

RTM Consulting, LLC

Smart Selling: Small Things Can Have a Big Impact on Organizational Profitability

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Overview

Every service delivery manager focuses on profitability. In an increasingly cost competitive marketplace, a couple points of margin can mean the difference between a good quarter and a bad one. Effective project execution and tight control of overhead costs are the most common practices for managing operating margins. There are, however, a number of less obvious factors affecting margin health that take root in the sales process.

The primary focus of any sales cycle is winning profitable projects. Firms employ formalized review processes and scrutinize the financials, contracts and business terms. The results, in theory, are deals that meet the profit and risk goals of the firm. There are, however, a number of smaller things that should be considered in the sales process that do not reveal themselves in the project economics, but impact the overall organization profitability.

The following are four such “traps” of the sales process that can go undetected, or worse, are behaviors embedded in an organization. The good news is that these traps are not hard to solve, but do require communication and education between delivery managers and their sales counterparts.

Holding Key Personnel

Often times, prospective clients want to know the key personnel proposed for their project. Sales leads and client managers also view this as a strong tool for differentiation by selling “the A team”. Selling resumes is a facet of selling, but can erode profitability if not managed correctly. The common result of using this approach is that key personnel (project managers, architects, team leads) are “held” before the deal is sold. Two weeks to close the deal quickly leads to two months, and the billable utilization of these key resources has plummeted. You do not have to eliminate the practice, just manage it more closely and try these approaches:

- Manage client expectations
- Create options
- Implement a centralized resource management operation

First, manage the expectations of your prospective client. Get them excited about the potential resources, but talk frankly about their availability. Often times, the chance to secure strong resources creates a catalyst for faster action by your client. Second, create options. Use scenario planning and develop options based on multiple resources and various start dates. Do not allow anyone to completely lock on one resource, rather, keep them open to more options. You can also share the various options with the client so that the client does not get focused on any one particular resource – instead they begin to see that you have multiple, effective staffing options to meet their project needs. Finally, this problem can be exacerbated by organizations that do not have effective, centralized resource management. Regular monitoring of key resources, maintaining options and the continuous adjustment

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of staff based on delays are extremely difficult without the data and tools for managing this dynamic scenario. Centralized resource management also eliminates inefficient hoarding of resources, leading to more options and flexibility in staffing the project.

The Fractional Resource

Tips When Using Fractional Resources

- ❑ Use multiples of 25%. Do not get more granular
- ❑ Do not allocate a single resource to more than two assignments. Productivity of the resource deteriorates
- ❑ With multiple assignments, establish an explicit and predictable work schedule for the resource
- ❑ Charge a premium for partial allocations of a resource, as much as 2-3 times the normal bill rate

The following is based on a real scenario I have experienced many times. In the professional services organization of a large software firm, the client manager sells some post-implementation consulting services. The client is attempting to perform an upgrade; while the client does not believe they need the help, they do want access to a Subject Matter Expert (SME) “just in case”. A senior architect in the solution domain is sold at a good rate, say \$200/hour. The client manager gets the client to agree to 50% of the SME for a month, on demand, meaning no set pattern or schedule. The client manager thinks he has a win-win deal: flexible service to his/her client and high margin for the resource. We, the delivery managers, are somewhat less enthused.

The obvious response to this arrangement is ... what to do with the other half of the resource’s time? Fractional allocations of resources (especially on demand) make it very difficult to find other opportunities to fill the remaining billable capacity. The situation only gets worth when resources are sold at 30%, 20%, or even less than 10% allocations. The result is either a significant hit to the resource’s utilization, or a lot of management time trying to find creative ways to keep them busy on other billable work. In either scenario, overall profitability is drained.

The solution is usually clear, but not easy: educate your sales and client managers. Often, they do not understand the impact these deals have on your organization. From their perspective, these types of deals yield good revenue and good margin. In your discussion with the front line, determine if the fractional needs are a one-off, or a trend. If a trend, then determine how to capitalize on it. If there is a measurable need for upgrade support from SMEs, then develop a structure to pool experts across multiple clients, similar to a help desk.

Hidden Costs

If a cost is not on the deal financials, is it expended? This is not an existential question. The answer is a resounding yes. Firms establish internal cost rates for resources and provide associated “load factors” to account for other variable costs. Too often, there are additional variable and fixed costs that are not assumed in the load factor and are not explicitly accounted for. These costs can surface after the deal is booked, and undermine both project and organizational profitability. Examples of such costs include: specialized training, recruiting, state gross receipt taxes, HW/SW requirements and management oversight.

In my experience, the first issue is that most resources involved in selling and constructing the deal aren’t aware of what is included in overheads and load factors. Second, there is a tendency to focus only on variable labor costs, and not the one-time or fixed charges. Recognition of hidden costs must be embedded in the estimating tools and process of the delivery team. Early recognition of the true cost to execute projects will allow all stakeholders to make the most informed decision on how aggressive to be on price and margin. Again, it comes down to education. All personnel involved in selling and constructing deals should understand what is included in load factors and the other additional costs.

With the costs known, there are options on how to include them in the price. For fixed fee, it is straightforward to include in the overall price. For time and materials costs can be additional line items, or embedded into the hourly rate (cost) of the resources.

The A-Team at B-Team Rates

Like my point about key personnel above, every salesperson or client manager wants to provide their customer with the A-team of resources. Staffing models, however, typically assume a mix of resources, known as a leveraged model. This staffing model assumes there are some strong, experienced resources mixed with a greater number of less experienced, less expensive resources. The result of positioning too many good resources is obvious: you will exceed the resource budget immediately.

Achieving a good mix of resources for projects is not just about the project economics, it also has impacts to the delivery organization overall. Done well, it maximizes the impact of the experienced resources. It prevents an imbalance of organization utilization, where the most valuable resources are over-utilized while less experienced resources become under-utilized. It also fosters skills development and mentorship by mixing experience with inexperience. Ultimately, it can make the organization more price competitive.

To consistently assemble effective, leveraged teams requires good inter-team communication and a solid resource management infrastructure. Too often, sales and client managers latch on to name brand resources. These are the minority of resources with the established reputations and known resumes of experience. The delivery manager should be prepared to quickly identify strong alternatives, and easily be able to highlight their skills and experience. Centralized resource management supports the delivery manager with a skills inventory, resume database and immediate visibility to all available resources internally and externally.

Every delivery manager should have success stories where they put less experienced resources in situations and they succeeded beyond expectations. This is how the next wave of A players emerge.

Conclusion

Avoiding common margin eroding traps starts with having a good resource management infrastructure and processes. This gives delivery managers the greatest set of options and flexibility in defining and assembling their teams. With this, the focus needs to be active communication and continuous education of sales and client teams. Sales teams may overlook these traps that do not show up in deal economics and more importantly, do not always align with their incentives for selling. It has always been my experience, however, that once these issues are explained and alternatives are provided, delivery managers, sales and client team members can better work together to ensure the organization maximizes 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 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 ResourcingSM 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.

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