Reducing Soft Costs

Dramatically Lowering Process Expenditures with the OpsTechnology Purchasing Solution

An Executive White Paper by Stephen Lefkovits

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OpsTechnology

OpsBuyer™ - Time Savings, Efficiencies and Other Soft Benefits

"It used to take 4 or 5 hours weekly to approve all of our invoices, and now with Ops it takes about 5 minutes. I can concentrate on other things in that time, I can spend more time getting to know residents, more time training my staff and can get out and walk the property more." This was reported by one community director at United Dominion. Not to be outdone, another suggested that OpsBuyer™ saved her 10 hours weekly, saying that if you can shop at Amazon.com, you can certainly use OpsBuyer™. These gushing testimonials highlight the potential of OpsBuyer™.

They also underscore the importance of training and other prior preparation for users to get the most value out of the product. Both of these users rated themselves as computer savvy and regularly used computers at home and in previous employment. Other, less computer savvy site-level users reported that they perceived no time efficiencies, or even lost time due to a variety of factors - some unrelated to the product such as the age of their computer, their access to a computer or their lack of broadband access to the internet. As with most new technologies, the relevant prior experience of the users is critical to their perceptions of value.

"Soft" Benefits Defined

"Soft" benefits are things that improve the quality of life for a company's staff, without contributing directly to the bottom line. They are largely intangible, and sometimes not even measurable. In the general context of process improvement, soft benefits can include:

- Time (and other resource) savings created by improvements in a process or program;
- Simplification or rationalization of a process;
- The reduction of possibility of human error;
- Improvements in the availability of management information;
- Enhancements to communication, morale and motivation;
- Skills enhancement;
- Safety enhancements that eliminate unnecessary danger.

Counting "Soft" Benefits

The accounting operations staffs of both firms recognized hard and soft benefits. Traditionally, time efficiencies are documented using time and motion studies that break down discrete tasks. These studies are particularly useful in manufacturing operations where standardized parts and movements can be broken down into the smallest possible units. In more complex operations in which there are multiple tasks, self-reporting of time saved is useful because it is easier and cheaper to collect information about how professionals allocate their time to a given set of tasks. If those workers have multiple responsibilities and the freedom to complete a number of tasks at their discretion, their perception of time saved is at least as important as an "objective" measurement. The more latitude the staffers have to optimize their time, the more likely they are to be able to save time based on a given intervention.

Experts suggest including the soft benefits in any efficiency, preferably in a separate column from the hard benefits.[1] "It's foolish to discount soft benefits" opines Ian Campbell, vice president of research for Nucleus Research "If everyone discounted productivity gains, we wouldn't have PCs on our desks. They [PCs] don't have positive ROI without the productivity gains."[2] At the same time, when assigning a dollar amount to the value of soft benefits, Campbell notes that benefits should be discounted depending on the type of worker affected. Sales and manufacturing workers can directly and immediately benefit from increased time, and for them the benefit might only be discounted 10-20%, whereas with white-collar administrative workers, the discount might be as much as 80%.

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Soft Benefits at the Site Level

Joshua Tree Consulting interviewed community managers and service managers from both Camden (8 teams) and United Dominion (10 teams). They were asked about their general experience, their perceptions of efficiency and usability and also about whether they would recommend the product to a peer at another company. They were also queried about the size and age of the property, and their own computer experience. Users' experiences correlated with their experience levels, and their motivation to learn something new. Because the benefits of change are most visible to someone with the "big picture", site-level users voiced expected levels of resistance to making the change. Even with this resistance, and the OpsBuyer™ users are already processing more than 10,000 orders monthly, and the number is growing rapidly.

Ordering

Service managers typically reported that OpsBuyer™ required them to change their process to accommodate the system. Many service managers reported that they were used to ordering appliances, parts and supplies on the fly by telephone, and it took somewhat more time to leave their work to make orders from a computer in the community's office. Compared with ordering by phone, OpsBuyer™ typically took more time to order, for some double or more the amount of time. As a result of these objections, and the lack of computers in some maintenance offices, some service managers shifted ordering tasks to the community managers to reclaim some overall efficiencies. Community managers typically reported having a much easier time ordering, mostly due to their higher levels of training and computing experience.

