

What's the ROI of Efficient Workplace Management

A Financial Analysis on the Value of Efficient Scheduling Practices

There are many different techniques that can be used to measure the financial attractiveness of a business investment. You can apply these techniques to any investment project, such as equipment acquisition, facilities improvements, office expansion, or software purchase. Business investments must meet a certain minimum return in order for the project to be approved. Although the financial modeling tools are well accepted standards, each company or organization sets their own minimum return requirements. Common financial evaluation tools include Net Present Value (NPV), Payback Period, Internal Rate of Return (IRR), Return on Assets (ROA), and Return on Investment (ROI).

ROI is one of the most popular metrics used when comparing the attractiveness of one investment with another. The return is the total amount of money expected to be gained from investing in the project and the investment is the total amount of resources spent in order to generate the anticipated return.



Providing a workspace to an individual employee costs an organization from \$8,000 to \$14,000 a year. Eliminating 100 workspaces can save an organization over \$1M a year.”

— Gartner Group



Simply stated, $ROI = \text{Benefit} / \text{Cost}$ and is expressed as the percentage gain for the expected life of the project. The ROI calculation measures how effectively a business uses its capital. ROI equals the present value of the accumulated net benefits (gross benefits minus the initial investment and ongoing costs) divided by the total project costs, for a specified time period: three years is commonly used for IT purchases since technology is often obsolete after three years.

Calculating an accurate return on investment (ROI) is not easy. There are numerous variables - some more significant than others and some very hard to quantify. Variables include the influence of new technology, unforeseen business issues, and even equipment failures. The ROI financial calculation does not account for discount rates, depreciation, or inflation, but still can be an effective way to evaluate a project. This article is only intended to present the basic concepts behind an ROI calculation; not to provide a thorough explanation of the ROI calculation process.

Calculating ROI requires knowing the initial investment costs and the on-going costs as well as an understanding of the expected benefits. This is perhaps the most difficult challenge when it comes to technology projects. Most of the initial costs may be summed up in the sales proposal, but quantifiable benefits are more obscure. This is especially true with technology investments where benefits include such things as increased data accuracy, easy access to information, faster transactions, and improved productivity. Such benefits often translate into improved customer service, increased production without raising head-count, and better employee retention. Since it is all related to efficiency - getting more done in less time - we can consider the time-savings as a quantifiable measurement among the benefits. Admittedly, this is just one component among the total benefits gained from process improvement and office automation.

The Investment

The investment component of any ROI calculation includes the initial purchase price as well as any additional equipment or resources necessary to implement and support the solution. Indeed, "resources" includes cash money and equipment as well as "human resources" or "time"; after all, time is money. Be sure to include any training costs as well as expenses associated with application support. Training is a good example of an investment that increases ROI. Likewise, software support contracts protect your investment. New software acquisitions should be standards-based and easily implemented within your current IT infrastructure in order to control start-up costs. On-going support from the vendor should be available when and where you need it and should include software updates. Reliability of the application platform will also affect support costs - remember the high cost of down-time. When you consider all these up-front expense items it's easy to appreciate the cost benefits of on-demand software solutions. When software is provided on-demand, your vendor hosts the application and is usually responsible for all hardware and software installation and upgrades making the investment factor much more predictable. Here is a partial list of costs to consider if you choose a traditional software purchase:

1. Software Licenses
2. Annual support agreements
3. Computer Hardware
4. Professional Planning and Implementation Services
5. Training

The Return

The benefits gained (the return) will also include some hard-to-measure line items. While we stated earlier that the return is the total amount of money gained, it is also measured in time savings and administrative cost reductions. Better facilities investment decisions can be made when timely and accurate information such as from resource utilization reports is available. There are more obscure benefits such as reduced employee turn-over that comes from providing employees with easy-to-use tools which not only increase productivity but also improve job satisfaction. Here is a partial list of benefits you should consider:

1. Time savings (measured in dollars per month or year)
2. Statistical data for asset management and cost alignment
3. Facilities cost containment (cost avoidance and cost reduction)
4. Improved customer service, both in quality and response time
5. Reduced employee cost (lower turnover, lower training costs)

Simple Example

The administrative assistant spends one hour each day scheduling and re-scheduling meeting rooms and training rooms. You purchase a scheduling software application designed to automate the process so that the job gets done in just 15 minutes, saving 45 minutes a day. This administrative assistant can put that extra time into much more productive work. Given that there are 20 working days in a month, that's a time savings of 15 hours a month – nearly two days! If you calculate this employee's cost at \$20 per hour, that's \$300 saved each month or \$3,600 per year. For this example, let's assume the company spends \$10,000 on the software. Is the investment worth making?

