



The ROI of Resource Management

Measuring and capturing the real business value of your people

Introduction

We have all heard the often-repeated mantras:

- *People are a company's greatest asset*
- *Our most valuable asset walks out of the building every night*
- *Human capital is our business.*

Yet, we rarely see any numbers to back it up. When it comes to services organizations, however, the numbers prove conclusively that people really are the organization's most valuable asset. Consider these facts:

- A 100 person services organization that achieves a 5% improvement in billable utilization can generate an incremental \$1M - \$2M in bottom line profit – for a 500 person organization the impact can be north of \$10M – and it should be noted that a 5% improvement in an individual's utilization is only 100 hours per year or 2.5 hours per week; Leading organizations staff projects in less than 5 days and achieve their project forecasts – those that do not staff quickly miss their forecast on nearly 40% of their projects; and
- A new hire takes 4 to 8 weeks to find, 2 to 4 weeks to transition from an old job into the new job, and 2 to 8 months to come up to speed on your offerings – not to mention the risk of reduced productivity and lack of customer satisfaction on the projects you initially put them on.

Most services organizations recognize that billable utilization is paramount to their company's success, and that effective Resource Management can lower costs, improve margins and operating income, enable more accurate forecasting, and even reduce employee turn-over and hiring. Yet even as companies increasingly turn to services to bolster the bottom line and drive incremental revenue for their products, this mission critical business function remains largely unimproved – if not a critical point of failure.

This paper will demonstrate the astonishing impact that resource utilization has on overall business performance, and introduce four critical success factors for more effective Global Resource Management (GRM) that you can leverage to revolutionize your services delivery, and achieve dramatic improvements around ROI, quality, and efficiency - drastically improving financial performance, and capturing maximum value from your skilled resources to gain major competitive advantages in the marketplace.

Start with the Numbers

Anyone who has been in the services industry for over a month understands the value of a billable hour and utilization. The “average” client-facing services organization achieves a billable utilization of 65 - 70%¹. 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 weeks in which 40 hours billed and a few weeks where 0 to 10 hours are billed. A 1% increase in utilization requires this average person bill 20 more hours per year; 5% is 100 more hours. That does not sound like much, but how do you find it?

Typical opportunities for utilization improvements can be found by examining:

- 3rd party contractors on board that supplement your staff
- Projects that do not start on time because you do not have the “right” resource (when you do have people on the bench)
- Any feedback from the sales staff along these lines: “I could sell that work if we only had (a person, the right skills, etc.)”

If you recognize any of these scenarios in your organization, then you have a tremendous opportunity to drive considerable bottom line improvement to your organization.

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					Assumptions				
Billable Hourly Rate		\$200			Billable Hourly Rate		\$200		
Gross Revenue		\$200			Loaded Hourly Cost		\$100		
					Gross Margin		\$100		

A 250-person organization can drive \$5 to \$10M by getting 100 to 200 more billable hours per resource. Not a bad ROI!

¹ Based on RMI research and data from various industry sources.

People are your most valuable asset

Great, we would all love to drive more billable hours, but we do need to remember that these “services resources” are actual people – not an impersonal assembly line through which we can drive more productivity by simply running the assembly line longer. Not only that, they are your most valuable asset.

Some of the most common concerns heard from people in services organizations include:

- I am not working on the types of projects that interest me
- I am not working on the types of projects that will help my career
- I never know what I am going to work on next or where, how can I plan anything?

We can empathize with the challenges expressed here. Individuals want some certainty and stability. Yes, the dynamic nature of a services job offers excitement and possible career acceleration, exposing you to a diversity of environments; but, at some point most people do want some stability. Leaders also understand how difficult it can be to predict incoming work and align the needs of the client, the organization, and the individual.

But again, let’s come back to some numbers:

- In complex environments, it can take up to 6, 8, or even 12 months to turn a new hire into a fully productive resource
- Employee turnover not only slows your productivity, but it also negatively impacts your client satisfaction (let’s face it, clients can typically sniff out the “newbie” and do not want to pay for someone to learn on the job)
- Lastly, turnover of key subject matter experts can quickly accelerate to a quick exodus of multiple personnel who look to “jump ship” before things get worse.

Thus, proper Resource Management is not only essential to driving utilization improvements – it is imperative to ensuring the continuity of your most valuable assets.

