is running out of space and the organization has no additional space in its leased facility.
? Cost Avoidance: Reduction in the future costs of (inefficient) file cabinets and new leased space to accommodate the growing Center.

CBA APPROACH

It is recommended that CBA be approached as a multiple step process, beginning with a Preliminary Survey which is followed by a Feasibility Study. Together the steps provide the necessary information to execute a CBA Report. As a CBA can involve an investment in time, these two surveys are pre-steps with each requiring information that justifies if the next step is warranted.

A **Preliminary Survey** is conducted as an initial evaluation of an opportunity. Its purpose is information gathering on the existing situation as compared to the CBA opportunity. As part of the Preliminary Survey, a variety of techniques can be employed. These techniques include focus group input, customer surveys, observations, statistical tracking, cost examination, and workflow. Based on the data, and assessment is made regarding the potential of the CBA opportunity. If this survey's assessment is supportive of a moving forward with the process, the next step is taken.

A **Feasibility Study** finalizes any outstanding data gathering, assesses the data in detail, and completes the analysis process. It provides final confirmation if the CBA opportunity offers the benefits initially projected. The analysis of the data should address the short and long range impact of the opportunity. The impact could involve its effect (positive or negative) on the organization, customers, staff operations, service levels, and budget. If the result of

the feasibility study determines cost effectiveness, the data is used to support development of the CBA Report.

CBA Technology Opportunities

One of the most popular CBA opportunities is the introduction of technology. For a RIM operation this might mean records management software or electronic imaging. A technology opportunity requires an involved study phase. An example of what could be involved or considered for automating a RIM operation includes the following:
? outline software needs
? functionality: inventory, tracking, request processing, mixed-media, retention maintenance, box to document level, etc.
? capabilities: reporting, search, bar-coding, labels, retention scheduling, etc.
? ease of use: amount of training required, help screens, user manual, global changes, etc.
? operating: memory requirements, operating system, networkable, security, etc.
? maintenance support: on-site, dial in, turn around time, etc.
? outline hardware components needs
? personal computer (s)
? network card
? barcode equipment
? tape back up unit
? outline existing system(s) aspects that would support/affect the opportunity
? operating system
? file server capacity
? procedures
? information management process

- ? volume peaks
- ? identify to what extent in-house and/or external resources will be required
- ? gather qualitative and quantitative data
 - ? focus group meetings with interfacing departments
 - ? productivity history
 - ? any service backlog periods
 - ? customer satisfaction surveys
 - ? manual tasks to be automated
 - ? involve individuals with experience and knowledge in automated systems
 - ? address risks of the opportunity
 - ? resistance of system by staff and customers
 - ? start up effect on operation
 - ? system and service issues
 - ? identify all costs
 - ? start-up and follow-up training
 - ? labor (full-time, part-time, temporary)
 - ? conversion to system
 - ? installation and maintenance
 - ? materials and supplies
 - ? equipment, hardware, and software
 - ? plan for system implementation
 - ? installation and test phase
 - ? data download (if possible)
 - ? training of RIM staff
 - ? customer orientation
 - ? data entry of information
 - ? file conversion.

CBA REPORT

The CBA Report is the package that sells the targeted opportunity. It should be thorough, well organized, clearly communicated, and factual. In order to be successful, the report's contents must provide upper management with the information that will allow

them to make a sound decision and take action.

The CBA Report can be designed and formatted in a variety of ways. There is no one-way or right-way to package the report. Many factors are to be considered, including:

- ? the complexity of the topic of the CBA
- ? understanding/awareness by upper management of the CBA topic
- ? internal standards regarding analysis, recommendations, costing, presentation packages, system, etc.
- ? timing regarding the organization's current financial status, point in the fiscal year, pending organization changes, internal plans which could affect the CBA opportunity, etc.
- ? past history and events regarding the target opportunity.

A proven outline for a CBA Report, as with any report, includes a beginning, middle and conclusion. The beginning and conclusion are brief and basically provide overview information. The idea is to provide the reader with information that either introduces or summarizes the key aspects of the report. In our busy world, these sections might be the only sections that a decision maker would look at before deciding to throw it on the "pile to read later" or to keep reading the report.

The middle section is the main course. This is where the primary information is presented in detail. *The who-what-where-how-why* questions are to be answered

in this section. In developing the report, it is important to keep in mind that it is a *report* not the "greatest story ever told." Even in presenting the detailed information, it should be concise.

Depending on the complexity of the CBA opportunity, an Appendix is a good idea to include where reference detail can be housed. This will support more in-depth inquiries and allow the middle section of the report to flow unencumbered.

A well-packaged Report should include:

- ? Executive Summary
- ? Introduction
- ? Scope and Purpose
- ? Methodology of the Study
- ? Recommendation
- ? Justification
- ? Implementation
- ? Summary
- ? Appendix

Following is an overview of each of the previously listed aspects of a CBA Report. For each, a simple example is provided.

Executive Summary

The Executive Summary provides a brief overview to the CBA Report. It states the report's purpose, the nature of the opportunity, summarizes the recommendations, and outlines the benefits. This section is the first to be reviewed by the decision maker(s). In addition to being clearly and concisely communicated, it must be able to grab their interest enough that they will *want* to read further. Example:

Executive Summary

The RIM department has been successful in supporting proactive measures to ensure efficient records and information management. At the request of the Finance Group, RIM was invited to analyze Accounts Payable to improve processing. The RIM recommendation is to implement an XYZ imaging system. The cost of the system is \$25,000. with a payback in 14 months. The benefits of this system include improved processing time, decreased recordkeeping, and a reduction in labor hours.

