

RTM Consulting

Services Capacity Planning

*Greater Profitability Through Improved Human Capital
Management*

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SERVICES CAPACITY PLANNING: GREATER PROFITABILITY THROUGH IMPROVED HUMAN CAPITAL MANAGEMENT

INTRODUCTION

Savvy Services leaders realize that effective Resource Management can improve overall human capital cost management (and company profitability), as well as the quality of services and the predictability of service levels. Yet as the services economy continues to rapidly expand, this mission critical business function remains largely unimproved – if not a critical point of failure – for companies of all types. Most Professional Services (PS) leaders today lack real-time visibility into and understanding of critical data like project status, utilization, the skills and certifications of their existing staff, and more. As a result, they constantly struggle to staff their teams to appropriate levels, particularly as demand fluctuates in today’s turbulent marketplace. And the challenge of leveraging additional labor pools – staffing firms, freelancers, sub-contractors, partners, etc. – only complicates the issue further. Recently however, leading IT, consulting, and professional services firms have adopted a combination of technology and new process solutions like Just-in-Time Resourcing® to bridge this critical information gap, drastically improving their overall business performance, and creating major competitive advantages in the marketplace. This paper will provide insight and detail into how they’ve accomplished this.

THE CHALLENGE

One of the most common issues facing IT, Consulting, and Professional Services Organizations (PSOs) is related to staffing project teams. Just about anyone in one of these organizations has heard one of the following refrains:

We don’t have enough experts!

We need to pull Bill from the customer A project to put on the customer B project.

We need the ‘A players’ on this project.

First, let’s address the ‘A players’ comment. This is the process of staffing each and every role with the highest performing resource in the organization for each role. Does that imply some clients are ok with the B or C players? I define this mindset as “staffing a role.” It involves thinking you always need the very best person in each and every project role.

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A direct result of the “staffing a role” mindset is that these executives spend the majority of their time fighting fires. Days are spent:

- Responding to staffing related emails and voicemails;
- Evaluating scenarios around pulling resources from one project and backfilling another; and
- Responding to a host of management escalations with Sales / Account Management on how PS is not doing their job well.

All of these points lead to burn out and eventually high turnover of PS executives.

So, what approaches do work?

If you look at well run IT, Consulting, and PS Organizations, they are primarily focused on “staffing a team”. During the staffing process, they look to balance team members’ strengths and weaknesses. They avoid unnecessary escalations. While they do not necessarily think every consultant is the best, they do view each team as an “A team” – and the team is focused on delivering a result.

HOW DO YOU IMPROVE THE RESOURCE MANAGEMENT PROCESS

From our work with a variety of organizations, I have seen three key factors that drive effective resource management:

- Reliable forecasting – at the resource level;
- Accurate project status information; and
- A comprehensive – and up to date – skills inventory.

Reliable Forecasting

Think back thirty years to the just-in-time manufacturing revolution. Prior to adopting just-in-time resourcing, manufacturers would build up significant inventories of raw materials and finished products – and then wait for customers to buy. When customers bought more than was in inventory, the manufacturer scrambled to get more raw materials and paid overtime to workers to produce materials; when customers bought less than was in inventory, huge sums of money were tied up in warehouses. With just-in-time manufacturing, manufacturers got much more focused on aligning their spend on raw materials and finished products to forecasts of actual demand levels – helping them achieve significant financial improvements.

Now, consider your services organization. You take raw materials (new hires) and turn them into finished product (skilled resources) that can be deployed on your projects. Without an accurate forecast, you have no way of knowing if you will have too few resources (and end up overworking existing resources and/or missing out on paid engagements) or too many resources (sitting idle on the bench).

Leading services organizations are deploying Just-in-Time Resourcing® to forecast out future resource needs, providing them visibility to demand scenarios. This enables the Resource Management function to assess future needs relative to existing staffing and skill levels; resulting in the Resource Management function proactively identifying how to deal with the demand scenario, including: when to hire for sustained demand, when to use 3rd party partner resources to deal with peak load needs, or when to cross-train existing resources to deal with a change in mix in the type of work being performed.

