Reducing Your Offsite Paper Storage Risk and Cost

Strategies for identifying overbillings and negotiating smart contracts

Abstract

Despite spending billions on office automation technology to facilitate the adoption of digital documents, organizations still create and store large, albeit decreasing, amounts of paper. Even with paper storage volumes decreasing, offsite paper storage costs continue to grow and storage vendors continue to see their revenues increase at nearly 10% per year with profits growing even faster. By squeezing more fees out of less paper storage through complicated storage contracts, these companies are successful at extracting high fees from a declining market. Punitive removal fees make switching vendors difficult. Making matters worse, poor, error-prone billing practices and complex invoices that are difficult to reconcile with a contract also add to these increasing fees. At a time when most companies expect to spend less on paper storage, they are often spending more.

This White Paper discusses strategies for recovering overbillings, reducing overall physical records storage costs and reducing the volume of offsite records stored.

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History of the Offsite Paper Storage Market

Offsite records management historically required fast access to paper files and as such, records management companies tended to be smaller, local, privately-owned companies in very concentrated geographic markets. As the industry matured, some of these smaller, fragmented players also had founders near retirement who wanted to sell to a larger organization. These larger players in the industry have executed a classic "roll-up" strategy where small companies are combined to achieve economies of scale and drive out smaller competitors. As a result, there have been several hundred acquisitions over the last twenty years resulting in more of the market controlled by a few offsite storage behemoths.

Since most acquisitions were relatively small, combined companies often had both differing contract terms and a patchwork of billing systems. For customers of the acquired vendors, consolidating contract terms was often deferred until it was time for contract renewals. In some situations, customers had two contracts with different prices and it was in the vendor's interest to use the higher-priced contract terms. To complicate matters, it took time to convert billing systems between merged companies and even converting the data resulted in errors when keying in contract terms from the old system to the new one.

In many cases, customers lacked the historical knowledge of contracts and could do little more than accept vendor invoices. Today, paper retrieval and use have continuously decreased. Revenues, however, have not. In fact, they are increasing. Why? Let's examine the reasons.

Top Three Reasons
Offsite Storage Costs are Increasing

1. Shift to Ancillary Fees

While the average monthly storage fee per box is decreasing, vendors have shifted to ancillary administrative fees to support revenues. Similar to how airlines now make much of their profit on baggage and other extra fees, the records storage companies have followed the same game plan. Records storage vendors would like you to think that storage costs are easily understood by cost-per-box (or cubic foot), as this is the most visible aspect of records storage. In reality, customers experience management or maintenance charges of more than four to five times these per-box billing charges. Every time a vendor touches a box for inventory, retrieval, or destruction, there are multiple fees and usage transactions. Some vendors even charge a "billing fee" for invoicing their customers. Others charge even more for detailed invoices. These fees are deeply hidden in contract language and while at first glance appear somewhat immaterial, they can comprise the bulk of a monthly bill. Today the actual amount spent for offsite records storage can represent as little as 20% of total fees. The other 80% represents a variety of charges.

2. Vendor-Favored Billing Inaccuracies

Obsolete billing systems created an unforeseen windfall for vendors. Reviews of customer invoices have uncovered steep billing error rates, with more than 50% of typical invoices containing errors, resulting in overcharges of up to 35%. Most billing errors are fairly small and are hard to identify because the specific terms are buried deep in agreements. While these individual errors may be small, multiplied by thousands of boxes across months or years, these compounded errors can be large, often 20-40% higher than the negotiated rate. Likewise, the vast majority of billing errors occur in the vendors' favor. Even large organizations like the Internal Revenue Service (IRS), which paid the National Archives and Records Administration $30.8 million for storage services, saw significant billing errors.[1]

3. Stranded Boxes

Most organizations discover that 40% (or more) of their paper documents are either redundant, obsolete or trivial (records that need not be retained) or have been kept past their retention schedule date. In the IRS case cited above, there were 238,523 cubic feet of records past due for disposal. The IRS had to pay ongoing monthly storage costs of $700,000. Other audits have also found a variety of inappropriate records being stored and billed. Examples include paper cups, employee files from over 50 years ago (often with inappropriate comments), books and reference materials for equipment such as punched-card readers, foam toys and other giveaways from trade shows, etc. In short, companies pay offsite vendors millions of dollars per month for content that shouldn't have been stored in the first place.[1]

