

*RTM Consulting, LLC*

# 10 Hottest Tips To Sustain High Utilization

Randy Mysliviec  
Chief Executive Officer

*RTM Consulting, LLC*  
513-236-5585  
[info@rtmconsulting.net](mailto:info@rtmconsulting.net) [www.rtmconsulting.net](http://www.rtmconsulting.net)

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## **10 Hottest Tips to Sustain High Utilization**

### **Introduction**

The most challenging aspect of running a Professional Services Operation (PSO) is managing the utilization of people. While there are many important aspects of managing a PSO, managing utilization of human capital is fundamental to making a profit. Unfortunately the majority of PSO's in the market today do not achieve their full potential when it comes to fully utilizing human capital.

Our company is in the business of helping others with the complex problems of managing the utilization of human capital (more commonly referred to as resource management), and we find most often that PSO's focus on all kinds of processes e.g. quality, project management, revenue recognition, and more. But few have a comprehensive and documented process for how they will manage resources and achieve a desired level of utilization. They have utilization measures (sometimes), utilization targets, time recording procedures, project tracking mechanisms, and more. But what we do not see often is a well thought out process for ensuring that billable utilization is high and stays that way, every day, week after week, month after month. This gap in industry maturity is what led RTM Consulting to develop the Just-in-Time Resourcing<sup>SM</sup> solution.

This paper is dedicated to those that need/want some simple and actionable ideas on how to effectively manage to achieve high utilization.

### **10 Hottest Tips**

- 1) Adopt a utilization metric that's easy to understand – Having a utilization metric is a good thing. Having one that everyone understands is better. Too many firms allow different formulas for utilization to proliferate around the enterprise. As a result, confusion sets in and inevitably the lack of a common taxonomy for utilization results in unnatural pressures being applied internally. Doubt is often cast on the PSO team to manage the business efficiently, all because there was a lack of understanding relative to what was being measured, and what result was expected. The simplest (and most commonly used) formula for utilization is #billable hours/available hours with 2080 being the standard for available hours. Some key points to remember:
  - You can set the available hours number at whatever you like – as long as you are consistent
  - If you pick 2080 hours, you are saying: *The Consultant will take training, vacation, and sick time throughout the year. But, the Consultant should hit this overall utilization target.*

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- If you pick less than 2080 hours, you are saying: *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.*
- 2) Get the forecast right – Having a view into the future is essential to resource planning. Technology companies are usually pretty good at forecasting product demand. They expend time on process and software applications to assist with the task. Unfortunately, most are not so good at forecasting services often leaving the task to the PSO leadership to figure out. Without a good services forecast, it's difficult to manage utilization well.

The forecasting process, irrespective of a companies' organizational construct, must facilitate the most precise estimate of need, by person and skill, by month, to span the necessary hiring horizon. Normally some 'what if' methodology is used to provide sensitivity analysis to your projections and ultimately a capacity resource plan to guide your investment decisions. Effective interlock of the resource management team and sales is imperative for effective forecasting and capacity planning.

- 3) See #2 and then plan on being wrong – We find most companies have room for improvement in this area. How can you plan when you have no view of what future needs will be? Because a forecast is just that – a forecast – you can count on it being wrong. The key is to gain some control and consistency over how wrong (or accurate) you will be. Sales should have a metric that is tracked to ensure they focus on the services forecast, as should the PSO. No matter what the volatility of your business, we have not yet observed a company that cannot improve on their forecast accuracy using better risk based planning.
- 4) For resource planning one pool will do – The bane of PSO's is where resources are 'owned' by multiple departments creating silo's of resources. Unfortunately the silo mentality is alive and well in corporations all over the world. The best medicine for this problem is for the company to begin to manage resources in a centralized way. Resources are and should be assets of the corporation, not a particular department. Department management relationships should be maintained to help manage employee development, goal setting, reviews, etc. The Resource Management Office concept, pioneered by RTM Consulting, provides a process based approach to helping companies make deployment decisions centrally while managing employee careers locally.
- 5) Let the computer do the heavy lifting – Today's Professional Services Automation (PSA) tools can do a big part of the job of analyzing resource needs and help with making staffing assignments leaving managers more time to manage. Surprisingly, some PS firms today manage their resource pool either without the help of automation or with simple tools generally not up to the task of today's business needs.

