WHITE PAPER • STEVE SATTERWHITE, CEO

THE ECONOMICS OF DELAY

Understanding the financial impact of being unable to fill consulting roles on enterprise technology professional services projects

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ABSTRACT

When the inability to hire qualified enterprise IT consultants delays the start of a professional services engagement, the results include a range of negative outcomes, most of them financial. Understanding the economics of delay reveals the high costs of attempting to save relatively small amounts of money on professional services talent. This paper explores the hiring factors that drive project delays in the Professional Services Organization (PSO), including self-created talent shortages and "penny wise, pound foolish" rules that put millions in product revenue at risk. It also looks at solutions to these challenges, offering a "win-win" approach to professional services that serves the needs of all project stakeholders.

INTRODUCTION

The events of the last year and a half have led many people in the corporate world to rethink their assumptions about their work lives and what they want to accomplish in their careers. The old pressures have not gone away. Incentives for earnings growth and profit targets still predominate. Yet, there seems to be a strong interest in maintaining work-life balance and focusing on things that matter. Executives want to oversee organizations that have a sense of purpose, workplaces that cohere around a vision of quality and professionalism. Contract employees are similarly gravitating to work that is at once fulfilling, flexible and well-paid.

It is in this context that tech vendors' Professional Service Organizations (PSOs) increasingly find themselves unable to fill consulting roles they need to implement projects on time. Facing brisk demand, especially from their largest enterprise customers, PSOs are struggling with critical staffing needs. Significant problems may arise for a vendor, as the quality and timeliness of their PSO-supported customer projects have a major impact on the broader business. Indeed, substantial amounts of product revenue and client relationships hinge on how well, and how quickly the PSO can perform its duties.

Revenue from products or recurring cloud services can be as much as 10 times greater than the implementation budget (aka consulting revenues) on a given project. (Throughout this paper, references to "product" revenue and sales include recurring cloud service revenue.) Unfortunately, hiring-based delays in service delivery put all that revenue at risk. The present hypergrowth in the cloud solutions market, combined with a chronic shortage of qualified IT consultants, has led to a common scenario where a tech/cloud vendor's PSO can be six or more months behind on staffing for a product implementation.

Consequences of being unable to hire consultants include long-term declines in product revenue growth with the client, reputational damage and more. The situation may resemble the tragic situation immortalized in the old English proverb "For Want of a Nail," where the loss of a horseshoe nail leads to the loss of the entire kingdom.

This paper explores the economics of these delays, looking at causes, consequences and potential solutions. It focuses on the short- and long-term costs that arise out of the IT industry's shortage of qualified consultants. Some of this shortage may actually be self-inflicted by the tech vendors' policies and behavior. However, understanding why this is the case actually opens the door to solving the problem.

FOR WANT OF A NAIL

For want of a nail the shoe was lost.
For want of a shoe the horse was lost.
For want of a horse the rider was lost.
For want of a rider the message was lost.
For want of a message the battle was lost.
For want of a battle the kingdom was lost.
And all for the want of a horseshoe nail.

Old English proverb, published by Benjamin Franklin in "Poor Richard's Almanac"

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THE CURRENT REALITY

A PSO is typically under pressure to deliver for the biggest, most strategic customers. Their job is to implement their company's most advanced, complex solutions. The PSO is on task to turn major clients into success stories. The client itself might be going through a substantial technology change like migrating to the cloud. The PSO, of course, needs to complete projects quickly so the client will recognize the value of their company's products—and hopefully serve as a reference going forward. Just as importantly, the project should pave the way for accelerated adoption, followed by the purchase of additional products and services.

In practical terms, these expectations translate into a mandate for reliable solution delivery. The PSO wants to keep up the pace of work and minimize its backlog of undelivered projects. This means enduring a minimal delay in project starts, followed by a smooth delivery process.

The reality tends to be somewhat different, however. With exploding IT demand driven by large enterprises and government organizations' migration to the cloud, an enterprise IT vendor PSO frequently finds itself coping with a growing pipeline of projects it can't start. To succeed, the PSO has to find the most experienced consultants, people who are expert in their solutions and products in complex enterprise environments. Yet, the PSO cannot find enough of such consultants to fulfill the project backlog. They may deliberately limit the number of consultants they keep on staff. The partner ecosystem may also lack a sufficient roster of qualified consultants. At any given time, in any number of IT categories, PSOs are facing a serious shortage of consultants on the labor market.