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1. Treasury Inspector General for Tax Administration, *Controls Over Records Storage Costs Could Be Improved*, September 18, 2014

Reducing Ongoing Storage Costs

For many, burdensome storage costs, coupled with punitive box removal fees, feel like an unavoidable tax. Believing there is little they can do about it, organizations store documents with the same vendor and continuously pay these fees. However, organizations are increasingly developing successful strategies both for recovering overbilling, and also reducing long-term record storage costs and volumes. How?

Reducing Costs with Requirements-based Smart Contract Negotiations

Contract and billing complexity put companies at a disadvantage when it comes to renegotiating contracts and by extension, their actual costs. When contracts are negotiated, there is great emphasis placed on "per box" cost. However this is only 20% of the total cost, with the remaining 80% composed of copious ancillary management and maintenance fees. More importantly, vendors have access to internal information about these processes that generate those ancillary fees. They can accurately determine how to optimize profits by offering seemingly large, yet insignificant, discounts on certain fees while slightly increasing repetitive fees. Examples of these are almost endless, but Table 1 lists common actual storage costs, billing related fees and management fees.

STORAGE COSTS	BILLING FEES	MANAGEMENT FEES
Box retrieval/access	Fuel surcharges	Online access
Box removal	Itemized invoice	Box inventory list management
Permanent box removal (e.g., if moving to a new facility or destroying old records)	Invoice by department	Onsite room use
Delivery	Price increases	
Box size variations applied to the above	Minimum fee	

Table 1. Examples of ancillary fees found in contracts

Contracts include actual storage costs, billing related fees and management fees. Smart contract negotiation can result in savings ranging from 24-45%.

Companies often lack the expertise or in-house counsel to negotiate with vendor contract specialists whose primary focus is offsite record storage contracts. Unfortunately, there are few people in the industry with this expertise. While best results are achieved using a consultant specializing in this area, here are some tips for getting to a better contract:

1) Keep the terms extremely simple so invoicing is less likely to be confusing.

2) Build an expense model of your offsite records storage, retrieval, destruction, etc. that can be used for high level planning and negotiations.

3) Eliminate or minimize unnecessary fees.

4) Minimize or eliminate "minimum order" charges.

5) Negotiate service-level agreements that penalize the vendor for poor or inaccurate service(s).

Note that the vendor has the advantage in contract renewals. They know exactly what they have historically provided and therefore know how to maximize their profits. The customer, on the other hand, has

the advantage of anticipating future requirements. The need to understand the suite of services actually used is essential to negotiating a beneficial contract. Actual costs most likely to be incurred can be minimized moving forward. For example, if you have documents expiring next year that were part of the due diligence in an M&A activity, you know that box retrievals/destruction will spike and that the total stored volume of boxes will decrease. In that situation, it may be better to pay slightly more for the box storage and negotiate hard for a reduced box retrieval fee.

Recovering Overbillings

Detecting invoice errors can be a daunting task requiring specialized skills and sometimes even a legal background as contracts need to be matched to multi-page invoices with itemized details. The business function reviewing invoices needs detailed knowledge of contract provisions to determine the accuracy of charges. Note that box management activity is billed in arrears and storage is billed in advance. Both are on the same invoice.

Vendor invoicing practices can make it challenging to check for accuracy and contract compliance. Depending on the situation, conducting an audit on detailed invoicing can be extremely time consuming and complex. For some customers, one department may manage the billing, other groups may request records retrieval, and another group may be responsible for ensuring expired records are destroyed. Unless these factions are in close communication, this complexity makes it difficult to audit bills and ensure invoices are correct. The result is that though erroneous, invoices are simply paid without review or scrutiny.

