White Paper

Increase Profitability with the Right Mix of Projects and Resources

The most successful organizations are going to be the ones that find ways to differentiate themselves. Projects are the life-blood of professional services firms and these firms are increasingly recognizing that portfolio and resource management can help them make the decisions that will set them apart from their competitors. Maximizing the productivity of their most valuable resource – their people, requires bringing in projects, staffing them, executing them, and managing them in the most efficient and effective way possible.

Effective portfolio and resource management translates to greater revenue growth; higher revenue per employee; better project margins; fewer project overruns; higher billable utilization and significantly better overall margins. Optimizing these processes provides value throughout the entire project lifecycle and leads to satisfied clients and happier employees. Having the right person, with the right skills, on the right job, at the right time is the essence of effective portfolio and resource management.

Portfolio Management in Professional Service Firms

Portfolio management does not have to be a complex and overwhelming process. At the core, portfolio management is simply a commitment by an organization to look at all of its projects as part of a collective whole. That kind of attitude doesn't require organizations to have reached any particular size or maturity; it simply requires commitment and vision.

However, project-based organizations do have unique challenges with portfolio management. It is a daily challenge to effectively manage information and resources as they relate to project execution. Some common attributes of project based businesses are:

Constantly changing project teams

Teams form and disband for specific projects, making staffing and the transfer of knowledge a constant challenge. In addition, team members may come and go during the course of the project, making it difficult to maintain continuity.

Geographically-dispersed organizations

Distributed offices and staff make it more difficult for firms to maintain a shared knowledge base and coordinate work activities and efficiently tackle administrative functions.

Multidisciplinary services

No two projects are the same, and firms often bring together a diverse project team that provides multidisciplinary services to clients. The most successful firms use standards, libraries, and other forms of data repositories to avoid starting from scratch on each project.

Multiple project assignments.

Managers and staff are often assigned to multiple projects at once. Project managers must keep track of multiple budgets, schedules, and staff workloads, as well as meet each client's unique priorities and expectations. Maintaining a proper balance of projects and staff resources is critical to successful project delivery.

While these challenges are somewhat unique to project based businesses, unlike other companies, they do have the advantage of projects being a very important and critical element of the business model. So, while it is not difficult to rally the troops around planning, managing and executing projects on a daily basis,

What's the Right Mix of Projects and Resources?

The Perspective Varies by Role

Executive	Chief Financial Officer	Project Management
How much work is in the pipeline?	How much unbilled work in progress is there?	Is my project on budget?
How many people are "on the bench"? Why?	Has all time and expense been recorded?	Are the right resources available for my project?
What are our most profitable services?	Which clients and/or projects are affecting DSO on receivables?	How many staff do I need next week, next month, in two months?
What are our least profitable services?	What are the total outstanding billings by client and by project?	Do we have the necessary expertise for this project?
How do we transfer knowledge between projects and resources?	How do we ensure billings and collections are done in a timely manner?	Do I have all the information I need to make decisions in alignment with company goals?

it does not change the fact that managing at the portfolio level is difficult and requires a great deal of data and insight to facilitate discussion and decision making.

When it comes to analyzing what the right mix of projects and resources is for your company, there are some key metrics that you should keep an eye on. Even firms with a structured system in place for managing daily operations can have difficulty accessing key operational statistics that allow them to improve performance and profitability at the portfolio level. Only by gaining access to accurate and consolidated operational information can you begin to look at more strategic client development and, ultimately, new business and growth.

Key Metrics for Effective Portfolio Management

In many professional service organizations, billable utilization is one of the most closely monitored metrics. Virtually all professional service firms track their staff utilization rates. However, in many cases, all time charged to projects does not end up being billed. In some cases, time is written off because of unbillable time being spent on out of scope items or contract terms that restrict maximum billings. Tracking both utilization and realization (which equates to actual billings), and the variances between the two, at the individual, project and portfolio levels can help pinpoint improvements that should be considered at each level.

Three additional metrics can provide professional service firms a better understanding of how both individual projects and their overall project portfolio is performing. These include net revenue and revenue factor:

Net Service Revenue

Revenue is not always the same as billing. Most firms track both gross revenue and net service revenue – gross revenue less subconsultants and reimbursables. Unlike gross revenue, which can be inflated by high pass-through revenue, net service revenue represents only the revenue earned by the firm’s staff, making it a better representation of productivity.

