

*RTM Consulting, LLC*

# Resource Management in a Down Economy

*Leveraging Just-in-Time Resourcing (JITR) to Optimize Profitability  
when Times are Tough*

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## RESOURCE MANAGEMENT IN A DOWN ECONOMY

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### INTRODUCTION

Utilization. Billable utilization. Productive utilization. Consulting and Professional Service Organizations (PSOs) are consistently in search of ways to optimize their utilization results metric. Utilization is a key goal as it is a key driver of profitability. In today's economic environment, the need to optimize utilization is more pronounced and potentially more difficult.

The question that often arises is: How?

*How do you optimize utilization?*

*Customers are not buying as much as they used to, what can we do to manage utilization?*

*What levers can I pull to drive improvements in utilization?*

In this whitepaper, RTM Consulting will address these questions by laying out the key levers that a PS organization can pull to address utilization – in good times and in bad times – and focusing on the key actions the PS organization can begin taking today, to drive near term improvements.

To address these questions, this white paper will:

- Provide a standardized definition of *Utilization*;
- Review the *Resource Management* process and link to profitability;
- Discuss the importance of *Forecasting* resource needs;
- Present *Key Actions* that can be taken to drive profitability.

## DEFINING UTILIZATION

For as many professional services organizations that exist, there are likely almost as many definitions of utilization. In a prior webinar, *Grasping Employee Utilization: Easier Said than Done*, I explored a variety of ways that utilization can be measured and provided a framework for how Consulting and Professional Services organizations can define both the utilization calculation and, more importantly, the utilization target. For those interested, a link to the webinar can be found on the Events page of [www.RTMConsulting.net](http://www.RTMConsulting.net).

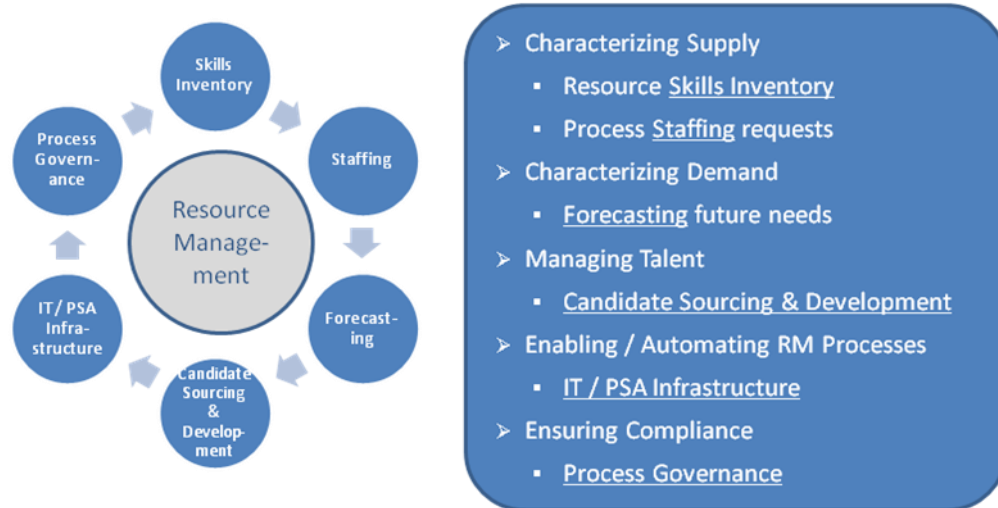
For purposes of this paper, I will summarize the key conclusions of the webinar:

<p><i>Utilization is important because of the link to Profitability</i></p>	<p>PS Gross Profit = (# <b>Billable Hours</b> * \$ Revenue / Hour) – Labor Costs</p> <p>Utilization = # <b>Billable Hours</b> / Available Hours</p>
<p><i>Defining Available Hours simply requires you to be consistent</i></p>	<ul style="list-style-type: none"> <li>• You can set the number at whatever you like – as long as you are consistent</li> <li>• If you pick 2080 hours, you are saying: <i>The Consultant will take training, vacation, and sick time throughout the year. But, the Consultant should hit this overall utilization target.</i></li> <li>• If you pick less than 2080 hours, you are saying: <i>We are backing out time for training, vacation, sick time from the denominator. But, the Consultant should then maximize the productivity of the remaining hours.</i></li> </ul>
<p><i>Establish Billable Hours Target to meet profitability targets</i></p>	<ul style="list-style-type: none"> <li>• Benchmark utilization rates exist for various types of: PS organizations, PS roles, geographies</li> <li>• For you, what is most important is hitting your overall PS profitability target</li> <li>• To achieve that profitability target, establish a billable hours target that gets you there</li> <li>• As an example:             <math display="block">\text{PS Gross Profit} = \# \text{ Resources} * [(\# \text{ Billable Hours} / \text{Resource} * \text{Avg. } \\$ \text{ Revenue} / \text{Hour}) - \text{Avg. Annual Labor Cost per Resource}]</math> <ul style="list-style-type: none"> <li>○ With these factors:                 <ul style="list-style-type: none"> <li>· 300 Resource PS Unit</li> <li>· PS Gross Profit Target \$20,000,000</li> <li>· Average Bill Rate: \$135 / hour</li> <li>· Average Annual Labor Cost: \$140,000 per year</li> </ul> </li> <li>○ You need: 1,530 billable hours / consultant to achieve your profit target                 <ul style="list-style-type: none"> <li>· Of course, these numbers can go up or down per individual consultant based on their role, bill rate, and specific labor cost</li> </ul> </li> </ul> </li> </ul>
<p><i>Establish your Utilization Target</i></p>	<ul style="list-style-type: none"> <li>• For this example, we will set Available Hours at 2080</li> <li>• Utilization Target = 1530 / 2080 = 74%</li> </ul>

As you can see, RTM Consulting views utilization as a proxy for PS profitability. As such, throughout this paper, when discussing the link between Resource Management (RM) and profitability, we are referencing the impact RM can have on utilization. Additionally, although this summary has been a brief review of how to define utilization, it will provide a handy reference throughout the remainder of the paper.

## RESOURCE MANAGEMENT AND LINK TO PROFITABILITY

RTM Consulting defines Resource Management (RM) as the process designed to get the *right person in the right place at the right time* – or more simply said – Just-in-Time Resourcing (JITR). RM is an iterative process:



### *Characterizing Supply*

Critical to JITR is being able to quickly answer the question: *Who can fill this open role?* “Can fill” must address both: 1) *who has the capability to do the work* and 2) *within that group of resources, who is available?* Through the RM process, these questions are answered through a Skills Inventory and a Staffing assignment repository.

From a tactical perspective, the value of this step is fairly obvious to a PS executive: 1) billable hours increase as an available resource is staffed into a billable role and 2) expenses for non-productive down time are reduced. For a 100 person PS organization, a 5 point improvement (think 100 billable hours) on utilization can drive \$1 - \$2M of bottom line improvement (see Figure 1).

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

Figure 1: Marginal Value of Improvements in Utilization

While the benefits of quicker staffing of available resources may be well understood, the benefit of a Skills Inventory and Staffing repository can also drive considerable value when addressing a key issue many PS organizations face: *there is no one available that can fill this role*. RTM Consulting has seen that companies with a robust Skills Inventory can find resources (Candidate Group A) that have the skills needed for an open role; while they may be staffed elsewhere, the analysis of this data can also help identify other candidates (Candidate Group B) that can be used to backfill for Candidate Group A. Ultimately, this helps drive greater utilization across the organization. Figure 2 provides a graphical representation of the various staffing and skills inventory scenarios.

