WHITE PAPER

The Biggest Challenge – Changing Records Management from a Cost-centre to a Profit-centre

July 10, 2007

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Author:

Frank McKenna, CEO Knowledgeone Corporation
f.mckenna@knowledgeonecorp.com

1. Introduction – bundled versus unbundled

Every new venture is daunting until you start it. Then it is a difficult and a steep learning curve until you finish it; the first time. After the first time, you get smarter (the only way you ever learn is by making mistakes AND fixing them) and the whole process gets easier.

Years ago (in the "olden days" as my kids say) I worked as a project manager for the mainframe computer company Sperry Univac. When I started with them all our services were "free" or as we called it, "bundled". This is because at that time computers (mainframes) were very, very expensive with huge profit margins (how do you think IBM got so big?) and people were relatively "cheap". All of us technical people were grouped together in a cost centre called "support". When a new mainframe was sold they included a whole bunch of us support people for a year or more as part of the deal; included as part of the cost of the mainframe.

The mainframe was installed, the systems converted, new systems designed and programmed and all at "no cost" to the customer by us slaves who were expected to work 16 hour days with none of the benefits or rights of the customer's own staff (to be truthful, we actually enjoyed it; they were exciting and fun times in our industry).

As mainframes became more ubiquitous (and us slaves starting asking for overtime and bonuses and more time off) and competition hotted up the margins diminished and people became more and more expensive. The bundled model became untenable. One by one the big computer companies moved across to the "unbundled" model (it took years and there were many stumbling blocks along the way) where they actually charged for people and support became a profit centre instead of a cost centre.

This was a major cultural change both for us and for the customer. The computer sales people didn't like having to charge for support (because they weren't used to it and it made their job more difficult) and the customers didn't like having to pay for support (because they were used to getting it for "free"). It was not an easy model to change because there was an entrenched culture.

I lived through this process first as a project manager, then as the manager of international operations and then as the director of support for Sperry Univac Australasia. By 1982 we had it all down to a formula and had successfully moved Sperry Univac from a "its free" to a "its chargeable" support paradigm changing our internal culture as well as the expectations of the customers.

In 1983 I was head-hunted by the Burroughs Computer company to unbundle its Australian operations. Thanks to the previous 10 years experience at Sperry Univac it was a relatively easy and straightforward process for me and we met all of our unbundling and revenue objectives after just one year; experience counts big time.

The point I am making here is that you may well require and benefit from bringing in someone or an organization that has done it before. There is no reason to repeat mistakes if someone else can add value and show you a better way because they have done it all before. There are plenty of examples in the services industries (e.g., IT and help desk or call centres) where the core function has been successfully converted to a profit-centre.

The experienced person you bring in doesn't necessarily have to have worked in records management; any service industry would be fine because the problems and challenges are the same. How do you change your internal culture (always a major hurdle)? How do you change the customer's expectations? How do you build a business plan? How do you sell your business plan? How do you staff and train your 'new' venture? How do you sell your services? How do you create new services? How do you manage the implementation of your services? Etc, etc.

As a matter of fact I contacted ARMA in the US before writing this paper and asked if they had any examples of 'in-house' records management operations successfully converting to the profit centre model; the answer was no, not yet.

In a nutshell, your challenge is exactly the same as that facing the mainframe companies thirty years ago; how to unbundle your services. How to change your culture and your customer's expectations. How to start charging for things you now give away AND (most importantly) how to create a whole new portfolio of services that your customers will willingly, gladly and enthusiastically pay for.

This last point is the most important one of all. Use technology to turn static, costly data (e.g., 250,000 file folders in storage at Iron Mountain) into dynamic and profitable information and then build new services to offer this information to your customers.

2. Don't be afraid of an investment

It may well be that your business plan requires a capital investment. Or, to use an old adage, "You have to spend money to earn money."

Your bosses or financiers want to hear how any investment will be recouped and when. Get this response wrong and your new venture will not see the light of day.

Ideally, your business plan will cover the first three years and maybe the first five years. The trick is to obtain a big enough investment so the venture will be successful but not so big that you can't "pay it back" in say 18 months or two years. Any longer and most bosses/financiers will lose interest and up the stakes adding so many caveats that you lose interest.

Keep it simple, keep it reasonable and convince the boss/financier that it is a good investment. If one of my managers came to me with a sound business plan that required a million dollars up front but a return on investment of 300 percent over two years I would have no trouble approving it and neither would any sane boss or financier.

