

## **Going “Paperless” - The Benefits**

by Tom C. Davis, CPA

Last month, this column looked at some of steps an accounting firm might take in making a move to a paperless work environment. For many firms, the next step is to determine the cost of making the move to paperless. However, this month’s article will focus on an important interim step, the determination of the expected benefits from going paperless.

### **ROI Means Nothing**

Defining the benefits is a critical step in the planning process for going paperless. Without a list of benefits that the firm’s decision makers understand and agree to, it is not going to be possible to make an informed decision about the best course of action. No understanding of benefits will make it impossible to gauge the success of the project or too make the numerous small adjustments and changes that will be required along the way.

It is almost amazing that CPAs do so little benefits analysis for themselves. At firm after firm, I see good cost analysis, good implementation planning and almost never see benefits and expectations quantified.

Several years ago, one of our team members was selling a consulting engagement to a large accounting firm. In the sales process, he presented an analysis of the return on investment the firm could expect from this engagement. The managing partner for the firm immediately told us that ROI meant nothing in an accounting practice. My guy went nuts.

However, I think the partner’s point has a lot of validity. It is not that ROI is meaningless; it’s incredibly hard to quantify. Many of the benefits from technology are incrementally small but “incrementally” may add up to be very substantial. For this discussion, let’s identify benefits as either objective or subjective.

### **Reducing Costs**

The first objective benefit many vendors focus on as a primary reason for making a move to paperless is cost reduction. Their value points are a reduction in the real estate needed to store document, decreased printing costs, and reduced time for filing paper.

On the other hand, some of these “hard costs” are not directly variable. Few firms can reduce the size of their facilities. However, this cost reduction is legitimate if the firm has a need for additional space that could be met by eliminating footage used for storing paper.

Reduced printing is another area that may not result in any substantial cost savings. Even though the storage of paper will be eliminated, it will still exist at many stages of the work process. Since most firms either own or lease their printers under some long-term arrangement, there is not a great opportunity for cutting cost by getting rid of printers (it seems that most firms keep them). If the firm can avoid having to purchase new equipment and just continue with the old machines, a real cost savings will occur.

The cost savings of not having to file paper is a legitimate one. If your firm handles much of this filing work using administrative staff, make an estimate of the hours they are spending and use this amount in your benefits calculation. **However**, make sure that you plan for this reduction and assign other work to the firm members involved. It is very easy for work to expand or contract based on the time available to do it in.

### **Improving Efficiency**

Efficiency improvement is one of the largest benefits your firm will experience from a move to a paperless environment. It is much faster to access documents that are stored electronically. Also, since document management applications completely control the organization logic used in storing documents, there is less time spent training and overseeing firm members in the storage process.

Intuitively, you perceive that these efficiency benefits are going to be very large. However, the projection of what the benefit may be or their subsequent measurement is difficult. I have found no firm that collects information that will show the amount of effort team members are currently spending to create and retrieve documents.

### **Subjective Benefits**

Most accountants understand and are comfortable with the efficiency concepts related to a paperless office environment. While efficiency benefits may be difficult to measure, we all understand that the amount of work we can do in a firm is directly proportional to the available hours: the more hours, the more we can accomplish. However, these efficiency benefits are the tip of the value iceberg. There are several “subjective” benefits that have huge value.

Improved client service leads the pack. One common theme I hear from every accountant is that it is getting increasingly difficult to find the staff resources we need and can afford to handle an explosion of service opportunities. One of the first things to disappear in this hectic work environment is the firm’s ability to perform a timely service. While we enjoy some “elasticity” in this area, over time, a decline in timeliness leads to client dissatisfaction. The efficiencies of an electronic document environment translate to faster service which has a great value to our clients.

Another benefit of the paperless office is that its high level of organization and the full-text search features that are part of most document management solutions make it easy to match a service or issue with documents that have been created for another similar situation. Essentially, services will become “products” and their supporting documents and workpapers will be reused over and over again. Further improving service efficiency and improving client satisfaction.

When information is immediately available about every client, prospect, and service, it becomes possible to look at the documents as a multi-relational database that can be searched to pinpoint selling and marketing opportunities. The “productization” described in the previous paragraph will aid the selling process by allowing firms to be more price competitive, while maintaining high profit margins.

Getting firm members to adequately document the interactions they have with clients, prospects, and others is a very difficult challenge. I know of no firms that do not want to improve in this area. Document management tools and paperless office processes

will not magically make this happen. However, it will make it easier to create, edit, and retrieve documents. The easier it is to perform some task, more the tasks will be done with less oversight and management.

A move to a paperless office will improve efficiency, make clients more satisfied, grow the firm, and provide other benefits. This improved firm will be a better place to work, making it easier to retain and attract new staff.

### What's All This Worth?

The benefits detailed above have varying degrees of difficulty when it comes to measurement. I have found it helpful to approach this problem from two directions.

First document your perception of the benefits (both subjective and objective). Here is an example:

<b>Paperless ROI Calculator</b>		
<b>General</b>		
# Firm Members	30	
Average Firm Billing Rate	\$ 110	
Average Firm Hourly Cost Factor (%)	0.33333	
<b>Costs</b>		<b># Firm Members</b>
Document Management Software	\$ 20,000	N/A
DM Server, Scanners, etc	\$ 16,000	N/A
Firm Planning Time (hours)	40	N/A
Information Setup	60	N/A
Training Time (hours)		
Basic Training (per person)	4	30
Administrator Training (total hours)	6	2
<b>Efficiency Factors</b>		<b>Estimated Weekly Benefit (Hours)</b>
Saving documents	0.20	30
Retrieving documents	0.50	30
Reusing information on other engagements	1.00	15
<b>Value Factors</b>		<b>Value</b>
Improved Client Service	\$ 5,000	
Improved Selling Effectiveness	\$ 10,000	
Improved Documentation Completeness	\$ 15,000	
Improved Work Environment	\$ 5,000	
<b>Summary</b>		
Year 1 Cost	\$ 44,507	
Year 1 Benefits	\$ 240,920	
ROI	5.41	
Weekly Break-Even Efficiency (hours per person)	0.26	

Typically, the benefits numbers and the ROI will be so high that many members of management will not be comfortable with this approach. However, the approach of calculating what the break even point would be will present a number that can be reviewed as to the feasibility of achieving this break even level of efficiency.

### **Warning**

It is critically important that firms anticipate these benefits. If the benefits are not taken into account, it is very easy (for firms that use a bill-by-the-hour approach) to have increasing complexity or amount of service be disguised by these efficiencies. Since less time will be charged to WIP and it may not be obvious that there has been a service change.

Of more importance, these benefits are the opportunity cost of doing nothing. If your firm does not move toward a paperless office environment, this will be the money you leave on the table.

This is the second of 3 editorials on the “high level” issues that accounting firms face in making the decision to move to a paperless information environment. Next month’s editorial will consider some of the specific applications that make up the paperless environment.

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**Tom Davis** is owner of Tom C. Davis, CPA, LLC, and President of Knowledge Concepts, Inc. in Valdosta, GA. Contact him at [tdavis@tcdcpa.com](mailto:tdavis@tcdcpa.com) and at 229.247.9801.