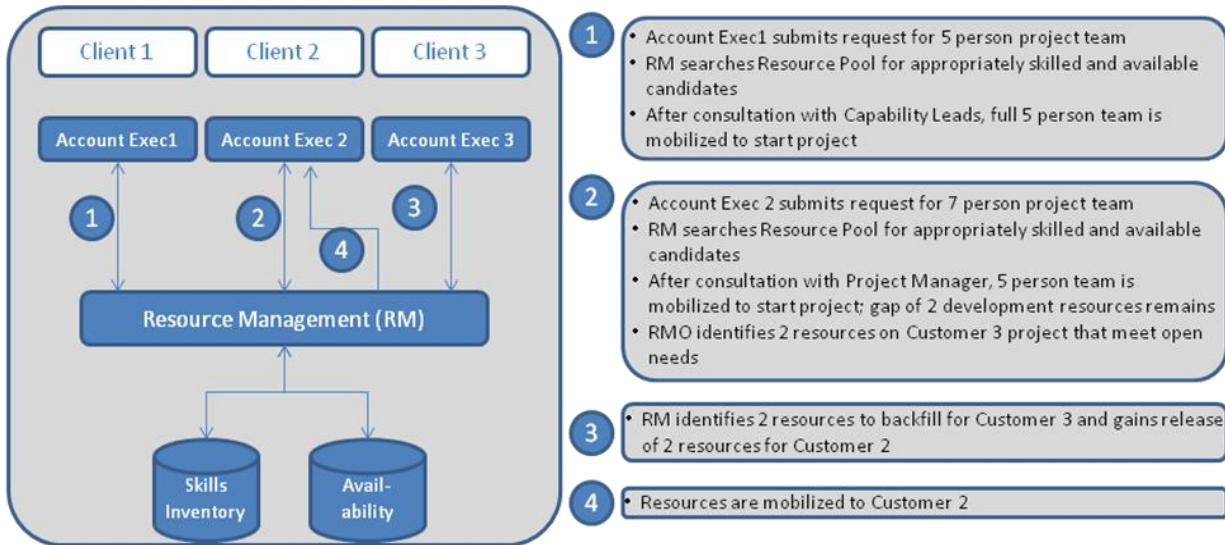


Figure 2: Staffing and Skills Inventory Scenarios

In a down economy, understanding the characteristics of your supply is critical to identifying where you can:

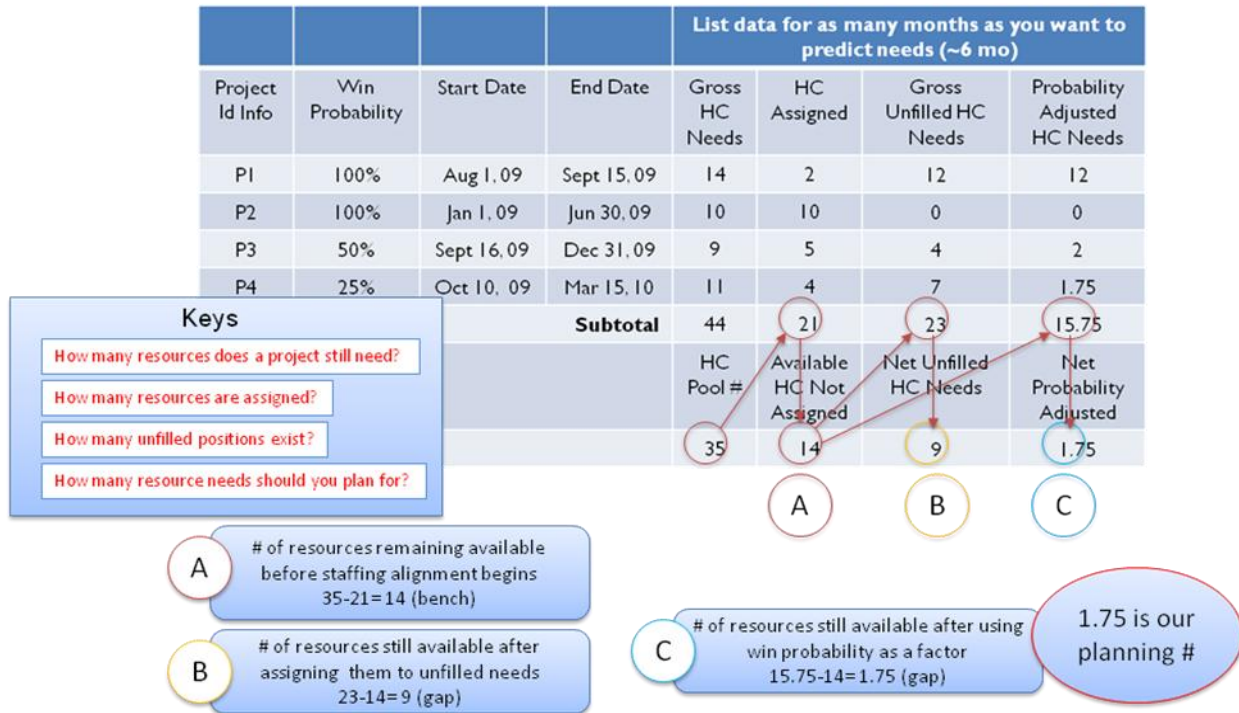
- Identify resources that can quickly address open roles (drive billable utilization; margin);
- Package up resources and proactively sell to your client base (drive increases in revenue by increasing overall billable hours); and
- Identify skills that the organization was unaware of, creating new market opportunities (drive increases in revenue by increasing overall billable hours).

