

High cost of inefficiency – ROI example

The cost of inefficiency is easiest to measure as “time lost cost” while searching for misplaced documents and parcels and the laborious task of logging inbound parcels.

Assume that if your company receives 500 parcels per week, in a year 650 of them will be delayed or misplaced long enough to cause concern plus cost in personnel time. Say that half of those parcels are of little consequence, it still leaves 325 that are of great value in terms of lost opportunity time and real dollars. For 325 delayed and misplaced parcels, for example, *imagine that a minimum of one hour, on average, was spent searching for each lost item.*

Below are some of the items respondents reported missing for one day or more:

- Checks, letters of credit, money transfers
- Contracts, financial filing documents, time-sensitive documents requiring signature, closing documents, records and data output
- Computer equipment, supplies, printed materials, meeting materials, airline tickets, Super Bowl tickets, audio-visual equipment
- Original contract, valued at \$1 million, misplaced for six months

The search is conducted by mailroom personnel who are often joined by administrative staff. Both must interrupt their regular duties. In addition, averages indicate that it takes **two people approximately two hours each day to log in 100 parcels.**

Time required to look for misplaced documents and parcels:

225 hours @ \$10/hr. (mailroom personnel) = \$2,250
100 hours @ \$16/hr. (secretarial personnel) = \$1,600

Time to log in parcels:

20 hrs/week x \$10/hr. x 52 weeks = \$10,400

Time saved per week with a tracking system:

12.5 hours search time
17.5 hours for log-in*

Total time saved each week = 30 hours

* This assumes that at 100 parcels per day, the time to inbound the parcels is **reduced to 30 minutes.**

Many respondents to the study cited that a large increase in overnight deliveries required them to hire additional mail services staff. With the gain of the 17.5 hours required for log-in, as well as time gained from search interruptions, at least one additional employee won't need to be hired as deliveries increase. (Additional employee = \$20,000 + benefits)

Total cost savings for a more efficient operation = \$34,250

Hard vs. Soft dollars

Other costs of inefficiency due to misplaced documents and parcels are more difficult to calculate but are no less real. These costs fall roughly into two categories: hard costs and lost opportunity costs. *For example, if documents/contracts needed to handle the closing of commercial real estate deal are misplaced, the meeting will have to be rescheduled and the firm will lose goodwill with both companies involved in the sale.*

Each firm must calculate these costs independently, as they vary depending upon the type of business and the in-house tracking methods currently in place.

Lost opportunity costs

- Client goodwill and customer service
- Decreased interest earnings

- Delays in operations due to misplaced equipment, supplies, forms, etc.
- Time, to manufacture, sell, service, implement, etc.
- Delays in shipping and invoicing

Hard costs

- Revenue written off for goodwill
- Interest paid out to clients
- Penalties and late charges incurred
- Checks covered for missing Federal Reserve deadline
- Replacement of software, hardware, and other supplies
- Rescheduling of airline reservations
- Reprinting of time-sensitive meeting materials

Covering their tracks

Another type of cost is the failure to recognize the slow trickle or pattern of lost opportunity which, overtime, creates a deterioration in a firm's reputation as well as its bottom line. One respondent to the study was a managing partner of a prestigious back East law firm. His response to the telephone interview was to state emphatically that nothing is ever misplaced at his firm.

"I can count on one hand the number of times things have been misplaced in the 35 years I've been here," he said. Yet a call to the head of his mailroom presented quite a different picture: "We get about 25 calls a day from people looking for packages, and then the hunt is on. It's very time consuming. We've had to hire extra people just to keep up with it."

This story illustrates a consistent finding from the study: Mail services personnel are extremely adept at scrambling to make sure upper management has what they need, when they need it. Upper management often doesn't know the high cost of the system's inefficiency.

This is not to say that management doesn't invest in obvious efficiencies - quite the contrary. Some large *banks use helicopters* to ensure the timely transport of data and deposits. Others rely on a *courier staff, inter-bank pouches, and a fleet of trucks*.

To completely eliminate inefficiency, however, a bar code control system should be in place to track the movement of critical documents through the entire processing chain. If a pouch is delivered to the wrong location and not immediately found, lost opportunity costs begin to mount, followed soon by hard costs.

With the ability to track parcels and documents internally through a system that uses signature capture and regular data downloading and reporting, the trickle of lost costs, both hard and soft, begins to reverse. An excellent example of this are the companies who use the time stamp feature on reports to prove late arrival of guaranteed early-delivery parcels. They also use a customized field to note damaged parcels. Delivery companies such as UPS and FedEx applaud this strategy as a safeguard against false claims.

Tracking system requirements

Specific requirements are necessary in order to reap the benefits of an in-house parcel and document tracking system.

- 1) • The first of these is to determine the important materials that need to be tracked. Ask which are high in value, which are time-sensitive, and which make your company most vulnerable to penalties and customer dissatisfaction. If there is no way to differentiate between the materials, the simple rule is to track everything.
- 2) • All these important items must bear a bar code. Most incoming parcels have a bar code already in place; others are readily available.
- 3) • The bar code must be scanned into the system.
- 4) • The principles of bar code tracking must be applied:
 - Scanning occurs when location changes.
 - Scanning and signature capture occur when ownership changes.
 - Scanning occurs when value changes.

-Downloading to the control system occurs at regular intervals.

5) • Digital signature capture is an excellent feature to establish proof of delivery.

It is important that the in-house tracking system be dedicated to the purpose of tracking parcels, mail, documents, faxes, etc. It could be a simple, stand-alone system or enterprise used across a network. Finally, the tracking system should be intuitive and easy to use with a minimum of training and set-up time required for implementation.

As one midwestern operations manager pointed out, "We sometimes lose 70 percent or more of our mailroom staff after a *snowstorm*. The world doesn't stand still just because we've had a snowstorm. We expect 100 percent accuracy from 30 percent of our staff."

It's true that catastrophic events due to delayed or misplaced parcels and documents don't occur often. Like when lightning strikes, they occur unexpectedly and often with costly consequences.

Business leaders need to realize that when they implement an internal tracking system, they are purchasing insurance against that lightning strike. They are also purchasing a *competitive advantage* by assuring their customers' peace of mind.