How to Prove the Value of a DMS – ROI Based on Hard Data

WHITEPAPER

How do you calculate the return your legal firm will get from investing in a document management system (DMS)? It's a question that's being asked very widely as firms consider the next step in their digital transformation.

To help with the answer, this whitepaper explains how to calculate ROI using an alternative and more objective approach. Instead of focusing on projected efficiency gains that fall under the label of 'soft cost' savings, here we're working out the actual 'hard cost' savings that accrue when you implement a Cloud-based DMS. This means that decisions can be based on hard data, delivering high credibility.

Framing the issue

The adoption of a Cloud-based document management system makes sense on several levels: they enable more robust management and control of documents; they're better for collaboration, compliance, security and business continuity; they enable remote working and save firms money by boosting productivity. But how can you prove that it's to the firm's advantage to invest in a DMS before you make that commitment?

These days, the business case is generally based on a calculation of ROI that rests on efficiency gains. Firms are invited to guesstimate how much non-billable time each individual spends each day on tasks that can be done better or eliminated by a DMS. These might include, for instance, time spent on scanning incoming emails and filing them in the correct matter file; or on searching dispersed filing cabinets and shared drives for a specific document and then verifying it's the latest version. This time is then monetized depending on each individual's hourly rate and multiplied by the number of individuals and days worked annually. It might look like this:

15 minutes saved each day by 20 professionals at an average of US$300 per hour x 220 days = US$330k

To be clear, this is a valid calculation. Yet it's one that firms often view with some incredulity, partly because these are estimates of what a ROI could look like, rather than hard numbers.

What might also be giving some firms pause is that the final number can work out to be excessively large, especially for big firms. Their skepticism may also be fueled by the slightly stretched assumption that every second of time saved can be seamlessly converted into billable hours without leaking a cent. Real life probably won't be so accommodating.

To offer an alternative view, therefore, this whitepaper is focused on using hard data from firms contemplating the move to a DMS, and it uses a different calculation. We're not estimating what you might save in efficiency gains, but rather what you will save in hard costs when the firm adopts a DMS.

The factors in play

The areas where you will save money by implementing a DMS are:

- The costs of paper and printing
- The costs of paper / file storage
- Software and hardware redundancy

We know the move away from papers has been forecast now for more than twenty years, but has proved elusive in practice. A significant stumbling block has been the tradition of parties physically signing hard copy documents. With the introduction of secure digital signature protocols, this roadblock has been removed.

That said, going forward we expect to see not 'the paperless office,' but the 'paper-light office'. 'Print-to-read' will be the primary reason for paper being used, as 'print-to-file' will no longer be needed. 'Print-for-client' and for signing will become obsolete as digital signing becomes the norm.

Meanwhile, the move to the new workplace is also underway. Recent research indicates how the pandemic has changed attitudes to home working, with 70 per cent of workers wanting to return to the office, yet only 6 per cent wanting to do so on a full-time basis. The clear direction of travel is towards hybrid working – a blend of working from home and in the office.

The research also suggests that firms ought to be thinking in terms of tasks not roles. Some tasks – on-boarding a new employee for example – can be completed remotely or in person, but are probably better done in person. Conversely, tasks that call for concentrated solo effort are more successfully achieved in a well-configured-technology-supported home working environment where distractions are minimized. So, firms need to consider the value add of the office when certain tasks are more effectively achieved working from home. This will dictate how costly office space might be provisioned and configured in the future to support the new workplace. It may also lead firms to revisit their office leasing contracts and consider how these can be renegotiated with focus on right-sizing the space. But returning to the matter at hand, reducing the area of floor-space needed for paper storage can play into and make a useful contribution to the reconfiguration exercise.

The costs of paper

Paper costs more than you might think, but that's just the beginning. Firms must also add the purchase or leasing costs of the hardware used to print, copy and scan paper, as well as the cost of toner. Add to that the cost of all the ancillary products that support the use of paper such as pens, markers, staples and staplers, hole-punches, lever arch folders, ring binders, document wallets, archive boxes, and filing cabinets.