### *Characterizing Demand*

Once the *Supply* of resources is defined, it is critical to begin tracking and reporting on the *Demand* for resources. That is, creating a systematic and comprehensive approach to recording and reporting on all current and future resource needs to enable better *Forecasting*. Forecasting is the process of projecting out how many and what type resources you will need over the next 1 to 6 months. The goal of forecasting is multi-fold:

- Appropriately balance the supply (e.g., quantity and skills) of resources to the demand for resources;
- Identify where balance is not achieved (e.g., quantity, skills, timing) and define actions to address the imbalances; and
- Enable proactivity in the process so that PS leaders are focusing more time on strategic activities (e.g., employee development, recruiting) and less time on tactical activities (e.g., the “-10 to +20 day” staffing window).

The output of a comprehensive Forecasting process looks something like this:



While there is a lot of information contained here, it is important to focus on items B and C. Items B and C indicate how many resources are still needed to meet the forecast demand; in this example it ranges from 1.75 to 9 FTEs. The forecast window can be anywhere from 1 to 6 months (or greater depending on your organization’s forecast horizon). This is essentially telling PS management that to meet forecast demand, they need to take action to source new resources. In other instances, the forecast may indicate a surplus of resources, so the PS organization may need to partner with sales to drive new opportunities – or take actions to reduce the number of contractors. In still other instances, the forecast may indicate the appropriate number of resources but a mismatch of skills.

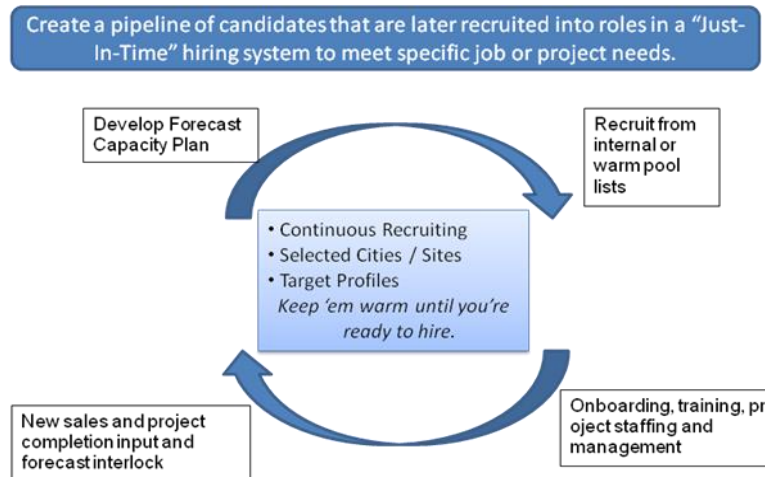
The beauty of the forecast is that it enables PS management to take action “in advance” of the actual event. That is, the PS executive has a forecast for hiring needs or contractor reductions or cross training. This enables the PS executive to stop fighting fires and deal with the more strategic aspects of management.