Let's consider this simple equation using a 3 year life cycle.

$$\text{ROI} = [(\text{Payback} - \text{Investment}) / \text{Investment}] * 100$$

$$\text{ROI} = [(3 * \$3,600 - \$10,000) / \$10,000] * 100$$

$$\text{ROI} = [(10,800 - 10,000) / 10,000] * 100$$

$$\text{ROI} = (800 / 10,000) * 100$$

$$\text{ROI} = 8\%$$

What if there were five administrative assistants and they all experienced the same benefit? Is it then considered a good investment?

$$\text{ROI} = [(5 * (3 * \$3,600) - \$10,000) / \$10,000] * 100$$

$$\text{ROI} = [(54,000 - 10,000) / 10,000] * 100$$

$$\text{ROI} = (44,000 / 10,000) * 100$$

$$\text{ROI} = 440\%$$

Remember, this is just a very simple example. Use your employee cost-of-time figures based on actual FTE¹ standards to estimate the real benefit. Also consider that many employees who don't actually use the software, such as executives, will benefit by not wasting their time due to improper or erroneous meeting room scheduling. This is a real benefit and should also be included.

While ROI tells you what percentage return you might expect over a specified period of time, it does not tell you anything about the strategic potential of the project. So while a 440% return may be attractive, would you rather have a 440% return on a \$10,000 project or a 190% return on a \$300,000 investment? That is why you should consider the potential impact that any software investment has on the entire enterprise. How many other people might be expected to benefit from this investment? Can the application be implemented across the entire organization

and provide more benefit? Is the application flexible enough and configurable so as to meet the needs of other departments and more employees? A leveraged investment results in more ROI.

Payback Period

Another metric often used to evaluate new projects is the Payback Period. This one is used to determine how long it will take to receive benefits equal to the amount of the initial investment. Sometimes referred to as the break-even point, it's an investment recovery calculation that is measured in time (months or years).

The simple equation looks like this:

$PP = \text{initial cost} / \text{financial benefits per time-unit}$

As an example, a project costing \$10,000, yielding a benefit of \$1,500 per month:

$10,000 / 1,500 = 6.6 \text{ months}$

The Payback Period in this example is less than seven months. Just as in ROI calculations, Payback Period does not account for depreciation or cost of money.

Summary

Scheduling applications help businesses get more done in less time and with fewer resources. The result is a more productive business environment creating more time to devote to important business activities. What is the actual return on an investment in scheduling software? The greatest benefit is efficiency. How much does it actually cost to schedule a meeting? Too much time is wasted with phone-tag and email just to arrange the best time and place for a meeting - and then to reschedule when something

inevitably changes. Is it acceptable to "lose" two hours to schedule a one hour meeting? In other words, what is the ROI for using an efficient scheduling solution? Automating repetitive tasks provides time savings, reduced errors, and important statistical data used to make better resource management decisions.

The second benefit is better asset utilization. Rooms and equipment can be allocated more effectively when room availability and characteristics are quickly and accurately determined and put to best use. Event coordinators as well as individual self-service schedulers can all benefit from enterprise scheduling software. The benefits extend to facilities managers, instructors, service providers, and many other employees. The result is better resource utilization, facilities management, and asset cost control. Companies cannot afford to ignore the high cost of underutilized assets. Efficient resource management improves the financial strength of organizations. And with today's budget constraints and limited assets survival often depends on how effectively businesses manage their valuable resources. Efficient enterprise-wide scheduling solutions provide demonstrable ROI.

1. FTE stands for Full Time Equivalent and represents the total cost of an employee beyond just wages. These costs include health care insurance, government mandated costs such as workers compensation, unemployment insurance, social security, facilities allocation, and other costs associated with a full time employee. A typical employee who earns an annual salary of \$50,000 might actually cost the company closer to \$85,000. At that rate an employee's time is worth about \$354.00 a day, assuming 240 working days in a year. "Cube Stakes," D. Duffy, CIO Magazine, April 27, 1999

