

Employee Productivity of NAV Partners

Why is it as it is? How can we measure and improve it?

Dr. Josef G. Boeck

Member of the Board

Let me start with a few questions

- Who of you is doing „traditional“ NAV business – projects, software changes, consulting, support, migrations?
- Who makes a strict distinction between consulting and development („a consultant does not develop“)?
- Who is doing cloud business only – no more on premise equipment for NAV etc, subscription, managed services, centralized upgrades?
- Who is offering „managed services“ – flat fees for clearly defined work that is basically on a pricelist?
- Is here anybody who has a solution to participate in the value creation for a customer – getting part of the money a customer saves through your solution?
- Who has increased the productivity = billed amount for long-time experts in 2015 by at least 10 %?

These are the questions I will answer in my presentation ...

- What are the high level KPIs for employee productivity of NAV partners I know?
- What factors influence the productivity of our organisations and employees?
- What is the productivity price we pay for our business models?
- Is time the only reference for billing our services?
- How can we increase our productivity over the next years?

Why did I choose "Productivity of NAV Partners" as a topic?

- David H. Autor, Robert J. Gordon, Edmund S. Phelps (Nobel Price Winner), Jack E. Triplett state no productivity growth over the last 40 to 50 years
- Some of them follow Erik Brynjolfsson and state a productivity paradox (companies are spending a lot of money on IT but are not getting more productive)
- Productivity growth is one of the value propositions we make as NAV partners
- What about us and our productivity? How did it develop? Where is it going?

Before I go to the statistics ...

- I use German figures as reference points (Euro, 40 hours work week, 1600 hours per year)
- Salary of a developer 50 T Euro, consultant 65 T, sales person 75 T
- Fee for a PD developer 900 Euro, PD consultant 1.200 Euro
- In my model, there is no overlap of consulting and development in one person

So: transfer these values to your local levels – often I work with % and PD (person day) so that absolute values do not matter that much

Let's suppose two things:

- You have enough to do, nevertheless your profits do not satisfy you
- You have enough to do, results are o.k., but you wonder how you can scale up productivity

Productivity KPIs (1)

- Enterprise Level – year 2015
 - Turnover per person 100 to 150 T Euro for NAV VAR
 - SaaS Companies like Salesforce 165 T to 185 T
 - Amazon 590 T
 - Microsoft 680 T
 - IT Distribution, Facebook, Google, Apple 1.000 T Euro and above
 - EBIT of NAV partners between 2 % and 18 %, average 8,5 %
 - Non-billing employees per enterprise 30 - 50 % (depending on precise business model)

Productivity PKIs (2)

- Project level
 - 85 to 95 % of total work can be charged in the end if you do serious time recording
(you may have good projects and now and then a bad one, internal communication the customer will not pay, more than one person in an internal meeting, only one can be billed, problems with NAV, problems with infrastructure, problems with ISV solution, problems with customer refusing to pay for a specific service, too optimistic estimates for specific tasks, project management)
- Time sheet accuracy and completeness
 - 85 % consultants
 - 95 % developers
 - 90 % support consultants

Productivity KPIs (3)

- Personal Level
 - % of work time invoiced: 60 to 75 % of time
 - Number of PD invoiced per year: 120 to 145
 - Personal combination of billable hours:
 - work against fixed fees like support
 - free of charge (warranty) etc.
 - (consultant 90 % billable hours of their total work time, 10 % may come from flat fees like support or travel)
supporter 25 % billable hours, 75 % from support contracts or other flat fees around this)
 - Sales: minimum project size (50 T Euro), turnover per salesperson, e.g. 800 T to 1.200 T Euro / year (70 % from new customers) – 16 projects – 50 to 60 serious leads when closing 25 %)

How do we measure the KPIs?

KPI	Media
Turnover / Employees	Pocket Calculator
Project statistics	<p>Amounts invoiced on project</p> <p>Time sheet with different billing types</p> <ul style="list-style-type: none"> - Directly billed for employee - Billed through flat fees for tasks employees have executed - Time not billed due to warrenty - Time not billed because regarded as sales connected - Time not billed due to unclear contract situation
Personal statistics	<p>Amounts invoiced by employee</p> <p>Rest of KPIs see above</p> <p>(Resource capacity in the background)</p>
Note: Flat fees are a logical challenge for a timesheet	

What does that tell me?