Table 2 lists examples of billing errors that fall into two categories, those that require contract reconciliation and those that do not:

CONTRACT RECONCILIATION REQUIRED	RECONCILIATION NOT REQUIRED
Charges are not in the list of services in the contract	Multiple delivery charges for a single delivery of more than one box
Some of the billed rates are not adjusted to comply with contract terms	Destroyed or permanently removed boxes not deducted from the total boxes billed
Incorrect late fees	Data entry of the box information when it is received does not capture sufficient data to indicate when the boxes are eligible for destruction
Hidden minimum transaction fees	
Unapproved price increases	

Table 2. Common Invoice Errors

2. TechTarget, *Physical records management here to stay along with digital records*, July, 2017

Reducing Costs and Risks
with Offsite Record Remediation

Ultimately the biggest savings occur when records are destroyed in accordance with records management policies.

Over-retained records (and other non-record extraneous materials) result in higher costs beyond just those with the offsite vendors. For example, paper records are subject to discovery in the event of a lawsuit or request from regulators. These discovery costs can be costly but can be reduced by decreasing the amount of paper that must be searched and by scheduling regular remediation efforts which starts with an accurate inventory of what is in storage.

Over-storage of records can also cause problems with inconsistent records management policies where information is stored longer in paper, when similar electronic records are deleted. This can cause legal issues and an inability to defend policies, while contributing adversely to discovery risk. In extreme situations this can result in records being used out of context by opposing counsel with potentially devastating effect.

The good news is that an effective records remediation program can reduce those costs and risks. The key is making sure that the records are defensibly deleted using a formal program. In-house records management teams can assist with these cost-savings/ risk-avoidance efforts, especially when guided by experts with specialized knowledge. This team must always have inputs into the negotiation of physical records storage contracts so that maximum efficiency and balancing of costs is achieved.

Conclusion

Paper is not going away any time soon which means that offsite paper storage will remain an ongoing expense. The traditional view of records management being driven by paper storage has changed. Today, electronic information drives records management policies and procedures, often leaving paper forced to fit those policies.

Smart companies will analyze their current contracts with offsite vendors in order to balance and reduce future costs. Many companies will find they have overpaid and have an opportunity to recover fees inappropriately billed. Expert advice from outside independent consultants can play a critical role both in identifying recoverable costs and in negotiating more favorable contracts.

Contoural Cost Recovery Services

Contoural provides a variety of services to help companies identify and receive refunds for overbilling, as well as negotiate offsite record services that incorporate all charges to lower costs.

Offsite Record Storage Audit

Contoural will analyze and audit offsite records storage vendor contracts against actual usage and identify over-billing or overpayments. All billable actions/conditions are identified from all vendor contracts and analyzed, including the number of boxes, and all other types of charges. Based upon the analysis, Contoural will provide an executive summary of the discrepancies and estimated refund. Next, Contoural will negotiate directly with vendor on behalf of client to secure any monies due.

There is no upfront charge for this service. Contoural receives a percentage of recovered monies.

Offsite Storage Contract Negotiation

Contoural analyzes current and future offsite paper retention needs. Using this data, Contoural creates a model of future costs for all types of services, including records retrieval and destruction. We then negotiate favorable terms for offsite paper records and backup tape storage with storage vendors.

There is no up-front charge for this service. Contoural receives a percentage of all savings negotiated and received.

Ongoing Contract/Billing Maintenance

Contoural offers a quarterly audit service to assure ongoing correct and vendor adherence to contractual terms.

About Contoural

Contoural is the largest independent provider of Information Governance consulting services focused on Records and Information Management (RIM), litigation and regulatory inquiry readiness and control of privacy and other sensitive information. We do not sell any products or take referral fees, store any documents or provide any lawsuit-specific "reactive" eDiscovery services, serving as a trusted advisor to our clients providing unbiased advice. We have more than 30% of the Fortune 500 as clients, across all industries, as well as federal agencies and local governments. Contoural offers a range of record management and information governance services:

- Records retention policy and schedule development
- Records retention policy and schedule refresh
- Records schedule citation development and legal review
- Records management and information governance maturity assessments, and strategic roadmap development
- Enterprise behavior change management
- Legal hold and discovery
- Technology requirements and adoption
- Legacy paper and data disposition
- Email and unstructured data placement
- Records management and information governance organizational development and governance

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