

So You Think You Might Want To Get In The Records Management Business

By Steven J. Hyman

Maybe some of your colleagues are in the business and you are intrigued by the prospects. Perhaps you have a client who wants you to store some boxes of records. Or perhaps you are already storing records for one or more clients and you are wondering if you should pursue additional clients. For ten years I have been working with commercial records centers and during this time I have seen an evolution in the industry. In this article provides an overview of this evolution. It will also detail the basic business components of records management and discuss how record centers typically price their services and the profit potential.

Background

The growth in off-site storage by commercial vendors has been growing at a very rapid rate over the last decade. The ever-increasing power of computers and printers creates a perpetually escalating amount of paper records to be stored. Likewise, recent trends in law have emphasized to corporate America the importance of professional records management. A case on point is all of the recent litigation in the tobacco industry. At the same time, there has been an incredible amount of consolidation in the commercial records management industry. In the 1990's, two national companies were rapidly increasing their market presence by acquiring a large number of independent record centers all over the United States and the world. These two companies acquired a very high percentage of major independents during this period. In some markets these two companies acquired most, if not all of the large commercial records centers in a geographic area. During this time these companies not only competed for records management business, but they also competed in their activities of acquiring independent commercial records centers. A few years ago, one of the national companies was acquired by the other. The result was the elimination of quite a bit of the price competition in the records management market. As was to be expected, the operations of all of the acquired independent records management companies were modified to conform to the standards of the national company.

Current Customer Need(s)

A national commercial records center can offer certain advantages to large national accounts, accounts that store records in many different cities in many different geographic areas.¹ On the other hand, the size of a large national commercial records operation makes personalized service difficult if not impossible. As a result of its size, a large national company must limit its dealings and offerings to a set of standard operating procedures. Personalized service becomes much more difficult. Typically requests for service are handled at a centralized location, most likely not in the same geographic area

¹ In order to meet the demand of these national accounts, commercial organizations of national record centers have been formed.

of the customer. Most people would agree that one of the most important aspects of records management is service. Independent records management companies have a distinct advantage over a national company in this regard. A private business can tailor its services to meet the individual demands of its clients and maintain a personal touch with its clients. In short, the factors enumerated above create tremendous opportunities for successful new entries into the market. In fact, most independents are growing at very rapid rate.

Large or Small Accounts

The basic operational cost structure of a national records management company makes it less practical to vigorously pursue smaller accounts. However, these smaller accounts typically offer much better profit margins. A commercial records center that is comprised of many small to medium accounts is also much more stable and, therefore, less susceptible to the financial risk associated with losing one key account. In addition, a commercial records center built on a high percentage of small and medium size accounts has a greater business value. On the other hand, larger accounts can allow a commercial record center to grow more quickly. In the case of larger accounts, there will likely be more price competition, but even in the case of large accounts, clients increasingly are searching for attentive personalized service. Often clients are willing to pay more for service that is tailored specifically to meet their needs.

Digital Imaging

Over the last few years, I have seen a significant increase in the interest in converting physical documents to digital file images stored on computers. Until recently, most companies did not consider the conversion of documents to digital images viable. The process of converting documents to digital images is still a very expensive alternative to storing boxes of files, but demand is increasing. Many people considering entering the commercial records management business worry that this will make the storage of documents obsolete. It is important to understand that even though the cost of storing images has reduced drastically over the last few years, imaging still requires a large amount of manpower to prepare the documents for imaging. This makes the cost much higher than storage. In addition, most corporations continue to store the hard copies of the documents that are converted to digital images with a commercial records center. In short, the increased volume of digital imaging is not likely to negatively affect the commercial records management business. Commercial records centers should not look at digital imaging as competition to records storage, but as an additional service that they can offer to their clients.

Pricing for Services

The records management business has two components: storage and services. As a rule of thumb, you can expect your service revenue to be approximately 60% to 100% of your

storage revenue, depending on market size and competition. Typically a record management company charges for pulling items, putting away items, transporting items (both to and from the client), adding new items to inventory, destroying items, faxing, copying and indexing items into a computer system. Commercial records centers also sell boxes and other tangibles to their clients. In some cases, commercial record managers charge consulting fees for assisting companies with solving their records management problems and establishing procedures for managing of their records. The following discussion provides an overview of the typical categories of services offered by commercial record managers.