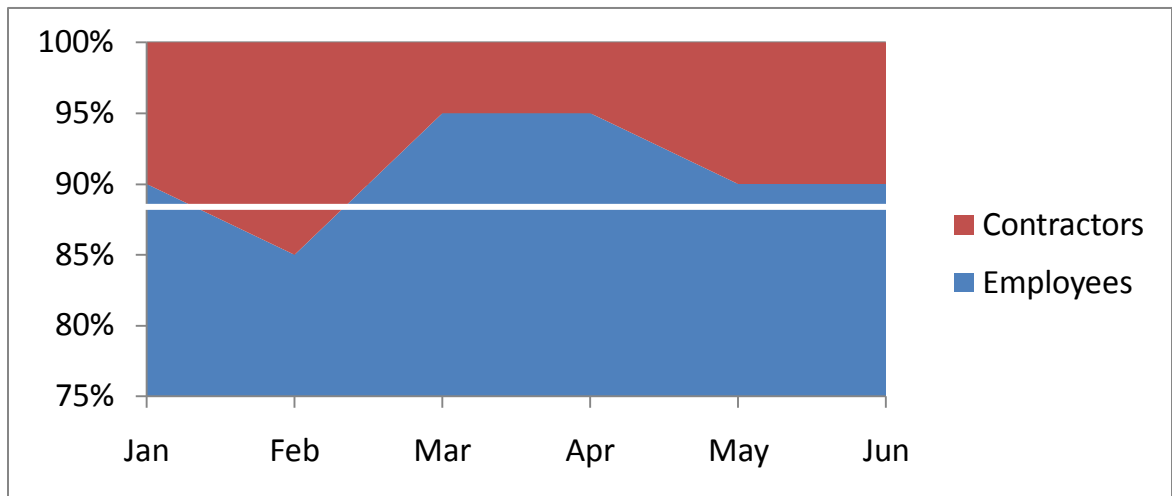
Considering the impact of just a few points of utilization of a typical labor pool, justification of investment to automate this important task is usually easy. Are you trying

to manage a large and growing workforce with a spreadsheet? Resource management software (also commonly part of or referred to as PSA software) exists to create a data base of resource pool information, enter and track project needs and progress, and produce reports/queries capable of reducing determination of project staffing needs by up to 90% (a human element is still needed to finalize resource selections).

- 6) Manage resources, not people – Don't let your PSO be hobbled by sales people who may insist on a particular person to do a job. Your job as the PSO leader is to complete a project on-time, on-budget. Who does the work is irrelevant. Breaking the organization of the "I want my favorite person" syndrome is critical to improving utilization.
- 7) Watch the non-billable time buckets carefully – It's too easy to hide idle time unless you make the process of time recording and reporting transparent in the organization. Regular analysis of this information is vital to making necessary adjustments when problems develop. Avoid using non-productive time recording codes such as 'other'. Additionally, these codes should be managed centrally and require the approval of the PSO leader to establish new codes.
- 8) Higher labor cost is better than bench time – Don't let overzealous desires to take advantage of offshore labor rates get in the way of using higher cost labor that may be sitting on the bench.

The art to staffing a project is to find the right balance of cost, skills and project management. Sometimes resource availability will dictate 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. Making these choices requires that the PS organization look at its gross margin performance over a range of projects to accommodate these inevitable resource imbalances. Simply put, no two identical projects will produce the same profit, but on the average achievement of a target gross margin should/can be the desired outcome.

- 9) Never employ enough resource to meet demand – Did I just read that right? Yes. Figure out what your steady state resource needs are (every business has at some level a steady state), and use partners/contractors to fill peak-load needs. Note the white line (approximate steady state) in the chart below. At some point it makes sense to fill peak-load demand with partners or contractors so that excess costs can be shed quickly when demand slackens. While the cost of a contractor may be greater than an employee, avoiding idle time, hiring training and attrition costs, and impacts on morale from layoffs all offset the temporary spike in per headcount labor.



- 10) Consultants should own the utilization metric – In my view, management always benefits from driving accountability to the lowest level possible in their operations. Period. Key benefits of consultants owning the utilization metric:
- Encourages the consultant to up-sell
  - Captures the collective input of the team for solving utilization issues
  - Creates incentives for continuous skills development

### Summary

As stated earlier, while there are many important aspects of managing a PSO, managing utilization is fundamental to making a profit. Companies invest lots of energy and time into processes to address many aspects of their businesses, but resource management has long been lacking in discipline for many PSO's. Using the '10 Hottest Tips' will help you get on the road to sustainably high utilization.

## **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<sup>SM</sup> solution 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.

Randy Mysliviec is CEO of RTM Consulting, the market leader in resource management and PS business optimization services. Comments and feedback are welcome at [info@rtmconsulting.net](mailto:info@rtmconsulting.net).

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