Introduction

This section presents background aspects regarding the CBA, including who authorized it, the names and titles of the participants, and the date the CBA was begun. Example:

Introduction

The systems study was authorized by Mavis Eppes, President of ABC Company. The study began on May 1. The study Project Leader was Juanita Skillman, Director, Corporate Records; primary study Coordinators were Cathleen Calice, MIS Administrator, Karen Sanjurjo, Human Resources Assistant, Pat Lewis, Finance Coordinator, and Ken Cotter, Office Support Analyst.

Scope and Purpose

The Scope and Purpose section details the objectives of the CBA. This is important as it is imperative that the decision maker reading the report completely understands why the CBA was conducted. Example:

Scope and Purpose

The study was conducted on the Human Resources Department. The purpose of the study was to:

1. determine the feasibility of automation
2. eliminate a 10 week backlog of processing
3. improve the ongoing workload management
4. decrease temporary services costs.

Methodology of the Study

This section outlines the techniques used to gather the data. Explaining the methodology aids in validating that the study was thorough in its approach and accurate in its finding. Example:

Methodology of the Study

The Management Review Committee approved a six week study on March 1 of the office support activities. The study took place from May 1 to June 15 in two departments: Central Active Files, and the Technical Library. It included all personnel, including two managers, three supervisors, and 23 support staff. Methods employed to gather data were: (interviews, surveys, timesheets, work history, observations, etc.).

Recommendation

The Recommendation is the heart of the report. It should present in clear terms the actual recommendation, its benefits, and any supporting detail key to the recommendation. Example:

Recommendation

This report provides data and cost justification totaling \$65,000. in annual savings in

support staff and processing activities in the Central Files operation. To achieve these savings, we recommend the operation be converted to an automated records tracking system. The conversion will require: (staffing, organization chart, workflow, training, hardware, software, supplies, floor plan, etc).

Justification

Justification is where the hard dollar savings, soft dollar savings, and/or cost avoidance information are outlined. When it comes to selling upper management on a financial investment, no matter how cost effective, they expect to see this information in financial terms. When presenting justification information, therefore, it is better to do so in an outline table or spreadsheet format. Example:

Justification

Hard Dollar Savings –
Reduction of staff
2 staff @\$15,000/yr.
\$30,000.00

Soft Dollar Savings –
Improved productivity
2,000 hrs./yr. @ \$30/hr
\$60,000.00

Cost Avoidance-Elimination
of temporary help
2100 hrs./yr. @ \$6/hr.
\$12,600.00

Overall Annual Savings
\$102,600.00
Less first year Equipment
Cost
<\$50,000.00>
First Years Savings
\$52,600.00

Implementation

This section presents the projected project plan for implementing the recommendation. Timeline or milestone charts (discussed later under Charts and Graphs) should be used to enhance this section
Example:

Implementation

The conversion process will require approximately six months. We recommend the following approach:

*Month 1 = Pre-conversion requirements
Week 1 = Staff orientation and order equipment
Week 2 = Procedure development
Week 3 = Equipment installation
Week 4 = Staff training
Months 2-5 = Conversion of information
Month 6 = Conversion audit*

Summary

The summary is the executive wrap-up. It provides one concluding opportunity to review the key points. It is also an opportunity to compliment management. This section should be dynamic and compelling.
Example:

Summary

The recommendation will result in financial savings of \$92,000. annually. It will provide improved employee productivity and morale, elimination of lost files, faster access to information, and overall improved customer service.

We compliment the management of Acton Associates for their open-minded approach to change

and progress in support of the customer.

Appendix

The Appendix should be used as a reference section for the supporting detail of the report. When building this section, think about what information upper management may need to understand the points of the CBA fully; be careful not to clutter this with nonessential information. Example:

Appendix

*? Glossary of terms
? Recommended training agendas
? Calculation formulas used
? Proposed job description
? Hardware and software specifications
? Guidelines for work measurements*

Charts and Graphs

Charts and graphs are useful tools in data and presentation evaluation. There are many advantages to enhancing a CBA Report with charts and graphs. The most obvious is that they can communicate a lot of information very easily and quickly. Other advantages of charts and graphs are that they:
? quickly illustrate
? strengths and weaknesses
? advantages and disadvantages
? trends for comparisons
? existing vs. proposed
? workflow processes
? offer great flexibility to conduct “what if” analysis
? incline the reader to review/interpret more so than when presented with wordy documentation.

Being able to communicate complete ideas quickly is particularly important in our

fast paced business world, as management today has little time to read voluminous text. There are a variety of methods for presenting information in charts/graphs, such as organization charts, workflow plan, floorplan layouts, statistics, information using bar, line, and pie charts, project sequence diagrams, and timelines/milestone charts.

Keep in Mind

When conducting a CBA, keep the following in mind:
? Be concise, objective and factual
? Don't overanalyze
? Know your target group's orientation
? Set reasonable goals
? Complete within scheduled timeframe
? Ensure all quantifiable aspects are included – even if they don't support the desired plan
? Limit assumptions
? Be conservative rather than liberal in estimating
? Quality is the essential, not quantity
? Be prepared
? Have Fun ! |