It is important to note that maintenance supervisors have not traditionally been hired for, nor requested to master the use of computers in their work. Shopping carts, hierarchical menus, search strategies etc. are at this point still a hindrance to the typical maintenance shopper, not an aid. Several users reported that they still use printed catalogs to obtain the individual SKU information for each product. One community manager summed up their situation saying "You need someone very well trained and fast on the computer to have an efficient work team." For motivated managers excited by the opportunity to expand their skills, OpsBuyer™ has been very beneficial, because it has provided a concrete reason to make time for additional skills training. More tellingly, several service managers reported that by using OpsBuyer™ they are now introducing PCs into their homes, and more able to relate to their children's school work.

Data Entry

United Dominion uses OpsBuyer™ as the user interface for its accounts payable workflow. The company instituted a separate accounts payable centralization project in which all invoices are either delivered digitally or the paper invoices scanned and then presented to the property managers using the OpsBuyer™ interface. Before this initiative, property managers manually keyed and coded invoice detail into RentRoll, and that data was uploaded weekly into PeopleSoft for central review and payment. Scott Shanaberger, Chief Accounting Officer estimates that this A/P centralization initiative saves, on average, fifteen hours of community director's time monthly, or 180 hours per site annually. At an average of $50,000 annually, this represents soft savings of about $4,300 per site or $1,100,000 of company-wide soft benefit annually. The offsetting costs were approximately $100,000 of imaging software and the 3 additional imaging specialists. In addition, properties have a more complete picture of their expenditures, since invoices from all of their suppliers run through and reside within OpsBuyer™.

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Approvals

Community managers typically reported favorable benefits in approving orders and coding invoices with the proper GL ledger code. Two extreme examples have already been noted. Another user who professed considerable confusion about the approval process, concluded by estimating that doing her approvals on OpsBuyer™ still saved her 3 hours per week. Yet another called approvals on OpsBuyer™ "the easiest, most efficient thing that they have to do [all week]." Managers estimates of their time savings ranged from flat to 10 hours, with the average falling around 2 hours per week. Those most familiar with financial operations and specifically those who had memorized GL codes reported the smallest time gains. This suggests that the less experience a manager has, the more likely OpsBuyer™ could help save them time by lowering their learning curve and automating a process that can take months to master. Younger managers may tend to have more familiarity with computers and the internet as well, reinforcing this trend. In addition, since the approval process, coding regulations, and use of contracted suppliers are all built within the procurement process, users at the site don't even have to think about these issues. With 60% turnover within properties (and 25% at the management ranks), communicating and enforcing process and procedures is extremely difficult, especially when working with new personnel. OpsBuyer™ incorporates these business rules into the process, thereby creating a mechanism to automatically communicate and enforce such policies.

Skills Improvement

One service manager reported that "It's getting me better on the computer, I like it." Others want and are getting more general computer training in order to efficiently use OpsBuyer™. Four community managers expressed an interest in making better use of the reporting capabilities of the system. "I love the reports. The organizational benefit is big. They're great for getting and staying organized." Both companies have looked at getting computers for the maintenance offices as a result of this initiative. Overall, the skills improvement is quite modest, which is to be expected because the limited amount of time that users spend on the system. The very slight impact it does have is either neutral or positive.

Morale and Motivation

The most excited and contented users were those who best understood the company's overall goals for the project, their specific role, and felt like they'd had a voice in the decision to undertake the project. Of course, these traits are common to all new projects in all organizations, not just this one. Almost all interviewees wanted more training – some because they lacked specific skills, but more because they sensed that by mastering this tool they'd help to secure their role in the company going forward. Because the multifamily industry tends to attract individuals with strong social skills, some experienced managers they were concerned about losing contact with friends at vendor companies – and a valuable source of industry news. When asked to summarize their recommendations to hypothetical peers, most urged new users to take advantage of the technology and take the time to learn the system and use it to their advantage. Several were clear that the potential to save the property and the company money were a significant driver, and thought it worthwhile to be in the forefront of change if the net effect for the company were positive.

> **"It's saving us time and money and that's what it's all about."**

> **"I love it. I'd tell my peers that there are fewer worries and no paperwork using Ops. And it helps to track maintenance supervisors who are 'spendy'."**

> **"It's tricky, but not difficult. I'd recommend it if it saves the company money."**

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"I didn't know what the end result was going to be - a more efficient system. My recommendation would be to explain what it is in greater detail and what the benefit will be. It's not as hard as hard as it seems."

"I would recommend it for financial tracking, and inventory man agement."

A minority disagreed, neatly summarized by the views that:

"As the front line foot soldiers it hasn't done anything for us either way down at our level"; and

"It's okay, but it's not okay. Because it's difficult for me to use, I feel like we're losing track of financial control, which is the opposite of what we're trying to do."