20th Century Resource Management

In what we call “20th Century Resource Management,” proper Resource Management is typically more of an afterthought than a primary focus. **Or in other words, most of the activities that currently pass for Resource Management are “reactive” rather than “proactive.”**

For example, most of the service organizations that we work with are focused on what we call the “-10 to +20 day window.” That is, when you ask about staffing, Managers, Practice Leads, even the VP of delivery are focused on what roles should have been staffed two weeks ago and what needs to be staffed in the next 3 to 4 weeks. This is important – these roles need to be staffed. However, by only focusing on staffing needs in the short term, you end up sub-optimizing staffing as you:

1. Add contractors because you do not have the “right” resource available at that time (leading to your own employees being under-utilized);
2. Put a person, any person, in a role because someone needs to fill it - leading to: 1) attrition as people get sick of working in roles outside their skill or career interests and 2) lower customer satisfaction; and
3. May assign a highly valuable resource that is currently available to a project – not taking into account that the next “big” project is just 6 weeks out and you will need their skills to successfully execute (leading to higher project risk and lower customer satisfaction).

This approach is also “reactive” because of the data that is typically used to measure the situation. Specifically, the key metric used is utilization. And while utilization is a great metric, it tells you how you did, not how you are going to do. Ultimately, it does not enable you to optimize your ROI.

21st Century Resource Management = Just-in-Time Resourcing®

In the 1970s and 1980s, manufacturers realized that traditional ‘build – inventory – sell’ models of manufacturing were no longer efficient. Advances in information technology provided better information and allowed companies to stop stockpiling large inventories and only build materials when they were needed. Those that succeeded with just-in-time manufacturing achieved significant ROIs. Those that did not succeed are no longer in business.

The services industry is now at a similar inflection point.

Just-in-Time Resourcing® (JITR) enables services organizations to optimize the utilization of their billable resources and respects the fact that they are people (not widgets!).

Implementing Just-in-Time Resourcing® (JITR)

JITR® is the process of getting the right person in the right place at the right time to effectively and efficiently fulfill a service need. Too many companies want to separate the issue of managing utilization from the management choices of the organization, operations, talent management, etc. Those services organizations that treat the matter holistically are effective at GRM.

Critical Success Factors

Four critical success factors for effective JITR are:

1. **Building Necessary Infrastructure**: Effective JITR is highly dependent on building a foundation of necessary infrastructure/processes required to manage skills inventories, skills usage, skills building, resource allocation, project and change management, and measurement input for financial, quality, and operational management purposes.
2. **Effective Resource Pool Management**: Effective management and execution of the aforementioned processes requires discipline and organizational commitment to the investment and execution necessary to implement JITR processes.
3. **Definition of Core Solution Offerings**: To facilitate more “product like” attributes of labor requirements means driving more packaged service definition and sales.
4. **Measuring and Monitoring**: Development of supporting measures necessary to monitor effective execution such as utilization, quality, project effectiveness, costs, revenue and profits.

Infrastructure Elements

Effective forecasting: The forecasting process, irrespective of a company’s organizational construct, must facilitate a precise estimate of need, by person and skill, by month, to span the necessary hiring horizon. Effective interlock of the forecast and resource plan with sales is imperative.

Responsive recruiting: Traditional methods of recruiting people include the use of recruiting firms, job fairs, etc. Today’s environment requires less expensive and more responsive approaches to recruiting. A proven technique is the adoption of “warm pool” recruiting, driven by a continuous recruiting process vs. the typical start/stop method deployed by many firms today. The warm pool approach invests in appropriate methods to create a “pool” of candidates that are kept “warm” to then be recruited into permanent roles in a “just-in-time” hiring system to meet specific job or project needs.

Building a bench: A somewhat controversial but important subject related to recruiting is investment in a “bench” of resources. The bench is a critical element of driving a JITR system that enables the “right time” element of JITR. Too often companies default to hiring only when a contract is in hand. The reality is that the opportunity cost of losing a deal because you could not serve it quickly enough, or failing to find a needed resource in time to serve a committed project, can more than offset the cost of a bench.