In today’s economic climate, the resource forecast is even more critical in that it helps PS management understand what levers it can and should start pulling *now* as opposed to reacting to events as they unfold. This enables you to optimize your total “available hours” to ultimately maximize overall profitability.

### Candidate Sourcing & Development

This process step is a natural outgrowth of the forecasting process. That is, once you understand the forecast, you need to take the appropriate resourcing actions: hiring; contracting; training. Thus, the three key strategic levers the PS organization can pull include: Warm Pool Recruiting, Strategic Contracting, and Cross-Training.

With Warm Pool Recruiting, the PS organization is “reaching out to the market” to identify qualified talent, but is not pulling the trigger on hiring until demand is clearly identified.

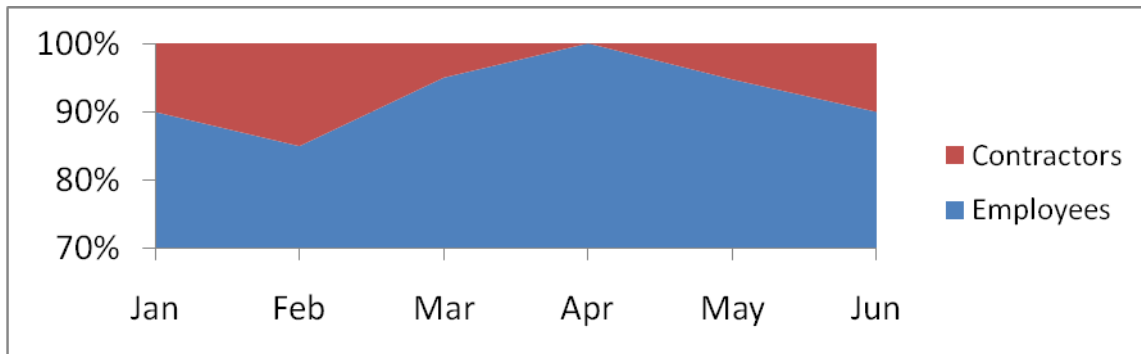


**Figure: Warm Pool Recruiting Methodology**

The benefit of this approach is clear – in both good and difficult economic times – the PS organization is not carrying the cost of the resource until billable work is clearly defined. The Resource Forecast generated in the previous step identifies the types of resources to target; client signature on a contract dictates hiring. In this process you will not be able to keep all candidates warm; however, RTM Consulting has seen that nearly 50% of the warm pool will be available for hiring when you are.

A second key lever to pull is relative to contracting. As PS executives, we have all experienced the peaks and valleys of demand. Through Strategic Contracting, the PS organization can meet peak demand with the support of resource contracting partners – and avoid considerable downtime in the demand valleys as contractors are released.





**Figure: Use of Contractors**

As you can see, this fictitious PS organization is increasing and decreasing its use of contractors to meet demand. In leading PS organizations, we typically see the use of contractors range from 5-20%.

Lastly, as discussed in the Skills Inventory, through cross-training of available PS resources, the PS organization can re-tool its resources for areas of demand, ultimately helping them get more productive for the organization and drive utilization higher.

By managing your organization this way, you have the ability to manage total “available hours” to optimize overall profitability; and to increase billable hours per resource by making them more marketable.

### **IT / PSA Infrastructure**

The RM Process clearly benefits from the use of technology to collect, analyze, and report the data. As a PS executive, you may be using some level of technology to support your organization – even if that is just a robust MS Excel spreadsheet. Regardless of the tool you are using, you very well may not be using the full capabilities and thus not getting all of the benefits available.

From an RM perspective, automating the skills inventory and staffing processes provides quick access to the capabilities of the organization. This enables users to quickly identify resources that can help meet a current or prospective need. Who has not heard this from sales, “I know I could close this deal if I just had someone with the skills to...”? Creating a dynamic forecasting report enables rapid assessment of both current and future resource needs; enabling the PS executive to address key questions from throughout the organization, e.g., “Is PS going to help us or hurt us with our quarterly financials? If it’s a hurt, what are you doing about it now?”

