Avoiding the Hidden Costs of Computer Conversions

Advance Planning Can Cut These Costs—Which Could Add 30% to Your Investment

By Chris Fisher and Harriet Wright

The most important aspect of computerization is “planning.” It is as important to plan for the actual transfer of data from a manual billing system to computer (computer conversion) as it is to plan for the purchase of a computer system for your business. With careful planning, both expected costs and unforeseen costs of converting to the computer system won’t punch a giant hole in your checkbook.

Most business owners spend their time and energy in the selection of the microcomputer that will best suit their needs. Once they have paid the price for the system they are surprised at the additional cost of the data transfer. Since many problems can arise during a computer conversion these costs can run as high as 30% of the initial cost of the system.

The bulk of these costs could have been greatly reduced or avoided altogether with a little planning.

Recently, one of our clients, a glazing contractor had been plagued with cash flow problems and was well aware of the loop holes in his manual billing system, as well as other related problems, despite a loyal, competent office staff. The solution then, was obvious. Computerize. This would definitely speed up the invoicing process and solve the cash flow problem right away. He thought. With the blessings of his accountant, the contractor signed the sales agreement with a computer firm and plugged in his magic problem solver. Then, a funny thing began happening to his checkbook.

The Hidden Costs of Training . . .

The first unforeseen problem arose when the computer was installed and now the staff had to be trained in its use. A one week training program by one of the company’s instructors had been included in the sales agreement. The problem was that there were no instructors in the contractor’s area. Not included in the sales agreement, but chargeable to the contractor were the hotel accommodations for the trainer during his stay in Los Angeles, as well as round trip airfare from Chicago!

During the training session the contractor became concerned about additional training costs when it appeared that the sessions would have to be ex-

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The Hidden Cost of “Garbage In, Garbage Out” . . .

Once the training has been completed the actual conversion can begin in earnest. To avoid one of the most expensive “hidden costs” it is important that the records from the old system be reviewed and cleaned up.

Again the cost cutting element is planning. It is going to cost you to have the previous system audited but that cost can triple if you wait until after input. Then the old system as well as the current data must be audited and this is additional man hours plus a possible adverse effect on your cash flow.

The resulting errors produced by the new computer caused by poor source documents and poor data entry, is known as “garbage in, garbage out” and can cost you a small fortune.

The single, most important part of a smooth conversion, and correct ongoing work, is the preparation of the accounts before they are input into the new system. Contrary to popular belief, a computer is not an automatic washing machine. You cannot put in a messy accounts receivable and expect it to come out of the printer clean, pressed and folded. On the contrary, it will be more costly and time consuming to get your accounts in order once they have been input into the computer.

To avoid unnecessary costs and headaches the following steps should be taken to “clean up” before input.

1. All of the ledgers should be reconciled. This means that any necessary adjustments should be made, bad debts turned over for collection or written off and any posting errors corrected. This leaves only the realistic open account balances ready to be input into the computer.

Most systems start with an input of a “balance forward” amount to each account. This is fine only if you keep the old records of all open items included in the “balance forward” amount. At the time a ledger is reconciled, line out any balances that are not open items. This ledger then becomes a quick and easy reference when a customer asks for an itemized statement of the balance forward amount. A reconciliation of this kind may also bring to light other previously undetected problems such as inadequacies in the billing and collection procedures, posting errors, errors in addition, missing ledgers, statements that haven’t been sent. All of these might be contributing to current cash flow problems, and are often ignored by computer instructors as they are well aware this adds to the cost of computer purchase.

2. All the demographics pertinent to your accounts should be reviewed for completeness.

3. Prepare an “aging” of the accounts receivable. This is done by listing the balance due for each of your customers according to the amount of time the balances have existed. The aging schedule usually consists of a number of 30-day time interval columns. When the aging is totaled, it should equal the total balances on the ledger cards.

When your first “aging” is run from the computer it should balance with the hand listed aging. This will catch any input errors and they can quickly and easily be corrected before new data is entered.

The cost for this pre-conversion “clean-up” varies and there are many alternatives.

The lease expensive is to have the current staff put in the extra hours but only if they feel confident and experienced enough with the new computer system. Then, the cost is in overtime pay. But there are drawbacks. Overworked, tired employees have a higher error rate and the few extra hours per week that can be devoted to the conversion extend the time necessary to get the system fully operational.