This is all about selling your business plan; the vital second ingredient in moving any records management operation from a cost-centre to a profit-centre. The first is to change your culture from a service oriented one to a service and SALES oriented one; this is the singularly most important change you have to make.

If you need an initial investment to make your plan work you had better be committed to selling your ideas and business plan otherwise don't even begin. Selling isn't a dirty word; selling is the rungs on the ladder to success. You have to adopt a sales culture to be successful.

But, do not rely entirely on the business plan. All business plans are fiction; educated guesstimates about what will happen in the future, novels in Excel format. Try to back up your business plan with something tangible that your boss or financier can accept as real. The best 'real' addition is some

form of proof-of-concept like the first few customers or sales. Try to give your business plan an edge of reality; the financier will always be more impressed by customers and invoices than even the most professionally constructed five-year business plan.

3. Knowledge is a key wealth-creation asset

Records managers manage information and information is used to create knowledge. Information and knowledge are both potentially high value commodities.

However, most records managers do not appreciate the potential value of the information they manage. This is because most records managers don't attempt to analyse the information they manage and track; they are content with the current work paradigm, "Where is it and who has it?"

In most large organizations the paper database (of file folders and paper documents) is the largest single database in the organization and the one that people know the least about. It is usually organized for tracking and not for data mining. It can't be searched and it can't be analysed. It is a huge and expensive (what do you pay Recall or Iron Mountain every month?) store of largely useless information.

Most emails (80 plus percent of all business transactions – and what is a record if not "evidence of a business transaction?") lie buried in corporate email servers or backed-up (not archived – there is a big difference) on off-line storage (tape or disk or optical devices). In 99 percent of organizations no one has any real idea of the contents of these email stores. Once again, we maintain a large and expensive store of largely useless information.

High-value knowledge is:

- Hard to accumulate
- Hard to organize and
- Hard to deploy

Records managers need to learn how to become knowledge managers.

Then they need to create knowledge capital from their vast stores of (currently) largely useless information.

Quote:

"Because knowledge is becoming the key wealth-creating asset, and because high-value knowledge is hard to accumulate in organizations — and even harder to organize and effectively deploy — managers in both the private and public sectors will want to learn how to master the process of knowledge management. And, they will want to become innovators in creating knowledge capital in order to achieve competitive advantage. As a consequence, leading schools of business and public administration will make major curriculum changes early in the 21st century."

Dr.William H. Read, Professor, School of Public Policy
Georgia Institute of Technology, Atlanta, GA USA

4. Authentication will be more important than copyright

Records managers usually classify information based on a standard taxonomy. Most of you would probably call it a keyword thesaurus. It is a hierarchical way of putting everything in a logical "box" so we can deal with most issues in a common way and so we can actually find things after we have filed them.

Applying taxonomy doesn't release information or facilitate the process of knowledge creation; it just makes things easier to file, to find and to manage in categories.

If you want to expose the value in information you have to start thinking in terms of Metadata and content, currency and validity. Out-of-date and invalid data has no value whatsoever.

Significant 'information' issues:

- Source
- Ownership
- Authentication

Validity and currency of data is key.

Quote:

"The creative human process of authoring is in part based upon the collection, interpretation and analysis of existing information. In the future the source, ownership and authentication of information become significant issues as intelligent processors duplicate these human processes to become both primary and secondary publishers.
"Authentication of information sources becomes more important than copyright to ensure these processors do not reuse data that is out of context, thus resulting in false conclusions. As this prediction matures, changes will occur in the publishing business, in educational use of information, and in the purpose and use of libraries."

Robert G. Patterson, Manager of Knowledge Transfer, Institute of Paper Science and Technology
Georgia Institute of Technology, Atlanta, GA USA

5. Evaluation, validation and analysis is more important than organization

Each one of you is probably managing from 30 Gigabytes to a Terabyte or more of information. As a rule of thumb:

A file folder (with parts) contains a minimum of 600,000 bytes of information.

50,000 file folders therefore, represent a minimum of 30 Gigabytes of information.

- How do you analyse it? How do you search it?
- How do you convert it to an asset?
- How do you convert it to knowledge capital?

Knowledge managers need to focus on the content, meaning and value of information.

They must know how to use the latest information management technologies and techniques.

Quote:

"Organizing information will not be so important in the future; evaluating, validating and analyzing information will be. Consequently, there will be a growing need for information and knowledge analysts whose activities are focused on content, meaning and value of information. They will need to know how to use the most modern information technologies and at the same time be educators and mentors in a changing learning environment."

