

Improve Your Firm's Utilization and Project Delivery Success through Effective Resource Management

Learn how the top performing firms are maximizing utilization and improving project delivery success through effective resourcing strategies

Introduction

One of the most common factors influencing the overall performance and profitability of Professional Services organizations is the measurement of their utilization, or the extent to which their billable employees are actually billable. Firms that consistently perform at an optimal utilization level generally see better performance both financially and operationally.

This whitepaper will explore the importance of utilization, the challenges of maintaining optimal utilization levels, as well as some strategies for maximizing utilization levels within your organization.

Billable utilization is the percentage of total available work hours in a period that were billed. Utilization is a key indicator of the financial and operational performance of services organizations

The Financial Impact

The financial benefit of maintaining high utilization levels is fairly simple to understand, since billing more hours in a period should naturally result in a corresponding increase in revenue. However, utilization is actually one of the few levers that your organization has to increase its revenue and profitability without incurring additional costs. For most firms, the majority of their operating expenses are represented in their employee salaries. These salaries are, for the most part, fixed on a month to month basis, meaning that your organization will incur these costs each month regardless of how many hours you bill. This makes it essential that firms meet some minimum utilization level each month in order to cover these salary expenses and other operating costs, as well as add profit to the firm's bottom line.

Most organizations set a target utilization level or percentage, which essentially sets a minimum level of acceptable utilization in order to generate adequate revenue and profitability levels. Any revenue beyond this target level drops right to your firm's bottom line, and the impact that even relatively minor utilization improvements can have on your firm's profitability is actually quite astonishing.

Here's an example:

Let's consider a firm that has 250 billable resources, and that these resources bill an average of \$175 per hour, assuming a normal working month with 160 total working hours. If this firm operates at 70% utilization level (equal to 112 billable hours), they would generate \$4.9M per month in revenue.

However, if this firm could figure out a way for each resource to work just one extra billable hour each week, they would increase their utilization from 70% to 72.5%.

At a 72.5% utilization level, this firm would generate \$5.075M per month, an increase of \$175,000 per month, or \$2.1M over the course of the year. Again, this additional \$2.1M often incurs no additional cost of revenue, meaning that this \$2.1M drops right to the firm's bottom line.

So a small increase in billable utilization can have a significant impact on a firm's profitability.

The Operational Impact

As shown above, the financial benefits of maintaining adequate utilization levels can be quite significant. But utilization is tied in many ways to the operational performance of your firm as well. Utilization, and other metrics that are affected by utilization, can impact your firm's ability to execute on projects, drive client satisfaction, and manage attrition levels. Let's further explore these issues.

The most common measurement of whether or not a firm is effectively executing its projects is on-time and on-budget project delivery performance. A key element of on-time delivery is making sure that you have the right resources with the right skill sets available at the right time to work on your client's project.

Organizations that are over-utilizing key employees may not have access to those employees for a period of time since they're very busy, meaning that your firm cannot respond quickly to project requests, potentially causing project delays and impacting on-time delivery performance. At the same time, it's possible that you have qualified resources that are under-utilized, meaning that you could potentially shift project work to these individuals to meet your client's delivery requirements. Balancing utilization across your resource pool, and having tools to make good project staffing decisions, are essential to quickly responding to client needs and driving projects to an on-time completion.

Achieving proper utilization levels can also contribute to driving projects that are both on-budget and profitable. Using the example above, if your firm doesn't have key resources available to work on a project in a reasonable timeframe, you will likely end up in one of two situations. First, the project may be completed late, forcing you to either provide un-billable services or "free work" to make up for your sins, or to write down your invoices. Or second, in order to bring the project in on-time, you could be forced to either allocate additional resources to the project or to use subcontractors at a higher cost. Either way, this would mean that you incur additional project expenses without any additional revenue to maintain your project profitability.

So as you can see, utilization management can impact both your firm's financial performance, as well as its operational performance.