Adding items to inventory. The first step in receiving an account is adding the new items to inventory. Typically this involves entering the item into a computer software program designed to manage the operations of a commercial records management business. These computer software systems are designed to track items as they move about the commercial record facility and are returned to the client. At the time an item is entered into the computer, it is typically given a tracking number that is converted to a bar code for electronic tracking with portable hand-held devices. A bar code label is attached to the item. As the item moves around the facility it is scanned and the location is automatically updated in the computer system.

Storage. Once an item is received by a commercial records center, the center bills for storing the item. Storage for items is typically billed in advance by cubic feet, at rates ranging from \$.15 to \$.50 per cubic foot per month. Some commercial record centers bill storage quarterly, semi-annually or annually. The fees charged for storage are typically higher when the items are stored in an air-conditioned and/or heated (climate controlled) records center.

Retrieving Items. Commercial records centers charge their clients for pulling an item from storage. Typical charges for pulling a box or file from a box are \$1.00 to \$3.00. In most instances, the item is then transported to the client and the client is charged an additional fee for the transportation. In other cases, the client may wish to view the items at the commercial records center. In such a case, the commercial records center provides a viewing room designed for this purpose.

Transporting Items. Commercial records centers charge for transporting items to the client. The charges for transportation vary based on the type of request. Commercial centers typically offer standard deliveries, rush deliveries and after-hour deliveries. Normally, standard deliveries are scheduled based on cut-off times. In other words, if a client makes a request by a certain time they get their delivery by a certain time. For instance, if a client makes a request by 4:00 PM one day, the item is delivered on the next morning's delivery run. The fees typically charged for a standard delivery are \$6.00 to \$35.00. A rush delivery is where a client can call any time during normal business hours and schedule a delivery within a specified number of hours. Normally a rush delivery is made within two to four hours from the time the client makes the request. The fee typically charged for a rush delivery is \$15.00 to \$100.00. An after-hours delivery occurs when the client makes a request for delivery after normal business hours. The fees

typically charged for this type of service range from \$25.00 to \$250.00. Not all commercial record centers offer after-hours deliveries. Commercial record centers serving medical accounts typically must offer this type of service.

Refiling Items. Refiling items is the reverse of retrieving items. Typical charges for refiling a box or file into a box are \$1.00 to \$4.00.

Other Services. Examples of other services typically provided by commercial record centers include faxing, copying, selling boxes and hourly services.

An important factor associated with building a successful commercial records center operation is marketing. Additionally, in order to grow a records center, it is necessary to have a dedicated sales effort. A successful marketing campaign generally includes print advertising, telephone marketing and one or more individuals committed to calling on potential customers. Sales cycles can be quite long: typically from 3 to 18 months. Other factors required for a successful records management business include warehouse space, racking for box storage, a computerized bar code enabled tracking system, trucks and manpower available servicing the customers.

Profit Potential

The records management business has a very high recurring revenue component. Typically clients sign long-term contracts for three (3) to five (5) years or more. In addition, the cost of moving from one vendor to another makes moving less likely. EBITA (Earnings Before Interest, Taxes and Amortization) of 25% or more of gross revenues are not uncommon. Typically, the larger a commercial records center grows, the higher EBITA grows. The records management business also has one of the best recurring revenue streams of any business venture. For the most part, clients sign long-term agreements and stay with their service provider as long as they receive good service. Existing clients typically grow 5% to 15% each year. The records management business also thrives in a bad economy. Furthermore, when it is time to sell the business, there is a ready, willing and able market always interested in purchasing existing records management businesses. These buyers include national and regional companies and scores of smaller operations looking to grow more rapidly by acquisition.

Summary

In conclusion, the commercial records management business can be a great business. It is particularly well suited for moving and distribution companies that already have in place most, if not all of the components necessary to operate the business. However, the records management business does require a commitment to market the business. Growth takes time but, once you have acquired customers, the revenue is recurring and always growing. The business also performs well in poor economic times and provides a diverse income stream that can help insulate your balance sheet against other business units that do not perform well in bad economic times.

Side bar (will send digital photo to go along with this sidebar)

About Steven J. Hyman and DHS Worldwide

Steven J. Hyman is president of DHS Worldwide, a software development firm. He has a degree in Computer Science and Business Administration from Vanderbilt University in Nashville, Tennessee. He also graduated with honors from the University of Miami School of Law. He has been actively involved in records management for over a decade. DHS Worldwide markets three different editions of its Total Recall™ Records Management Software. These products are designed to cater to both the corporate and commercial records management industries. The Total Recall products are used worldwide and are state of the art software solutions that are fully bar code enabled. For more information, please visit www.dhsworldwide.com or call (800) 377-8406.