Back-Office Efficiencies

"We didn't think upfront about payables processing at all," offers UDRT's David Houghton, Vice President of Purchasing and Corporate Services. "But we've exceeded our ROI goals just from the savings generated by our prompt payment discounts." This candid assessment of an unexpected surprise highlights the potential of a streamlined process for bill presentment. Camden's Director of Purchasing Bernadette Revis similarly reports that the accounting efficiencies weren't an early focus, but are getting more attention of late.

A/P Batch Processing

Camden has generated very large efficiencies in batch processing of invoices in its accounting department. Under the old system it took 5 people 1.5 hours each to process 375 invoices. Using the OpsBuyer™ system, one person can batch process the same number of invoices in three hours, and additionally resolve any problems. This doesn't just create more time for better management of higher-value functions, this efficiency (and others) has allowed Chief Financial Officer Dennis Steen to reduce headcount by 2.5 FTEs in the accounts payable area, a hard savings estimated to be at least $60,000 annually.

By contrast, as noted above, United Dominion has created a centralized accounts payable processing unit that scans and images all of its incoming invoices from non-OpsBuyer suppliers. This centralized unit added 3 FTEs, with the goal of driving substantial time savings at the site level, also as noted above.

These two different approaches underscore the how different firms can derive dissimilar benefits depending on their goals and size. United Dominion has publicly committed itself to a strategic goal of creating operating efficiencies that enable the company to increase net operating income through economies of scale. Thus, adding bodies to drive centralization helps push the ultimate goal of increasing economies of scale. Camden's desire for increased workflow efficiency for all associates has also had unintended positive consequences for their bottom line in the form of attrition and reduced headcount in accounts payable.

Prompt Payment

Both firms have received significant cash benefits from their desire to more quickly recognize expenses, and remit payment to their vendors with fewer steps. United Dominion paired the OpsBuyer™ deployment with the deployment of an e-payment system that has streamlined their payment process. This streamlining is expected to deliver 15-20% of their total cash savings annually.

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According to Houghton, UDRT "couldn't physically pay its vendors in less than 20 days" under the old system in which they uploaded RentRoll data into PeopleSoft, and mailed invoices to accounting to be verified. They now upload OpsBuyer™ data nightly and batch payments from all properties to a vendor and transmit one payment electronically to the vendor every few days. This process cuts down on several steps, reducing their payment time from 28 days, to just 9 days.   In addition to saving over at least 500 man-hours annually in accounts payable, UDRT is now able to consistently take advantage of very favorable prompt payment discounts for paying in less than 10 days from invoicing.

Neither firm initially focused on this area. Camden has positioned itself to begin taking advantage of similar discounts for paying in 7 or 10 days with certain vendors. To take advantage of these savings, they are shifting their existing process slightly and switching to a biweekly data upload from OpsBuyer™ so that they can make rapid payments.

Error Reduction

Error reduction is potentially substantial. Electronic bill presentment can eliminate 6 or more steps in which paper is manually processed during the accounts payable process. If the average associate makes an error on just 2 invoices out of 100, the overall error rate will exceed 12% on average. If these human errors can be eliminated, not only does the initial work go much faster, but there is no cost for correcting errors.

The total process "from req to check" (from order placement to supplier payment) may require 12-14 steps or human "touches." Working with a standard catalog and data set means that data will only be entered once, leading to greater accuracy and a decrease in the overall error rate.

Executives at both firms have noted that they are still exploring and understanding the soft benefits, and changing their processes to take advantage of them. For both firms, so-called soft benefits are real, observable value. Extraordinarily, soft benefits yielded cash value for both of these early adopters.

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Footnotes
[1]"*How to Develop a Repeatable & Accurate and ROI Process for IT,*" Copyright 2002, Institute of Management & Administration, New York, NY.
[2]Ibid.

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About Joshua Tree Consulting

Joshua Tree Consulting is a niche consulting practice dedicated to the growth and success of the multifamily industry. We help our clients achieve success through studying and optimizing strategies and operational processes that are close to the heart of the business. Joshua Tree Consulting works on selected engagements in which it can add value through analyzing strategies for asset management, positioning and making better use of management information.

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About OpsTechnology

OpsTechnology develops software that saves money for real estate operating companies by improving their ability to manage and standardize Procurement, Purchasing and Payables functions. Founded in 1999 by real estate and technology industry experts, the company is backed by real estate operating companies and VC firms including SAP Ventures, Vortex Partners, Cohen & Steers, Equity Residential and Camden Property Trust. For more information visit www.opstechnology.com

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