Julie Yang, Librarian
Georgia Institute of Technology, Atlanta, GA USA

6. Do not ignore the value of "cost-avoidance" and "risk-management when looking for ways to "add-value"

A profit centre is one that brings in more money than it spends. It is one that adds value to an organization. It is one that brings a positive effect to the bottom line.

In business you can increase profits either by selling more at the same margin or by selling the same amount at a greater margin (reduced costs).

Savings = greater productivity = higher profits

- Can you propose a way to save money by managing your records more efficiently?
- Can you propose a way to handle disaster recovery more efficiently?
- Have you considered "insourcing" instead of outsourcing?

In order to be able to sell your business plan you need to show how your plan will result in a net increase in profits. You may be able to do this initially just by being more efficient and by reducing costs and thereby increasing profits.

7. You must find a way to add-value

- Who are your customers?
- What do they need?
- What services do you provide now?
- How could you improve those services by adding value (by using information)?
- What new services could you provide?

Every organization, whether public or private is offering a product.

There is always a way to add-value to that product through the creative use of information. You can add value to any product by capturing and utilizing information about the customer's needs.

Customers will pay more for a product that is 'tailored' to their specific needs.

Visit your customers, talk to your customers, survey your customers, and get to know your customers as well as possible. Understand their needs then work out how to satisfy those needs.

8. Who are your new customers?

When changing the paradigm don't make the mistake of assuming that your current customers are the only customers you will have. To be really successful you need to identify and attract new customers; organizations that weren't part of your old model but that will be vitally interested in the new portfolio of information services you have to offer.

You may be part of a big corporation of a government entity but neither fact stops you from broadening your customer base both from within and without.

9. What does the records manager need to do?

Change the culture
- Identify your "clients/users" and think of them as customers
- Think of your job as "service and sales" not just "service"
- Change the way you hire people
- Change the way you train people
- Change the way you manage and compensate people
- Implement performance tracking metrics

Develop a business plan
- Identify your services, your "products"
- Describe your market
- List your management team
- Make your forecasts
- Do your financial analysis

If you find the task of creating a business plan daunting, make it a lot easier by investing in a good business plan package. There are plenty on the market and they are low cost items. To get you started try Business PlanPro from PaloAlto software. It is low cost, easy to install and easy to use. www.paloalto.com

10. Things to think about

You are about to start a business and you are also about to realize that we live in one of the most regulated (most, including me, would say over-regulated) countries on the planet. Once you start selling your services your operation comes under the jurisdiction of a veritable plethora of legislation (e.g., contract law, sale of goods act, fair trading act, etc) and local, state and government bodies.

Here are some of the things you need to start thinking about:

- Standard contracts and agreements, terms of sale etc.
- Privacy legislation
- Legal liabilities
- Insurance
- Licences and permits
- CRM technology (to manage your customers)
- Accounting – handling revenues instead of budget expenditures (don't underestimate this change)

11. Summary

How do you change your records management operation from a cost-centre to a profit-centre?

- Define your "products and services". What do you have of value to offer? What can you do better than other people? What services will other organizations gladly outsource to you (every big organization has a long list of 'tedious' things they have to do that they would rather someone else did)?

- Think in terms of a scalable model. That is for example, one where you can double the amount of work (business) you can handle without having to double your resources.

- Think in terms of spare capacity. Where in your current model do you have room to take on more "work" with existing resources? For example, archiving records to boxes or storing inactive files on spare shelving.

- List your potential "customers", internal, external, old and new.

- Work out how to convert vast amounts of useless information to knowledge capital. Try to look at the data you manage with different eyes. Somewhere in there is a vast amount of information that will be of value to someone.

- Create and sell a business plan.

- Change your corporate culture.

- Become services AND sales oriented instead of just services oriented.

- Change your customers' expectations.

- Have fun and make money.

Reference Material

Cost Analysis Concepts and Methods for Records Management Programs

Author: William Saffady

http://www.arma.org/bookstore/productdetail.cfm?ProductID=1020

Member Price: $44.00
Non-Member Price: $64.00
ISBN: 0-933887-76-0

Cost Analysis Concepts and Methods for Records Management Projects will show the reader how to identify, categorize, and evaluate the cost of records management activities. It will be especially helpful for those who have planning and budgeting responsibilities requiring them to project future requirements for personnel, technology, and other resources and to evaluate alternative methods and costs of achieving specific objectives. It includes illustrative examples of activities such as conversion of paper documents to microfilm, microfilming versus offsite storage, implementation of electronic document imaging systems, outsourcing decisions, and lease-or-purchase decisions.
Soft cover, English, 128 pages, 1998