Accurate Project Status and Skills Inventory

To make Just-in-Time Resourcing® work, it is important for the Services organization to have a clear view to their in-flight projects as well as their resources. Creating clear visibility to the status of in-flight projects, enables the Resource Management function – as well as Services management – to have an accurate view of when projects will finish, and more importantly when the resources on those projects will become available for future projects. One of the most difficult situations in the Services industry is when you are planning for Betty to take on a new role on a new project, only to find out at the 11th hour (literally, 11:00PM on Sunday night before a Monday start) that Betty is being extended at her current project because they have *<fill in the blank>* (e.g., “a change request from the client,” “not finished all their deliverables,” “a client who doesn’t want to let Betty leave”). We’ve all heard different variations on this refrain.

By creating Project Status visibility, the Resource Management Office can look for leading indicators that may have ripple effects into staffing. This enables the Resource Managers to tee up different staffing scenarios that will enable the future projects to go on successfully – with or without Betty.

To do this effectively, the Resource Management Office needs another tool, the Skills Inventory. In our work with Services organizations, we have seen a number of organizations where 10 to 15% of the Services organization personnel are 80 – 120% utilized. That’s right, a good chunk of people are working a lot of overtime. At the same time, 15-20% of the organization has average utilization of <50% (some as low as 10-15%). The knee-jerk reaction is that these low utilized resources must not have the right skills and perhaps should be counseled out of the organization. However, when we dig deeper into these resources, we find that quite often they do have the right skills but the folks making the staffing decisions just do not realize it. Leading Services organizations have created comprehensive Skills Inventories to help them better understand the full breadth and depth of an individual’s capabilities. Rather than leave it to the memory of the staffing manager, these firms are leveraging resource planning software that is part of an overall ERP system that gives them greater visibility across the entire organization to search on skills and then identify the right candidates. This creates benefits for the organization in a number of ways – most significantly is opening up the breadth and depth of candidates available for various roles – leading to a smoother staffing process and higher utilization.

EXECUTION – SOURCING AND DEVELOPING RESOURCES

Ok, so you’ve started forecasting, you know the status of your projects and have a solid skills inventory in place. Now what? As you begin to forecast, there are different scenarios you will experience:

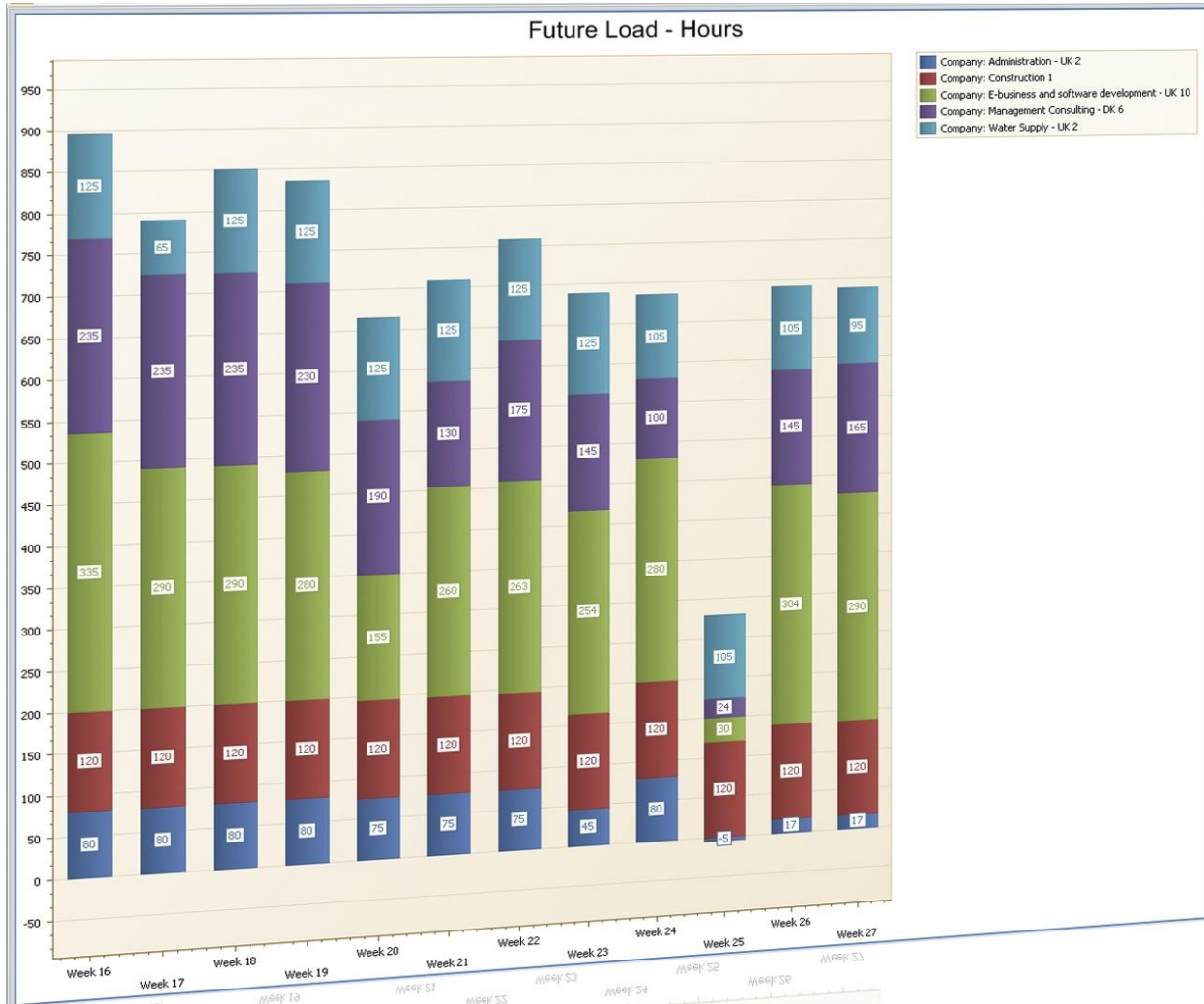
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1. An increase in demand. Do you need to hire? Is the demand sustainable? Or a spike?
2. You have the right number of resources overall, but having trouble aligning resources to forecast demand.
3. Do you have too many resources relative to demand?

Figure 1- Sample View of Future Demand within an Automation Tool



Scenario 1: In the first scenario, the key is to identify whether the increase in demand is on-going or represents a short-lived spike in demand. By forecasting your resource needs on a rolling 6 month basis, you will provide yourself with the required visibility to make the right decisions. As demand starts to increase, you will have data that begins to tell you whether it is on-going or a spike. To address spikes, the industry’s leading service organizations have pre-arranged with a set of 3rd party vendors to provide resources. This enables the Services organization to add the necessary capacity without overburdening the company’s cost structure. If, on the other hand, the demand forecast continues to rise above its

current levels, the Services organization will want to look to hire. That said, “forecast” demand does not always equal “realized” demand. To deal with this fact, we have deployed a practice called “Warm Pool Recruiting.”

Just as your sales organization builds a pipeline of sales opportunities to get to your desired sales targets (note – not every pipeline deal closes), leading Services organizations build a pipeline of recruits. In this manner you “pre-identify” the candidates that you would like to hire, you communicate this fact to them, and you keep them “warm” by maintaining a relationship with them until you are ready to hire (i.e., when the deal closes). This may sound like extra work, however, consider the alternatives: 1) hire in advance and the work does not materialize – leading to unnecessary costs; or 2) wait to recruit until the deal signs and then scramble to post for a position, interview, identify, and have the resource put in his/her two weeks’ notice with the current employer. The point of warm pool recruiting is to add to the long term stability of your forecasting and sourcing process – making it more repeatable and easier to execute by avoiding peaks and valleys of effort. We have seen most companies able to convert 50-60% of their warm pool – with the remaining recruits taking positions elsewhere.