Another inexpensive method is to hire extra full- or part-time, permanent personnel. This can possibly be more costly in the long run but will speed up the conversion process without disrupting the daily work flow. When the conversion is complete that is the task of letting these extra employees go and they may be entitled to collect on your unemployment insurance. (Or hire or
“rent” them from a temporary employment agency.)

There are outside consultants such as freelance accounts analysts experienced in computer conversion. Some management consulting firms have on staff personnel who specialize in computer conversions, are familiar with various microcomputer systems and are sometimes recommended by the software company where the system is purchased. These accounts analysts can reduce the conversion time, usually with greater accuracy. Higher cost here is the major draw- back as well as locating the right person. But the search is well worth it and can alleviate some of those “hidden costs,” caused by omission errors and duplicate work, also the work is usually guaranteed.

Another alternative might be a good freelance bookkeeper experienced in computer conversions that might be obtained through your accountant or through the computer company where you purchased the computer. Their hourly rates are less than a consultant but are usually a little higher or competitive with a temporary agency. The advantage here is that the freelancer might be more experienced than temporaries from agencies. Their fees are often negotiable and they should have references.

The least expensive source is the temporary employment agency. Most do not specialize in computer conversion, but phone calls to those agencies will give you an idea of how experienced their stable of employees is. Many, but not all, temporary agencies, extensively test and review their applicants to insure quality employees.

The Hidden Cost of Computerphobia . . .

Most people today are computer-conscious but many have not had “hands on” computer experience.

When our glazing contractor purchased his computer he had overcome most of his computer-phobia with the help of the computer salesman. But his staff, who were very comfortable with the routine of the old manual system, began to show signs of computerphobia. With no one to help them calm their fears of possibly being replaced by the computer or lack of confidence to handle the new technology of the computer, their computerphobia grew, costing him the loss of a valued employee and even some of his customers.

These fears are not always readily apparent but some of the signs of computerphobia are:

- Complaints that the computer isn’t working properly and a negative attitude toward the computer company’s technical staff.
- Negative remarks to the customers about the computer.
- Not cooperating with the personnel hired to do the computer conversion.
- Slowed billing process.
- Using the computer as a scapegoat to cover any errors or shortcomings in staff performance.
- Complaints of having to do more work than before.
- “I’ll never be able to learn the computer.”
• Complaints about losing control of information.

Some computerphobia is normal, but it can be kept to a minimum and foster a more positive attitude by:

1. Communication — Take the time necessary to talk with the staff about the computer, discuss any problems the staff may have and discuss their feelings toward the changes occurring in the office.

2. Training — A good training program by the computer company should make the staff feel comfortable with the system.

3. Continuing Education — Attending a seminar on microcomputer systems will give the employees a broader understanding of computers and increases their self-confidence.

4. Safety Line — Knowing where to get immediate help when there is a problem with the system lets the employee feel that she is not completely on her own but that help is a phone call away.

5. Recommendations — Obtain the names from the computer company of one or two of their clients that have their system, are happy with it, have been using it for some time and would be willing to spend a few minutes on the phone with your key employee. Quite often a conversation with someone in another office, in a similar position, can go a long way to eliminate unfounded fears.

Another fear, not unlike computerphobia, stems from that infamous excuse, “Sorry, our computer is down.”

What happens if the hardware fails? Another “hidden cost,” of course. Some computer companies charge a monthly maintenance fee ranging anywhere from $250.00 per month to thousands, depending upon the size of the system. In the case of software support, only the most reputable firms can bring up the subject of software support and obsolescence . . . let alone the cost.

The truth is that the number of trouble calls for hardware vs. software number 100 to 1. Software “bugs,” obsolescence and operating problems are many and on-going, even in the best of systems. The newer, smaller pieces of hardware seldom break down and repair time is usually minimal due to the modular construction.

Thus, it becomes apparent that good software support is a very necessary additional cost and it varies depending upon the complexity of the program.

These are some of the many hidden costs of computer conversion. It can be an extremely costly procedure if no forethought is given, and forethought is the key.

It goes without saying that the sales agreement should be read very carefully, the staff expertly trained and both the businessman and his staff work as a team to alleviate computerphobia. Care should be taken at each step of the conversion process. Remember that old saying: There never seems to be enough time or money to do it right but there is always enough to do it over.