- If you are somewhere near these productivity figures in a typical NAV partner environment, you are doing as well as others
 - Every % of productivity gain shows in your EBIT
 - There is no silver bullet to improve your productivity - it is a mixture of a lot of influencers - it is a constant entrepreneurial challenge
 - We have our way of doing business in our genes - dramatic improvements are not to be expected if we are in the business for more than five years and reach the figures mentioned above
- Dramatic improvements in productivity would need migrating to another business and revenue model – see Salesforce or Microsoft

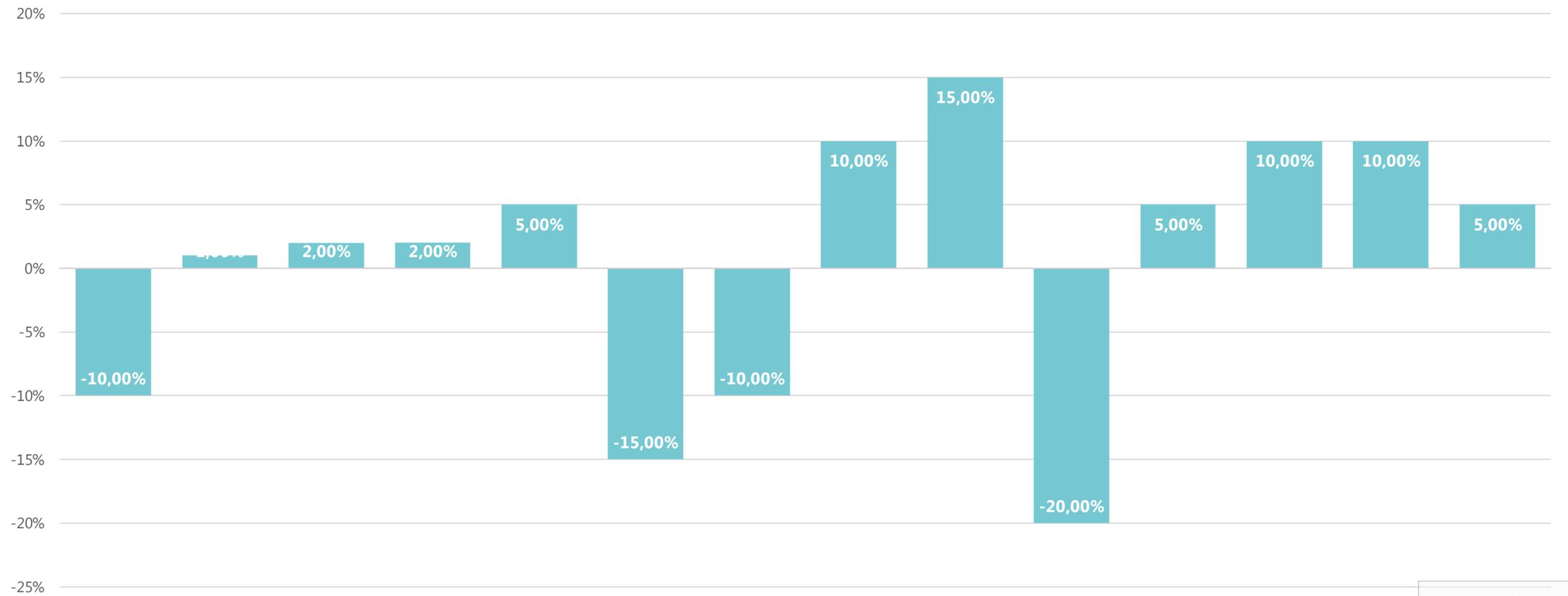
What is my understanding of a service?

- Service =
 - Know-how * Time * Personal Effort & Style
- Managed Service
 - Know-how + Standard ToDo List (SLA) + Standard Time / Fee
- Process Automation
 - Software as a Service = Delivery model of Software (and other digital resources) and Billing Type
 - „Service“ as done by a machine – standardized / repeatable / independent from human interaction / routine / data manipulation performed by a machine

Productivity and our internal tools

- I take it we are all using the tools we sell ...
 - NAV as our business back bone
 - Office for business communication
 - CRM to organize our sales (and maybe service) efforts
 - A lot of little gadgets like tablets, smartphones, etc. – timesheet as an overall important app – where ever you put it
- So my assumption is: **it is not technology** that will boost our productivity as a NAV partner, although there are constantly adjustments to be made ...

The price of our business model ...