Now, we don't believe it's realistic to say that all these costs will be eliminated by a DMS. As noted above, a 'paper-light' model will likely precede 'the paperless office' and firms are likely to retain some paper printing capacity for 'print-to-read'. However, based on trend data, it's likely that firms can reduce their paper and associated costs by 25 per cent in year one; by 50 per cent in year two and thereafter by 70 per cent from year three onward. Your accounting system can tell you what you've spent on paper and associated costs in the last year.

Paper storage

Most firms store paper in three ways: in near-at-hand office filing cabinets; in interim storage areas on site, which are often a secondary office or basement; and in offsite archives. All of this storage attracts a cost. A standard filing cabinet for example requires 12 square feet of floor-space.

" We added in additional benefits such as a reduction in paper and print costs. We also reviewed our property strategy, as many people have because of the pandemic, and part of this is to review and reduce our filing and therefore to reduce our footprint in terms of buildings and leases. "

John Turner, COO, Ellisons Solicitors

When a DMS is adopted, again, it's not realistic to expect paper storage costs to evaporate. We'd expect onsite storage costs to be gradually reduced, reaching around a 50 per cent reduction by year three, and around 80 per cent by year seven as the digital file becomes the norm.

In addition, offsite archives will be wound down as the content ages, while typically onsite content goes offsite in year three. So, firms should expect the costs of offsite storage to start falling from year four, although this can be accelerated if existing physical inventory is scanned into digital.

It's also only fair to mention that the savings made from reducing storage area will be offset by the costs of secure document destruction and scanning costs that must be factored in.

Hardware and software redundancy

The final significant hard cost savings to include are those made on redundant computer hardware and software licensing. Both hardware and software costs are reduced because Cloud-based DMSs don't require in-house servers, storage, operating systems and database licensing etc. We believe that firms will reduce their server leasing or server acquisition and upgrade costs by a factor of around 75 per cent. Since less capacity will be needed going forward, it's also likely that the need to acquire new hardware and software will be considerably postponed.

" I thought this was a huge advantage, particularly in our situation. After all, as a boutique firm, we want to focus on the needs of our clients, not on provisioning servers. With NetDocuments, we don't have to buy, house, or continually maintain an IT infrastructure. Plus, it provides the scalability we're looking for. "

Dr Hubertus Stuttmann, Partner at LMPS Rechtsanwälte

In conclusion

We now know that it's likely that tomorrow's firms will look a lot different from the way they did at the beginning of 2020. They will probably have a distributed workforce, connected to a digital - not physical - headquarters, and will use physical office space as required, e.g. to on-board new employees; to meet clients; to host team cohesion events.

This office will have no filing cabinets or interim storage, and there will be no off-site archive. A Cloud-based document management system will be a central pillar in the digital HQ of this forward-thinking firm. With this future in mind then, immediate cost should not be the only consideration when contemplating the adoption of a DMS.

To operate an efficient and profitable firm you will also need:

- A single version of the truth
- A remote working capability
- Ironclad information security
- The ability to collaborate between colleagues and with clients

These hygiene factors are delivered by today's native Cloud document management systems, plus they will be a central enabler of the new workplace that will typically operate on a reduced footprint.

The immediate future

For all this to make financial sense in the here and now, partners must first make good, data-driven decisions with hard, objective numbers about the real cost savings that a DMS adoption can bring.

For our part, we've conducted this hard cost ROI exercise with several firms to date. We added up the hard cost savings set out above, then subtracted the actual costs of implementing and running a DMS. To keep it real, we also deducted the costs of hard copy document destruction and digital signature software. Our findings show that a mid-sized firm can look to save between US$400k and $600k over the first five years of DMS adoption.

This is a concrete saving made before any additional financial value is derived from a DMS's contribution to rationalizing occupancy cost in support of the future workspace and does not include any uplift in revenue derived from projected efficiency gains. Note that in most cases the hard costs savings alone can cover the cost of the DMS system.

It demonstrates that the adoption of a Cloud-based DMS will likely already make financial sense for firms, quite apart from the other inherent advantages that Cloud technology offers. The adoption of a Cloud-based document management system will now work well on many levels, but each firm should do its own calculations to be sure.

To learn more about how much you can save by switching to a Cloud-based DMS register to our webinar by clicking here.

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