### **Process Governance**

The Process Governance step is designed to ensure that the RM cycle is iterative – and not a onetime event. Yes, you could go through the process steps on a linear basis during these difficult economic times and gain benefit. By implementing the Process Governance step, the PS organization will have information to address the changing resourcing situation. If the market continues to deteriorate, the PS

organization will have information to make necessary downsizing decisions. When the market rebounds the PS organization will have the information to drive resource growth.

The process works as follows:



During today's tough economic climate, the frequent interaction of key stakeholders: Sales, Account Management, Project Management, and Resource Management helps to facilitate key information that enables all to make improved decisions for the benefit of the organization.

## SUMMARY

This paper has identified how actions in Resource Management can have positive impacts on the bottom line – especially during today’s challenging economic times. The following table summarizes these thoughts:

RM Process	Key Levers to Pull	Impact on PS Profit and Utilization Levers
<b>Characterizing Supply</b>	<ul style="list-style-type: none"> <li>• Leverage a comprehensive skills inventory and staffing assignment repository to:                             <ul style="list-style-type: none"> <li>➢ Rapidly identify candidates for roles; speed time to billable utilization</li> <li>➢ Identify skills in your resources that can be used to generate incremental revenue</li> <li>➢ Identify skill and career development opportunities that will make your resources more marketable</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Billable Hours per Resource</li> <li>• Overall Billable Hours of the organization</li> </ul>
<b>Characterizing Demand</b>	<ul style="list-style-type: none"> <li>• 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"> <li>➢ Timing of hiring</li> <li>➢ Contracting of resources to meet peak load demand</li> <li>➢ Cross-training of resources in advance of contract signing</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Available Hours of the Organization</li> </ul>
<b>Candidate Sourcing &amp; Development</b>	<ul style="list-style-type: none"> <li>• Integrate your HR and people development capabilities with your Forecasting efforts to ensure alignment of actions</li> <li>• Leverage Warm Pool Recruiting to appropriately time on boarding of new resources</li> <li>• Take proactive steps to cross-train resources to make them more marketable to multiple roles</li> </ul>	<ul style="list-style-type: none"> <li>• Enables you to proactively manage the Available Hours of the Organization and avoid non-productive / non-billable hours</li> </ul>
<b>IT / PSA Infrastructure</b>	<ul style="list-style-type: none"> <li>• Leverage existing technology – and deploy new modules as needed – to automate what is done today</li> <li>• 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</li> </ul>	<ul style="list-style-type: none"> <li>• Provides enabling technology that facilitates decision making across the other aspects of Resource Management</li> </ul>
<b>Process Governance</b>	<ul style="list-style-type: none"> <li>• Create regular forums to bring the key stakeholders (e.g., Sales, Account Management, Program/Project Management) together to exchange information, keep the RM process flowing, and enable the most informed and effective decisions that will drive improvements in billable utilization</li> </ul>	<ul style="list-style-type: none"> <li>• Billable Hours per Resource</li> <li>• Overall Billable Hours of the organization</li> <li>• Available Hours</li> </ul>

## **CLOSING**

In closing, challenging economic times can make it difficult to know what to do, what decisions to make, and how to operate. The Resource Management process outlined above is designed to provide Professional Services Organizations with the proactive, analytical information to support efficient and effective decision making – and achieve Just-in-Time Resourcing (JITR). In today’s challenging economic times, it is critical that you make the appropriate decisions – so that you are not overburdened with unproductive costs (e.g., excessive non-utilized labor) AND so that you are prepared to take advantage of market opportunities when they arise (e.g., by avoiding not having enough labor to satisfy demand).

By following this process, RTM Consulting believes you will create the information base necessary to quickly address your situation and position your organization for: 1) sustained high utilization; and 2) improved profitability.

## **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 Global Resource Management and Professional Services Business Optimization, RTM Consulting helps IT hardware, software and pure consulting businesses achieve the benefits associated with a successful professional and consulting services portfolio. With its unique Business Acceleration Services and focus on operational excellence, 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.

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 professional services industry events. 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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