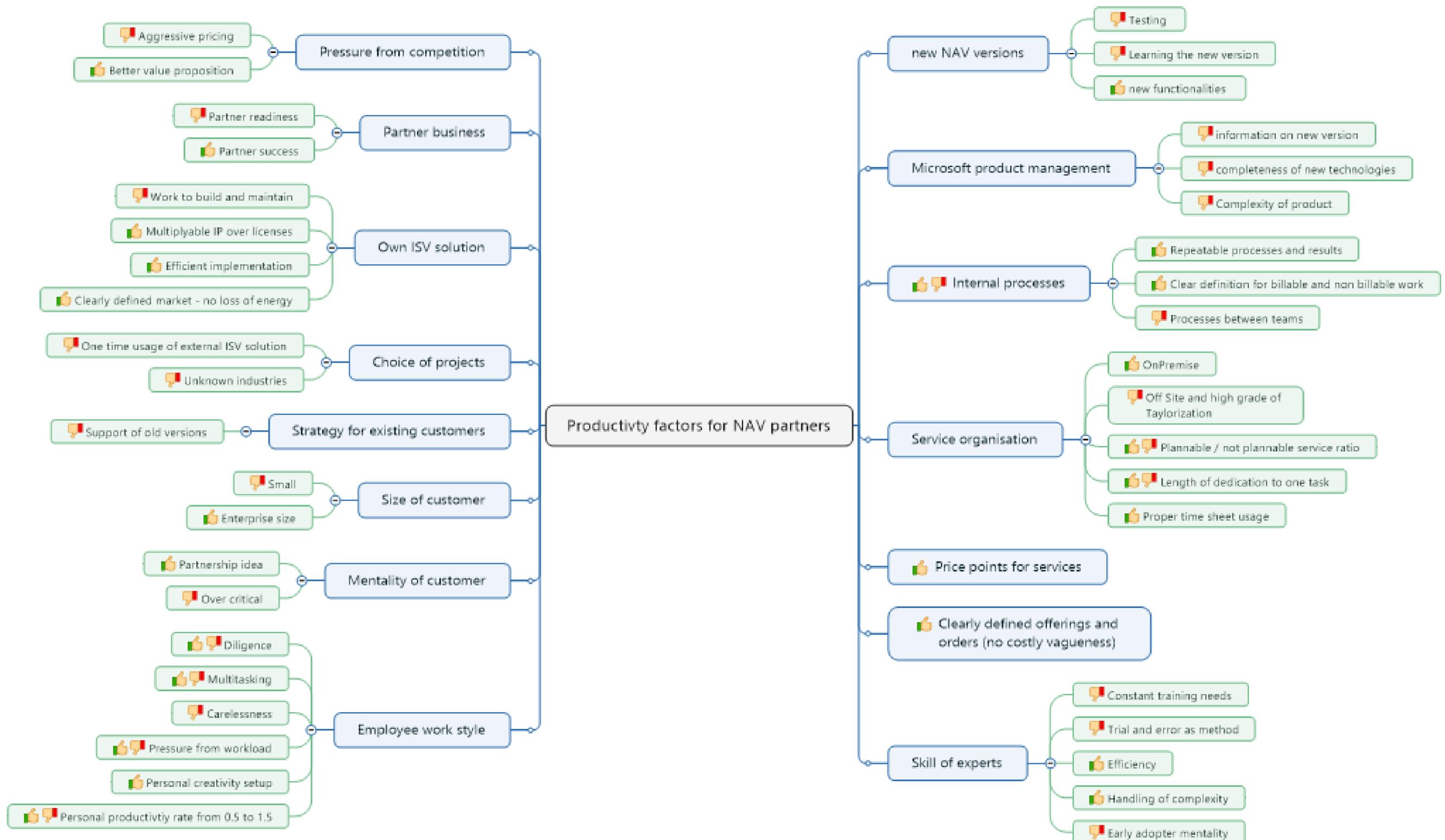


Wechseln zu

New Version of NAV	Proper time sheet	Clear quotes and contracts	Standard processes	Well trained experts	One Time Projects	External ISV solution	Own ISV solution implementation	Defined vertical market	Own ISV solution development	Partner business	Onsite /offsite services / stretches of time	Size of customer	Denying unpaid services
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For your own further work on this

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Does the business model influence productivity?

- Yes, it does
 - Typical NAV Partner
 - Mixture of product and service
 - Success depends on experts and their billing
 - Big migrations cost a lot of resources and prevent us from new business
 - ISV
 - Multiplication of their IP through licenses (license price or monthly billing)
 - Multiplication through partner model
 - Managed Service Partners
 - High degree of standardization
 - Mixture of process of automation and human resources
 - Any other mixed form
 - Mixture of all these effects

Is there a difference between roles?

Yes, there is ...