Scenario 2: In this scenario, you are forecasting that the current number of resources matches up to the forecast number you will need. However, your Resource Management Office is having difficulty aligning (aka “staffing” or “soft-booking”) named resources to future demand. This is the result of a skills imbalance. The benefit of forecasting in this scenario is that you have now given yourself a 3 to 6 month window in which to do proactive training and development. Your Resource Management Office can assess the specific skill gaps of your resources and layout specific training and development programs. These programs can be after hours, web based training, and potentially even class-room based. The point is, rather than having to go hire or contract for additional resources, leaving other employees on the bench, you can get more productive use out of your existing resources. Again, the point of forecasting is helping to avoid the peaks and valleys.

Scenario 3: In this scenario, you are forecasting that the current number of resources exceeds the forecast number you will need. This is not a situation any of us want to be in, but we have all likely experienced some period of below target utilization. The challenge many of us faced was that we did not know we were in a period of low utilization, until the utilization metric came out – after the fact. With proper forecasting, you get advance notification of possible low utilization periods and the time needed to address these points. Many sales reps will say, “If only I had someone with this skill, I could close more work.” Well, here is your chance to test that out. When you are forecasting low utilization, you can leverage your Skills Inventory to package up the capabilities that will be available in 3 to 6 months. You can then arm your sales / business development channel with these capabilities and tell them, “Here is what we have to sell.” Think of it this way, your local automobile dealer will offer sales and promotions when too many vehicles are piling up on the dealer’s lot. With forecasting, you now have proactive information to work similarly – and help to decrease, if not fully avoid, the low utilization. Again, the point of forecasting is to avoid the peaks and valleys.

IS IT WORTH IT?

All of us in the Services industry understand the value of a billable hour and utilization. In my early days with one of the Big 6 consulting firms, I had my own spreadsheet that I used to track my year to date utilization to make sure I was “making my numbers.” It wasn’t always easy for me personally – and as someone who has run large professional services organizations, it is not always easy at the macro level either.

But, let’s breakdown the numbers. The “average” professional services organization¹ achieves a billable utilization of 65-70%. Let’s call it 68%. So, presuming a 2080 hour year, this implies the average person is billing 1,414 hours annually (= 68% * 2080). You could average this and say the person is billing 27.2 hours per week. Of course, in reality, there may be a number of 40 hours billed weeks and a few 0 to 10 hour billed weeks. A 1% increase in utilization requires this average person bill 20 more hours per year; 5% is 100 more hours.

The following table depicts the large gains that can be achieved from small improvements in utilization – again a 1% improvement in utilization is only an incremental 20 billable hours. You can find the improvement opportunities.

Annual Increase in Marginal Revenue and OI from Utilization Improvement									
MARGINAL REVENUE IMPROVEMENT					MARGINAL OI IMPROVEMENT				
# of Consultants	Increase in Utilization by (pts):				# of Consultants	Increase in Utilization by (pts):			
	1	5	10	15		1	5	10	15
50	\$208,000	\$1,040,000	\$2,080,000	\$3,120,000	50	\$104,000	\$520,000	\$1,040,000	\$1,560,000
100	\$416,000	\$2,080,000	\$4,160,000	\$6,240,000	100	\$208,000	\$1,040,000	\$2,080,000	\$3,120,000
150	\$624,000	\$3,120,000	\$6,240,000	\$9,360,000	150	\$312,000	\$1,560,000	\$3,120,000	\$4,680,000
200	\$832,000	\$4,160,000	\$8,320,000	\$12,480,000	200	\$416,000	\$2,080,000	\$4,160,000	\$6,240,000
250	\$1,040,000	\$5,200,000	\$10,400,000	\$15,600,000	250	\$520,000	\$2,600,000	\$5,200,000	\$7,800,000
325	\$1,352,000	\$6,760,000	\$13,520,000	\$20,280,000	325	\$676,000	\$3,380,000	\$6,760,000	\$10,140,000
375	\$1,560,000	\$7,800,000	\$15,600,000	\$23,400,000	375	\$780,000	\$3,900,000	\$7,800,000	\$11,700,000
Assumptions Billable Hourly Rate <u> </u> \$200 Gross Revenue <u> </u> \$200					Assumptions Billable Hourly Rate <u> </u> \$200 Loaded Hourly Cost <u> </u> \$100 Gross Margin <u> </u> \$100				