Talent management and retention: There are many aspects of successful talent management and retention. Critical factors are:

- Training – Programs for rapid and cost-effective skills building.
- Career management – Your firm should provide appropriate career planning and identify progression steps to demonstrate a clear career ladder.
- Job rotation programs – most employees like to learn new things and take on new challenges.
- Competitive compensation – There are lots of materials available on this subject from third party sources.
- Choices for sourcing labor – For work that is typically more static e.g. less travel required, common low cost sites today are India, S. America, China and the Philippines. Today companies are finding that mobility of people from these sites is both possible and more affordable.
- Provision for employee safety and country stability issues

Service automation systems: Surprisingly, some organizations continue to manage their resource pool with simple tools generally not up to the task of today's business needs. Considering the impact of just a few points of utilization of a typical resource pool, justification of investment to automate this important task is usually easy. Resource management software exists to create a database of resource pool information, enter and track project needs and progress, and produce reports/queries capable of reducing the determination of project staffing needs by up to 90% (a human element is still needed to finalize resource selections).

Peak-load workforce strategy and planning: The peaks and valleys of resource demand can make the process of maintaining a consistent level of full-time resources difficult. Hiring and firing people with every change in your resource demand profile is not workable, particularly from an employee morale standpoint. Therefore, establishing a temporary pool of resources will go a long way toward helping smooth the peak-load demands of your business.

The Resource Management Office (RMO): Centralized resource planning is essential for the medium to large enterprise aiming for effective just-in-time resourcing®. The establishment of a Resource Management Office (RMO) can help play a neutral role and break down any fiefdoms that may exist in the organization, particularly in situations where the resource pool is shared across organizational boundaries.

Resource Pool Management

Key issues necessary for effective management of the resource pool are:

- Managing resources centrally while providing the needed level of specialization in each region globally requires a new approach to resource management. A recommended approach is to create Centers of Excellence in certain skills or service offerings where depth of resource and thought leadership is needed. The centers should be dispersed and shared across your geographic regions.
- Finding the best balance of cost and skills – Every customer wants the “A” team on their project. The art to staffing a project is to find the right balance of cost, skills and project management. Sometimes, resource availability will dictate the use of a labor from higher cost pools than desired, or vice versa. Re-balancing the base of skills is a constant exercise requiring continuous discipline and process improvement.
- Organizational considerations – establishing the “resource pool” – requires breaking down existing fiefdoms – is probably the toughest issue most enterprises will tackle. Organizations need to adopt shared resource pools for services, much in the same way they have done for other more commonly shared services such as finance, human resources, and legal support.

Definition of Core Solution Offerings

Key points are a) packaged services improve the predictability of resource skill needs since a forecast exists/should exist for these services, b) improves the accuracy of resource forecasts since the base skill needs for a particular packaged service is known in advance.

Measuring and Monitoring

Inspect what we expect. Key measures:

- Utilization (billable focus)
- Time to staff
- Overtime
- Cost/time to hire/train
- Cost per full time employee
- Training time

Active management of data is facilitated by the use of a management dashboard, readily available in some form for review and appropriate action.

Summary

The practices discussed here may take some time and effort to implement, however, as demonstrated herein, the ROI of improved resource utilization is certainly worth the effort. JITR® is all about getting the right person in the right place at the right time. Paying attention to these

proven critical success factors will improve your odds of success. If not more importantly, paying attention to the proven critical success factors of Just-in-Time Resourcing® can provide significant financial and competitive advantages to your organization.

Good luck with your global resource management initiatives!

About the Resource Management Institute (RMI)

The Resource Management Institute is dedicated to the advancement of resource and workforce management thought leadership, best practices and standards, globally recognized credentials that certify resource management expertise, and tools and resources necessary for effective and efficient management of human capital-intensive businesses. The Resource Management Institute was created to provide the resource and workforce management community a vehicle to advance the discipline of resource and workforce management, and further the interests of the people who make up this community and the companies they work for. Visit us at www.resourcemanagementinstitute.com and on [LinkedIn](#).

About RTM Consulting

Specializing in Resource Management, Project/Portfolio, and Services Business Optimization, RTM Consulting helps IT hardware, software and support services organizations achieve the benefits associated with successful services portfolios. With its unique Just-in-Time Resourcing® solutions and Business Acceleration Services, RTM Consulting helps large, medium and small firms move beyond theory to practical application of industry best practices and achievement of exceptional results in the shortest possible period of time. For more information please contact RTM Consulting at info@rtmconsulting.net or www.rtmconsulting.net.