There are several factors that challenge utilization levels, including employee attrition, changing workforce demographics, and changing client expectations

If each resource could bill one additional hour each week, most firms could add a significant amount of money to their bottom line

Challenges with Utilization

Unfortunately, while utilization management is extremely important to the performance of your firm, there are many challenges associated with achieving optimal utilization levels in today's business environment. These include the following:

- **Employee Attrition** - Your employees are a key asset of your firm, in large part because they provide your intellectual capital and are familiar with your clients, services, and business processes. Any time a highly trained employee leaves your firm, you immediately risk losing billable hours. Training new employees takes time, and new employees often see lower utilization levels for a period of time while they ramp up. Naturally, firms with higher attrition levels typically see lower utilization levels.
- **Changing Workforce Demographics** - As the Baby Boomer generation continues to retire, firms lose their most senior-level, most experienced, and often most utilized employees. As firms hire younger employees to backfill these vacant positions, they must invest in training and ramp-up time, periods during which utilization levels are often lower than their target level.
- **Changing Client Expectations** - Clients have changing expectations, and are exacting a greater toll on services firms in terms of the deliverables and value that they expect from their projects. This is especially true in times of economic uncertainty when clients demand more in terms of demonstrating the value of the project and justifying their investment. This often requires firms to invest un-billable project time from consultants or project managers in order to help demonstrate project value, which can also negatively impact utilization.

The Solution

The top performing firms are finding a way to navigate the challenges outlined above while still maintaining a high degree of utilization and driving profitable on-time projects. When looking at these top performing firms, we see several areas of consistency.

Recognizing the Importance of Resource Management

Organizations are increasingly recognizing the importance of Resource Management practices in helping their firm maximize utilization, successfully deliver projects, and meet their financial goals. In a recent survey from SPI Research, when firms were asked to rate how important Resource Management was to their business, over 70% of the respondents said that it was a 7 out of 10 or higher. This clearly indicates that organizations are seeing the value in using Resource Management strategies to accomplish their objectives.

Professional Services Automation as an Enabler

Organizations are also turning to Professional Services Automation (PSA) technologies to meet their utilization and project delivery objectives. Many PSA software systems now offer Resource Management and Scheduling software that can help organizations do the following:

- Maximize utilization - A PSA software system can help firms see which resources or resource groups are underutilized in the coming weeks and months, and can search the system for project work that matches their capabilities, thereby increasing the utilization levels of previously underutilized resources.
- Balance utilization levels - A PSA software system can help firms identify which resources are overcommitted and reassign this work to resources that are underutilized, thereby reducing employee burnout and accelerating project work. A balanced utilization across your resource pool is much better than having a few resources 110% utilized and the remaining resources operating well below the utilization target.
- Optimize capacity levels and skill mix - A PSA software system can help firms produce long term forecasts of resource requirements, both in terms of timeframes and required skill sets. By having this visibility into future requirements, firms can ensure that they have the right resource capacity levels to maintain high utilization levels. They can also ensure that they have the right skill mix available for the upcoming work, which also helps to keep their resources billable and overall utilization levels up.

On a scale of 1 to 10, over 70% of firms surveyed by SPI Research said that Resource Management was a 7 or higher in terms of importance to their firm

- Make informed project staffing decisions - A PSA software system can help Resource Managers or Project Managers search employee skill sets and resumes to find qualified resources for their projects. This helps firms increase their quality of services by making intelligent decisions about which resources are capable of completing a given project requirement, helping to maximize on-time and on-budget project delivery.
- Drive on-time project delivery - A PSA software system can help overlay project requirements and schedules with a firm's resource plan, in order to ensure that you have the right resources available to meet the client's expectations and project milestones, contributing to on-time project delivery.
- Minimize attrition - A PSA software system can ensure that resources are working on projects that they're qualified for, as well as help make sure high value resources aren't overcommitted. This helps to keep employee frustration and burnout down, minimizing attrition and, in turn, bolstering utilization.

The Importance of Integration and Real-time Visibility

In today's fluid business environment, firms need to make real-time business decisions in order to maximize utilization levels and drive project delivery success. Firms are learning that they cannot manage their resources, projects, and utilization levels successfully without having real-time visibility into their business. These firms have also seen that the best way to achieve this real-time visibility is through the use of integrated software systems.

By having your firm's Financial Management and Project Accounting, Professional Services Automation, Customer Relationship Management, and Human Resource Management software all operating in an integrated environment, data can flow seamlessly across your organization, and you can make informed resourcing decisions that maximize utilization and ensure successful project delivery.

The Results

Firms that have implemented strategies and tools to effectively manage their resourcing processes have seen measurable improvements in their utilization levels and project performance.