A 250 person organization can drive \$5 to \$10M by getting 100 to 200 more billable hours out of its personnel. Not a bad ROI!

MAKING IT WORK – DRIVING IMPROVEMENTS IN UTILIZATION

Now, let’s go back to just-in-time manufacturing. The information required to make JIT manufacturing work was not something that could be kept in someone’s head or on a whiteboard. I spent a number of years with a Big 6 Consulting firm and know firsthand that many of the Big 6 firms invested great effort

¹ Based on data from various industry sources.

enabling JIT manufacturing through the deployment of different information technology – initially, much of it custom deployment work.

The good news for Just-in-Time Resourcing® is that there are packaged applications that enable much of the requisite information capture and presentation. Automation tools like ERP for Services enable the PSO to quickly capture and report on projects, forecast, and skills. Utilization is the scorecard with which we measure how well we did.

Think through the following scenarios and how an automation tool can benefit the process:

Area	Scenario	Implications
Project	<ul style="list-style-type: none"> Project manager continues to tell everyone “the project is fine.” But as you reach the final stretch, you start to realize the project has spent more money than forecast and will require an additional 6 weeks of effort 	<ul style="list-style-type: none"> Not only will this one project cost more than forecast, keeping the resources for an additional 6 weeks will have a ripple effect through other projects
Forecast	<ul style="list-style-type: none"> Sales rep closes a new services deal that starts on Monday – but no one in Services had any idea this was an opportunity 	<ul style="list-style-type: none"> You scramble to try to find available resources to work the deal – of course most of those available do not have the appropriate skills
Skills	<ul style="list-style-type: none"> You have hired people into the Services organizations with ERP skills, however, you hired them to work on other types of projects As ERP work materializes, you’ve forgotten they have the ERP background and now start the hiring process for 10 additional resources 	<ul style="list-style-type: none"> You negatively impact your overall utilization because you do not have a systematic skills inventory to quickly “look up” who might have additional skills – sure you may send out an email to the organization “asking if someone knows _____” but those are not always seen or followed up on

The services automation tool becomes the “business intelligence” hub of the Services organization, providing you and your team with a comprehensive set of information that you need to make informed, fact based decisions to optimize the business.

CLOSING

Just-in-Time Resourcing® is the process of properly aligning your supply of resources with market demand. It requires an interactive process that takes place day in and day out in the Services organization (it is not just a one-time budgetary process). However, the benefits of adopting Just-in-Time Resourcing® include:

- A more stable approach to management – reducing the amount of “heroics” that typically are involved in Services organizations;
- Improved customer satisfaction by staffing the right person in the right place at the right time; and
- Increase billable utilization through the alignment of your current and future resources to actual demand.

RM Process	Key Levers to Pull
Skills Inventory	<ul style="list-style-type: none"> • Leverage a comprehensive skills inventory and staffing assignment repository to: <ul style="list-style-type: none"> ➢ Rapidly identify candidates for roles; speed time to billable utilization ➢ Identify skills in your resources that can be used to generate incremental revenue ➢ Identify skill and career development opportunities that will make your resources more marketable
Forecasting Demand	<ul style="list-style-type: none"> • Create a comprehensive resource forecast to enable you to proactively make the appropriate resourcing decisions and drive improvements in billable utilization, e.g.,: <ul style="list-style-type: none"> ➢ Timing of hiring ➢ Contracting of resources to meet peak load demand ➢ Cross-training of resources in advance of contract signing
Candidate Sourcing & Development	<ul style="list-style-type: none"> • Integrate your HR and people development capabilities with your Forecasting efforts to ensure alignment of actions • Leverage Warm Pool Recruiting to appropriately time on boarding of new resources • Take proactive steps to cross-train resources to make them more marketable to multiple roles
IT /Automation Infrastructure	<ul style="list-style-type: none"> • Leverage existing technology – and deploy new modules as needed – to automate what is done today • The ROI of a 1 to 5pt improvement in utilization that is enabled by a comprehensive IT infrastructure can generate the funds to pay for the deployment

