Services Incentive Plans: Get This Right and You Will Kill It in 2016

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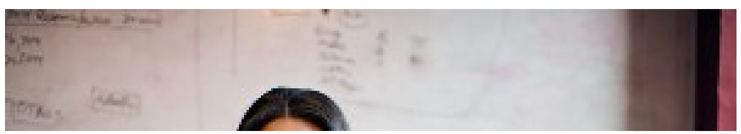
It's Friday at 3 p.m. Your billable employee has just finished a project task. He logs his success. Now he has two hours to pass. He can either start the next project task, or he could just charge the extra two hours to the prior project task. It may seem inconsequential, but these are the decisions multiplied across your organization that impact profitability.

So, what will he do? It depends on his incentive plan.



The right incentive plan encourages the best behavior for your business. If an employee's performance is judged based on utilization alone, he may choose to charge the two hours to the already-completed project task as in the example above. He is hitting his utilization marks but in the process he is negatively impacting revenue, margin, and client satisfaction. It's more profitable to the company, of course, if he begins work on the next project. If this employee's performance is also judged based on revenue, he'll probably start the next project.

So what's the catch?

The issue is the focus of the incentive plan. The right structure can make or break your year. Utilization based incentive plans encourage employees to hit billable hours (time to client work), but you may lose out on realized revenue (as in the example above, where the employee hits his marks and discontinues work that will generate additional revenue for the company). Revenue-only incentive plans, on the other hand, could leave you with under-utilized resources. Or it could leave you with expensive resources working on the wrong projects.

So, after years of trying both utilization and revenue driven plans, I finally found the ideal balance. And we implemented the plan that works.

Getting The Balance Right: Set Utilization and Revenue Goals

In professional services, there is one metric that matters above all, and that is margin. We want profitable projects, and to maximize revenue generation. To encourage the right behavior for our bottom line, we rolled out an incentive plan that measured both

25 years of experience in the professional services industry. Currently responsible for leading the services team and strategy to deliver Mavenlink products and services, enabling customers to become higher-performing businesses. I began my career with Accenture focused on helping clients re-engineer their project and financial based business processes while driving implementations of Oracle and SAP. Prior to Mavenlink I

both.

The difficulty was explaining the change and how we would measure performance. At our annual services kickoff meeting, we explained that employees would have both revenue and utilization targets. We were amazed at the strategy's success.

We saw good signs instantly.

Billable employees started proactively sending out emails stating the number of extra hours they had to lend to other projects that week. We included a measure that let employees give hours to teams that weren't theirs, even globally. So Billable Bill in Utah could give five hours to our team in London. Bill would hit his utilization goals, London's team would hit its revenue goals, and the whole company would see benefits.

The results were profound. In just that year, our revenue went up by fifteen percent and our utilization rates by five percent.

The results depend on where you're coming from, of course. With that in mind, I calculate that if you run a services team of 100 people and realize a bill rate at an average of $200 per hour, you can increase revenue by $1M -- just by getting one more billable hour out of every employee per week. Keep in mind that no one has to stay at the office longer. Billable Bill goes home on time; he just worked an extra billable (i.e., revenue-generating) hour while he was there, and the company saw massive gains.

And it's all thanks to the incentive plan choice.

Managing Margins and Introducing MBOs at the Managerial Level

Makes sense, right? Margins are the metric for those at the managerial level and

took my strong focus on business process to 170 Systems (acquired by Kofax, Inc.) where I built their Customer Success and Strategic Partner organizations. I went on to drive the strategy for and run Kofax's global Professional Services and Educational Services teams, followed by ACI's Worldwide's global Professional Services organization. I hold a B.A. in Business Economics and a B.A. in Organizational Behavior and Management from Brown University.

above. This is in addition to revenue generation and utilization goals for both them and their teams. Managers need to be cognizant of costs -- in other words, the “how” in how they are delivering services. This introduces some questions. Do they have the right mix of expertise? Are they leveraging subcontractors to help scale up or down based on demand? Is there an offshore component to the delivery process and capacity?

By using margins as part of the manager’s incentive plan, you ensure your leaders are thinking about these questions, so they will implement the right programs to optimize your delivery capabilities in the most cost effective and efficient way.

In our incentive plan, we also included a management by objective (MBO) plan for our managers. In our case, this meant building things we needed for the services business to continue to thrive. For instance, we required services packages to help sell and ensure client success with our solution. So we made this an MBO, and we saw a revenue boost as a result of the services offerings.

Typically, one significant MBO goal per quarter will help you drive the progress you need in order to continue to up level your organization and team.

Things to Keep in Mind about Your Incentive Plan

It’s important to set realistic goals. In fact, before we landed on this joint-incentive-plan model, we kept telling ourselves that no plan would be perfect. However, we knew that if we motivated our employees with attainable goals, they would actually exceed our business objectives. As a result, we would see continuous improvements.

We also understood the importance of a feedback loop. This lets your billable resources and managers know how close they are to hitting their marks. This could be a dashboard, an automated email with targeted and actual performance metrics, or direct managerial feedback (e.g., a monthly services “all hands” meeting).

In fact, I would recommend using all three methods. The important thing is that billable resources have direct, regular access to their performance. They need a clear, easily understood plan as well, so they feel motivated to improve their performance before they find out it’s too late during a quarterly or semi-annual review.

Coming Full Circle: Additional Gains

In the years we initiated this incentive plan, we exceeded our margin goals. This gave us the flexibility to implement additional programs and gains. When you’re trying to hit that margin, you’ve got constant pressure. When you’re exceeding your margin, you’ve got constant opportunity.

We were able to take a portion of our additional profit and reinvest in our employees. If we targeted 20 percent net margins and hit 25-30 percent, we could leverage a portion of the extra to reinvest in employee training and the right tools and technologies to help our team deliver effectively and efficiently.

What that does is feed the constant performance improvement, employee retention, and client satisfaction and loyalty.

That’s the value of a joint incentive plan, as we learned through implementing one.

organization multiple times."

Nash (Nenad) Simeunovic

VP, Services at Merit Solutions

What kind of incentive plan do you use and why? Let me know in the comments section.

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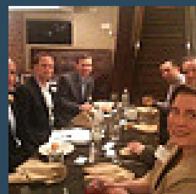
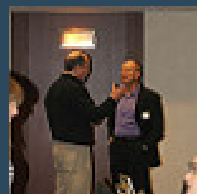
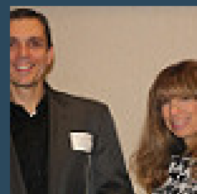
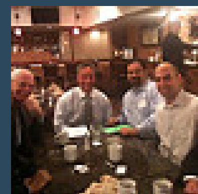
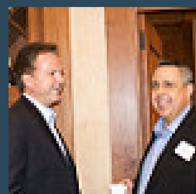
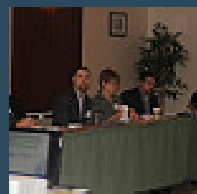
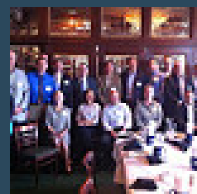
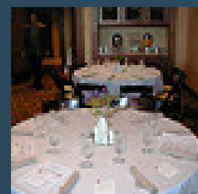


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