Project delay is the primary result of this familiar syndrome. Some PSOs find themselves backed up for a few months, a half a year or more before they can even start working on critical projects for the company's most important customers.

CAUSES OF PROJECT DELAYS

A shortage of consultants is almost always the underlying cause of delays in project execution. Why does this happen? At a basic level, there is simply a paucity of qualified people. For instance, with advanced technologies in defense projects that require security clearances, the talent list can be pretty short. Or, no one is available. However, seldom is that the absolute reality. The shortage of talent may be more of a perception than an absolute reality.

Rather, project delays tend to arise due to market forces. It seems to be impossible to hire the right consultants at the right prices. Ironically, this dilemma is frequently the result of the PSO's own approach. It's a shortage of their own making. This is not to knock the PSO. They've got a business to run on a profitable basis, so they've enacted policies that protect their interests. Unfortunately, this can turn into a "penny wise, but pound foolish" scenario.

Consultants who have over 10 years of experience in an advanced area like enterprise security, along with Fortune 500 credentials and security clearances for federal projects are accustomed to dictating their rates.

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Consider the following familiar situation: The PSO needs external consultants to deliver a project. It puts out a Request for Proposal (RFP) that asks consulting services or staffing vendors to submit consultants, along with their pay rates and bill rates. The RFP requires that the staffing vendor adhere to a set 20% markup. Criteria of this sort tend to originate in the procurement department of the PSO's parent company. The result can be an unproductive tension between the PSO and procurement, where the former feels unfairly constrained in what it can pay for consulting talent.

For instance, the Enterprise Cloud Architect who is paid $200 per hour can only billed at $240 per hour. Looking at these numbers, the tech vendor declines to submit a bid for the work. Perhaps all the prospective vendors for this project say no. No one wants to have their rates and margins dictated to them. It's a more common situation than one might imagine. Delay ensues.

A discussion may then occur that pits the PSO's procurement department against the tech vendor. In any event, the vendor may not even be able to find the right people at the rates being offered. Or, it has the right people, but cannot afford to hire them out at the rates the PSO is offering. Consultants who have over 10 years of experience in an advanced area like enterprise security, along with Fortune 500 credentials and security clearances for federal projects are accustomed to dictating their rates. They have enough work that they can easily and politely turn down projects that are below their pay grades. As a result of these strictures, the PSO does not get the people it needs when they need them.

IMPACTS OF PROJECT DELAYS

A project backlog has many impacts on a technology business and its PSO. A project that hasn't begun is a project that can't be invoiced, so PSO revenue lags behind plan. This translates into a deferring of product revenue, which can be 10X the consulting service revenue. It's a "what's worse?" situation: Is paying more for talent worse than missing out on a great deal of product revenue? In addition, the customer relationship suffers, with buyers potentially getting frustrated that they aren't getting the technology they need for their most important strategic priorities—but also risking the loss of budget they fought for internally. A bad delay is an invitation for the customer to shop their next deal elsewhere.

Other impacts include:
- Disruption of the broader opportunity and customer roadmap
- The risk of the sales team procuring their own services, with no oversight or quality control
- The possibility that the sales team will stop selling the PSO's services
- Loss of the project to another consultancy, which may lead to a permanent loss of the client for the PSO

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Project delays also affect the PSO internally. The PSO doesn't want to be perceived as unreliable, but that is a distinct risk if months go by without activity on a major project. Internal stakeholders in the company may be concerned about the quality of project delivery, which may negatively affect customer relationships going forward. The backlog can simply be exasperating, a chronic problem that breeds tension in the organization.

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THE RISKS OF GOING WITH A THIRD PARTY

When PSOs are struggling with a delayed project start, they may assign the professional services to a third party such as a major tech consultancy or regional systems integrator (SI). This can be a problematic proposition for a number of reasons. It's a loss of PSO revenue, for one thing, but perhaps more serious is the potential erosion of the client relationship.

The big tech consultancies and SIs face the same dearth of qualified IT consultants confronting the vendor PSO. Therefore, they have a tendency to assign less qualified people to an implementation project. It may seem like a subtlety but a young person who has just attended a "bootcamp" for certification on a technology is not as well qualified to implement that product as someone who has done it for years in real world settings. However, that's what the client is likely to get with a third-party consultancy or SI.

Furthermore, the consultancies are running their playbook on the client to maximize their financial returns. On face value there's nothing wrong with that, but their approach may not align with the tech vendor's strategy for the client, which is to minimize product time-to-value – not maximize billable revenue. And, if by chance, the consultancy does field the kind of experienced people needed for the work, they invariably get pulled off the project to work elsewhere within a few months, or even sooner, to support their higher priority clients.