ABOUT RTM CONSULTING AND THE AUTHOR

Cincinnati-based RTM Consulting provides strategic and operational advice to assist technology companies with increasing revenues and margins by leveraging professional and consulting services more effectively. Specializing in Resource Management and Professional Services Business Optimization, RTM Consulting helps IT hardware, software and pure consulting businesses achieve the benefits associated with successful professional and consulting services portfolios. With its unique Just-in-Time Resourcing® solution and Business Acceleration Services, RTM Consulting helps large, medium and small

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firms move beyond theory to practical application of industry best practices and achievement of exceptional results in the shortest possible period of time.

Mark E. Sloan is the COO of RTM Consulting. Mark is an industry pioneer with respect to defining and deploying Global Resource Management processes for Consulting and Professional Service Operators. Mark is a frequent speaker at industry events and has served as an Advisory Board Member for the Technology Professional Services Association (TPSA). Prior to his current role as COO and Senior Founding Partner of RTM Consulting, Mark held a number of executive consulting and entrepreneurial roles with Accenture and Convergys.

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project
planning

employee
scheduling

resource
planning

“ People Planner has given us the flexibility to assign the right people to the right projects, which makes our job a lot easier.

Noof Hoetstra, Planner LBI Lost Boys, Holland

maconomy people planner

People Planner gives you an easy overview of the available capacity in your company. Integrated with a Maconomy ERP solution, you'll be able to anticipate your future capacity needs based on your current pipeline.

leveraging the right talents on your projects

Plan your projects efficiently

Imagine that project plans are no longer based on "guesstimates". What if you could base your resource requests directly on project plans and estimates?

In Maconomy's resource management solution, People Planner, you can use a full work breakdown structure to divide large projects into phases and tasks. You can assign the right people to the right tasks on the spot because you can search for the needed skills and view their availability while assigning resources. This gives your Project Managers much better project control.

full visibility of your resources

Increase utilization rates

Imagine knowing who is doing what at any given time. What if your department and project managers could monitor the load and availability of people when planning projects and allocating resources?

If you have a clear picture of your resource situation, you can reduce the risk of lost profits caused by under-utilizing resources that could have been assigned to profitable activities.

People Planner provides a real-time overview of resource availability. You can monitor availability, load, utilization, and revenue of all employees.

ensuring that daily management and decision-making are based on facts

Secure visibility across your organization

Imagine having a visual, intuitive and transparent resource overview across your organization. What if your resource pool and project portfolio could be accessed by senior, department and project managers as well as employees in real-time?

When you have one integrated solution that supports everybody in your organization in their project planning and resource-related work, you can increase profitability. People Planner enables you to abandon local spreadsheets for resource planning and disparate time management tools in favor of an integrated resource management and time tracking solution.

Learn more about People Planner today

email: info-usa@maconomy.com

phone: 617.226.7600

www.maconomy-usa.com/peopleplanner

“Tighter planning and control can help increase our resource utilization by several percent over a period of six months, and that will help us offset the effects of business contractions.

*Worldwide Business Consulting Director
Jon Mostyn, Hill & Knowlton*

“Maconomy People Planner has helped us increase our average billing percentage per employee, which has a direct impact on our bottom line.

Chief Project Officer Jens Erik Knudsen, CDM AS

“We can now forecast the allocation and workload of our resources for weeks, months or years into the future.

Terje Gabrielsen, CFO and Chief of Staff Thales Norway