Effective Resourcing Improves Utilization and Revenue

The top firms have seen that implementing effective resourcing strategies not only drives utilization improvement, but revenue improvement as well. According to SPI Research, the top performing 5% of firms surveyed have taken measures that helped them achieve billable utilization levels that were 15% higher than their peers (75% versus 65.3%). As shown earlier, even a small increase in utilization can mean a significant difference when it comes to a firm's overall revenue picture.

As expected, the firms that have successfully achieved higher utilization levels also see higher revenue levels. According to SPI Research's latest benchmark surveys, firms that achieve utilization levels of between 50% and 60% realize revenue per employee of about \$190,000 per year. Firms who have been able to achieve utilization of 60% to 70% realize revenue per employee of \$203,000 per year, an increase of over 6% from firms in the lower tier. And firms that can achieve utilization levels between 70% and 80% have, on average, realized revenue per employee of \$221,000 per year, an increase of over 8% from firms in the 60% to 70% tier. Most importantly, there is no additional "cost" to the business to achieve this additional revenue - it drops right to the bottom line.

Effective Resourcing Drives Delivery Performance

Implementing effective resourcing strategies also helps improve project delivery performance. According to SPI Research, firms performing in the top 5% of the market see lower project cancellation rates than their peers (1% versus 2.3%), higher on-time project delivery rates than their peers (85% versus 73.8%), and lower frequency of going over budget than their peers (31.4% versus 41.5%). As discussed earlier, the ability to consistently deliver on-time and on-budget projects reduces un-billable project time and prevents invoice adjustments, thereby improving project profitability as well as client satisfaction.

According to SPI Research, the top 5% of firms saw utilization levels that were 15% higher than their peers (75% versus 65.3%)

Effective Resourcing Lowers Attrition Rates

Effective resourcing strategies can also help firms reduce employee attrition, which as stated earlier, has a number of consequences in terms of the utilization performance of your organization. The top 5% of firms surveyed by SPI Research averaged 5.7% attrition per year compared to 7.7% for their peers, a difference of over 25%. Furthermore, firms that have been more successful in retaining key employees have delivered more projects on time and seen lower project overrun amounts when they went over budget. Firms achieving attrition levels of less than 5% per year delivered projects on time nearly 80% of the time, compared with 72.5% of the time for firms that had over 5% attrition rates. The firms seeing 5% or lower attrition rates also saw lower project budget overruns, going over budget 26% of the time compared to 30% of the time for firms with attrition levels greater than 5%. So as these numbers show, in addition to boosting utilization levels, low attrition rates contribute to a firm's ability to deliver projects on time, on budget, and more profitably.

Integration and Real-time Visibility Drive Performance

As mentioned earlier, having integrated systems and real-time visibility is also an important factor in driving utilization and project performance. Of the firms surveyed by SPI Research, those who claimed to have real-time visibility across their business also mostly used integrated software systems for their Financial Management, Project Accounting and Professional Services Automation, Customer Relationship Management, and Human Resource Management applications.

The firms claiming to have real-time visibility showed dramatic performance improvements over firms that did not have real-time visibility. Firms with real-time visibility achieved higher realized utilization levels (68% versus 62%), delivered more projects on time (79% versus 60%), and had lower attrition levels (5.1% versus 10.4%). And most importantly, these firms delivered their projects more profitably, seeing average project margins of 35% compared to 26%. So there's something to be said for having real-time visibility across your organization, and for using integrated business management software systems.

As all of these benchmark results illustrate, there is a significant difference in performance between the organizations who have implemented effective resourcing strategies and use integrated PSA solutions, from the organizations that do not. By focusing in these areas, your firm can position itself to perform in the top 5% of your market.

About Systems Advisors Group

Systems Advisors Group is a global provider of leading Professional Services Automation (PSA) and Enterprise Resource Planning solutions for Professional Services Organizations. Systems Advisors Group provides a complete set of software evaluation, implementation, and support services to help clients achieve a tangible ROI from their software investment. With offices in 15 countries around the world, Systems Advisors Group offers its clients global reach with a local touch.

For more information, visit www.systemsadvisors.com, or email us at info@systemsadvisors.com

About SPI Research

Service Performance Insight is a recognized authority in how technology impacts businesses within the services sector. SPI provides consulting, research, and objective advice to help services organizations make well informed decisions about how to use technology to optimize the delivery of their services.

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