In either of the above scenarios, the results may include sub-optimal deployment of the product, potentially leading to a conflict with the client. As experienced PSO managers know, the quality of professional services delivery must be high in order for the client to feel satisfied with the work product. On a scale of one to five, a major tech PSO must be turning a "5" at all times. The client typically balks at level 3 or 4 work, causing a lapse in trust that's akin to flipping a switch "off" for project acceptance and future work. Research reveals that clients who do not receive the 5-out-of-5 professional service quality go elsewhere 72% of the time on their next purchase cycle.

There can even be serious operational difficulties, post-launch, if the product has not been properly configured. If implementation errors are bad enough, there can be escalations—where senior people from the client, PSO and its parent company get called in to figure out what went wrong and whose fault it is. These are to be avoided at all costs. A faulty implementation, leading to an escalation, can also elicit the accusation that "your product is faulty." It is imperative that the PSO endeavor to minimize escalations.

MODELING THE ECONOMICS OF DELAY

One can model the economic effects of delayed projects. Table 1 depicts a hypothetical un-started project in financial terms. In this scenario, the project requires 2,500 hours of work. The PSO has mandated a blended hourly billing rate of $175. This is the "status quo" rate they use on all projects of this type. Under this rate, the project will bill out at $437,500.

However, as often happens, this rate is not adequate to attract the talent it will take to do the work. The project languishes. To get the right talent, it may take paying 20% more, for a blended hourly rate of $210. (In some cases, the rate that will guarantee a hire could be just 5% more.) At this rate of pay, the PSO can engage with talent capable of delivering the project properly and on time. It will cost more, with the project now grossing $525,000, a different of $87,500 over the status quo rate.

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ECONOMICS OF DELAY — CALCULATOR		
Billable hours estimated for project	2,500	
"Status Quo" Blended hourly billing rate	$175	
Differential in billing rate required to get the right people (%)	20%	
Blended rate that will result in a fast, well-executed delivery	$210	
Total services revenue at status quo blended rate	$437,500	
Total services revenue at realistic, effective blended rate	$525,000	
Delta in services revenue, status quo vs. realistic rate	$87,500	
Product revenue to services revenue ration	10	X
Product revenue at risk (Based on realistic blended rate)	$5,250,000	
Total product and services revenue at risk	$5,775,000	
Delta in services revenue as a percentage of product revenue	2%	

Table 1 — Modeling the economic impact of a project that cannot start because the PSO is unable to find talent willing to work at the status quo blended billing rate.

Should the PSO pay more? There are several compelling arguments for doing so. At a minimum, the PSO will not be able to realize a minimum of $437,500 in revenue for the project if it never starts. Delay puts the product revenue at risk. For example, at a 10X multiple of service revenue at the higher rate, the project could represent as much as $5,250,000 in product revenue. The total product and service revenue at risk is $5,775,000. In other words, delay caused by a desire to save $87,500 could cost the business almost $6 million in revenue—before getting into the intangible but important issues like customer relationships. There's also the time value of money. All for the want of a horseshoe nail...

MITIGATING THE RISK OF PROJECT DELAYS

It is eminently feasible to mitigate the risk of project delay. Indeed, more than one approach can be effective. One simple answer is to become more flexible on pay rates. However, that's not the only way to deal with the problem. Access to talent, not money, is the root cause of project delay. The key to success is to develop—or tap into—recruitment and resource management capabilities that can deliver rapidly scalable pipeline of exceptional talent to support demand.

The right consultants for today's most in-demand PSO projects have 10 or more years of experience in a large enterprise IT setting. They are generally certified the tech vendor's technology, but always proficient in the most relevant enterprise technologies. And, perhaps most importantly, they have customer service in the DNA, so to speak, having successfully worked at multiple enterprise customer engagements. A workable playbook for getting projects to start on time should involve building a reliable, ready-to-go talent pool. When consultants with the right skills can start in days, versus months, the PSO becomes capable of meeting its project commitments.

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PAY THE RIGHT PEOPLE WHAT THEY'RE WORTH

Actual talent shortages notwithstanding, the right people for challenging projects are available. To get them onto projects that need to start promptly, it's essential to pay them what they're worth. This may turn out to be more complicated than it sounds, given constraints imposed by procurement teams and so forth, but it's an effective short-term tactic to get projects going. If the PSO recognizes the essence of the matter and understands what needs to be done to correct the problem, a solution can be forthcoming. It may involve some internal negotiations and adjustments to procedures and contracts, but it is certainly possible to get qualified consultants to work and avoid costly delays.