Revenue Factor

Revenue factor is probably the best indicator of how efficiently a firm is converting labor to revenue. It is calculated by dividing net revenue by total labor, including all staff but not payroll benefits and taxes. Revenue factor cannot be easily manipulated by those who overcharge time to projects without doing anything and those that are working on projects but trying to protect margins by not charging their time.

Backlog

Backlog is work under contract, not yet performed. It is generally expressed in $ but can easily be converted to time by dividing the dollar amount of backlog by the firm’s gross annual revenue and multiplying the result by 12. Backlog is the best indicator of future revenue. Tracking it on a month to month basis can tell you a lot about how your project portfolio will be impacted.

If backlog is declining, projects are being completed faster than they are being replaced by new work. This measure coupled with sales of new work, proposals pending, proposal hit rates and leads in the pipeline can give you a more complete picture of your future project portfolio and resource needs.

The Role of Resource Management in Portfolio Management

The reality facing most organizations, from small, specialized firms to the largest, most sophisticated multinational consulting firms, is the same – each faces significant challenges related to accurately and efficiently and effectively staffing projects, accurately capturing time and expense, and providing full visibility to resource utilization and availability.

While resource planning and forecasting at an individual project level is important, resource planning at a macro level is arguably one of the most critical processes for a professional services firm. Macro-level resource planning involves the balancing of supply and demand between the current and potential projects in an organization. This process weighs project backlog and probability-weighted opportunities against the skills and availability of existing and potential employees.

Resource Management Challenges

- Finding and sourcing skilled staff
- Matching staff skills to project requirements
- Providing visibility to resource utilization and availability
- Balancing conflicting project priorities
- Redeploying resources based on project needs
- Recruiting and hiring the right skills at the right time
- Decentralized staff
- Irregular time and expense reporting

Project delays and budget overruns can often be traced back to not having the right mix of skills or staffing imbalances on a project. Companies with a disciplined resource management processes see far fewer of these symptoms than those who do not have a structured approach to resource management. Here are some best practices to help you optimize your process:

Guessing is not a plan.

Bad resource planning based on gut feel or a snapshot of availability based on the last status report can negatively impact a firm and its clients. Underestimating means missed deadlines, project delays and margin erosion while overestimating can have a negative effect on utilization and profitability across the board. To deal with the challenge of managing capacity with demand, you need tools that provide real time longer-term visibility of workload and skills requirements. You need to factor in your backlog as well as high probability opportunities that are likely to close in the foreseeable future. By integrating your forecasting and backlog information with your current project work, you can get better understanding of where you stand. Further, you must be able to share this information with recruiters and partner organizations, so they, in turn, can make informed decisions.

Don't work for free.

Professional service firms benefit from instituting formal processes and systems for dealing with out-of-scope requests. Out of scope requests have a number of different sources. Poor estimating and scoping is the most obvious culprit, but sometimes, it is simply a matter of not having a good grasp on where you are with the budget on a project or holding on to staff who are not doing meaningful, billable work in fear that if you release them to another project, you won't be able to get them back when you need them. While you definitely want to keep your client happy, doing free work is not the way to accomplish this task. Your client will be much more impressed with efficiency, timely communications, and quality work products than busy work that results in blown budgets.

Managing by email and spreadsheet is a recipe for disaster.

While these methods are quite common in professional service firms, they simply do not provide the visibility and accuracy needed to effectively manage resources. With this method, you are always at least one step behind the reality of what is going on in the company. You need a consolidated and integrated information source that provides a real-time, holistic view of your resource needs in order to make the best decisions to meet both short term and long term objectives.

Don't lose sight of long term needs.

Today's service businesses operate in a dynamic and competitive environment, often making it difficult for them to look beyond short-term objectives. The speed of business continues to accelerate – creating a need for businesses to focus on long-term strategic goals and customer relationships in order to remain competitive and profitable. Professional services firms need to invest in solutions that help optimize resource pools and effectively manage project portfolios with real-time data on project performance, resource utilization and the opportunity pipeline. When you have a single, integrated solution that supports project planning and resource related decision making, you can focus on growth and maximize profitability.

It is critical for professional services firms to have solutions in place support all key business processes that provide insight into the key metrics that can help make informed decisions. And it is also imperative that these firms view resource and project portfolio management as key business processes that can have a significant impact on profit margins. Access to accurate, real-time project and resource data across the entire organization leads to better decision making and allows firms to compete more effectively in the marketplace.

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