TRAIN UP CONSULTANTS

If qualified consultants are hard to find, consider starting a program to get people suitably trained for projects that are likely to start in the near future. A training program can be limited in scope, but still have a high impact. For example, offering short courses that get people who have the experience and otherwise qualified, certified for in-demand solution helps build the talent roster. Consider a strategy aimed at training consultants who are just a "click away" from being qualified for your projects that are 3–12 months down the road. At the same time, you can staff projects in the short-term with today's available talent, albeit possibly at a higher rate. That way, when resources are needed for projects further along in the pipeline, they will be credentialled and ready to start.

BUILD A "VIRTUAL PRACTICE"

The combination of training and building a talent community can lead to the formation of a "virtual practice." This is an approach to professional services that involves assembling consultants with skillsets that align with practice areas—even though the consultants don't work for the PSO and may not even be on any projects at the moment. However, if the PSO puts together a pre-hire virtual team with expertise in a certain category, such as Azure-hosted databases, the PSO can deploy the virtual practice almost immediately upon commencing a relevant project.

> **It is eminently feasible to mitigate the risk of project delay. Indeed, more than one approach can be effective.**

Ultimately, the goal may be to develop what's known as a talent community. The trick here is to identify talent before the PSO needs them. This may sound impossible. How would the PSO know what it needs in advance of seeing project requirements? The reality is that it's quite feasible to plan ahead. For example, even if a PSO does not currently have a project to deploy its company's product on Amazon Web Services, there will almost certainly be a project of this type coming soon. Now is the time to start looking for consultants who know how to perform that work.

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ENVISIONING SUCCESS

What will success look like? Having talent available to start projects on time leads to many positive outcomes. These include revenue and earnings, along with satisfied customers and a good reputation both inside and outside the company. As the sales team maintains confidence in the PSO to deliver, that can result in an accelerated product adoption pipeline, which is good for everyone's numbers.

Eliminating the backlog also enables the PSO to maintain control over more projects. There will be less reliance on partners and fewer referrals to big external consultancies. The PSO will be seen as a catalyst for growth and client success—a contributor to the company's revenue and growth goals and a champion of successful customers through reliable solution delivery.

> **Having talent available to start projects on time leads to many positive outcomes. These include satisfied customers and a good reputation both inside and outside the company.**

CONCLUSION

The inability to fill consulting roles that delay the start of a project has immediate and far-reaching economic consequences. The PSO suffers from a loss of revenue and reputational damage. Product revenue, which may be many times the level of the professional services fees, is put at risk. A lack of consulting talent is almost always the core issue driving project delays. Attempts to save relatively small amounts of money on consultants threaten far larger financial consequences—a self-induced shortage.

It is possible for the PSO to mitigate the risk of project delay. It is partly a matter of becoming more flexible on consultant pay rates, willing to pay more for the right talent. Beyond that simple step, the best practices for avoiding project delays include building a community of talent that is readily available to serve on projects. Training also helps, enabling the PSO to develop a pool of available, trained talent that can deploy on projects as needed. Working in these ways, the PSO can reduce project delays and become a force for revenue growth throughout the organization

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ABOUT
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Since 1997, **Entelligence** has proudly provided mission-critical project delivery capacity for uninterrupted growth and long-term market leadership to the industry's largest IT solution providers. Our commitment to close working partnerships and a proven approach for sustainable success are why Entelligence is **Always Ready** to help the world's technology leaders to quickly deliver their most advanced IT solutions to their most important customers.

Our commitment to the value-added, services provider business model means Entelligence doesn't compete with you or your partners within a customer project. We only work on your project as an extension of your professional services organization — and of your brand. Our value-add is ensuring sustainable project success, product adoption and practice growth through our proven programs and dedicated team.

Our portfolio of enterprise professional services solutions ranges from launching PSOs for a new division or practice to providing a long-term pipeline of trained, fully-on-boarded technology specialists who are productive on day one. And all made possible because of Entelligence's 24-year focus on fielding the enterprise experienced technology expertise you need to deliver your most advanced solutions to your most important customers.

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CORPORATE HEADQUARTERS

📍 **2 Greenway Plaza Suite 510 Houston, TX 77046**

📞 **713-355-4450**

✉️ **great2b@entelligence.com**