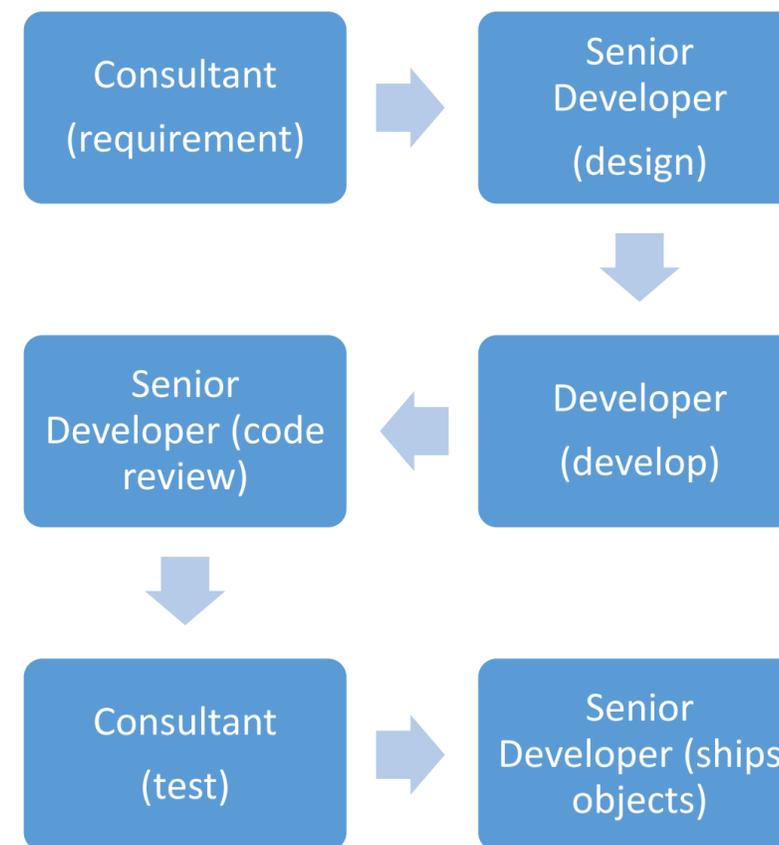
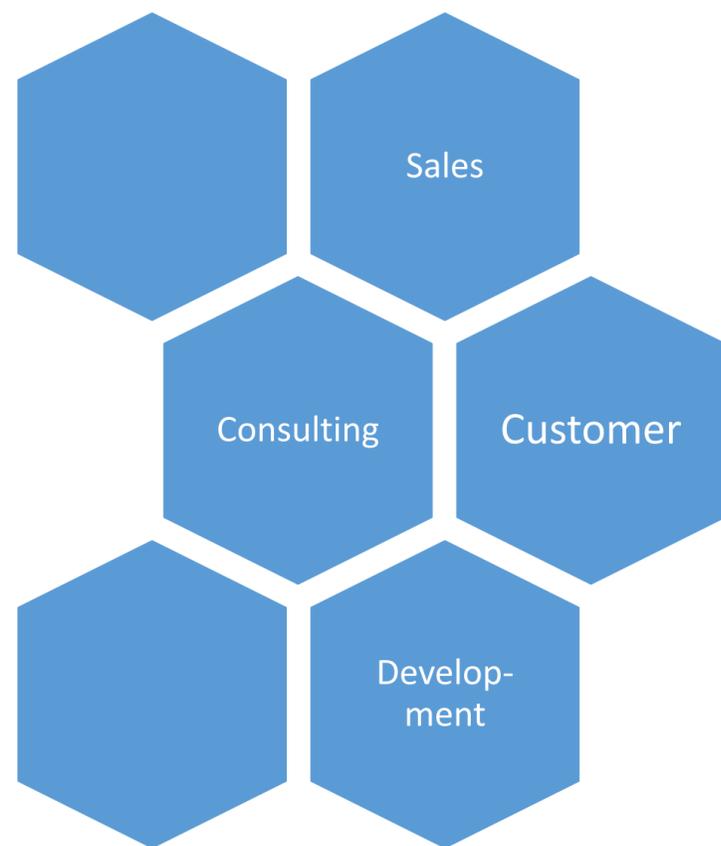
- Sales – new customers/existing customers – product / solution sales
- Consulting – vertical market – tool support for system setup
- Development –team work or lone fighter - training
- Support – quality of product – transparency of contracts
- Back Office – Tools and process breaks

And the productivity changes with the entrepreneurial situation

- Saving a project as a new external resource leads to other productivity than saving one's own project
- A lot of competition leads to other productivity than a „blue ocean strategy“
- Type of competition will change the productivity (OnPremise vs. Cloud solutions and their billing type)

How do your processes influence overall productivity?

- Is your project organisation like this? Is your change request process like this?

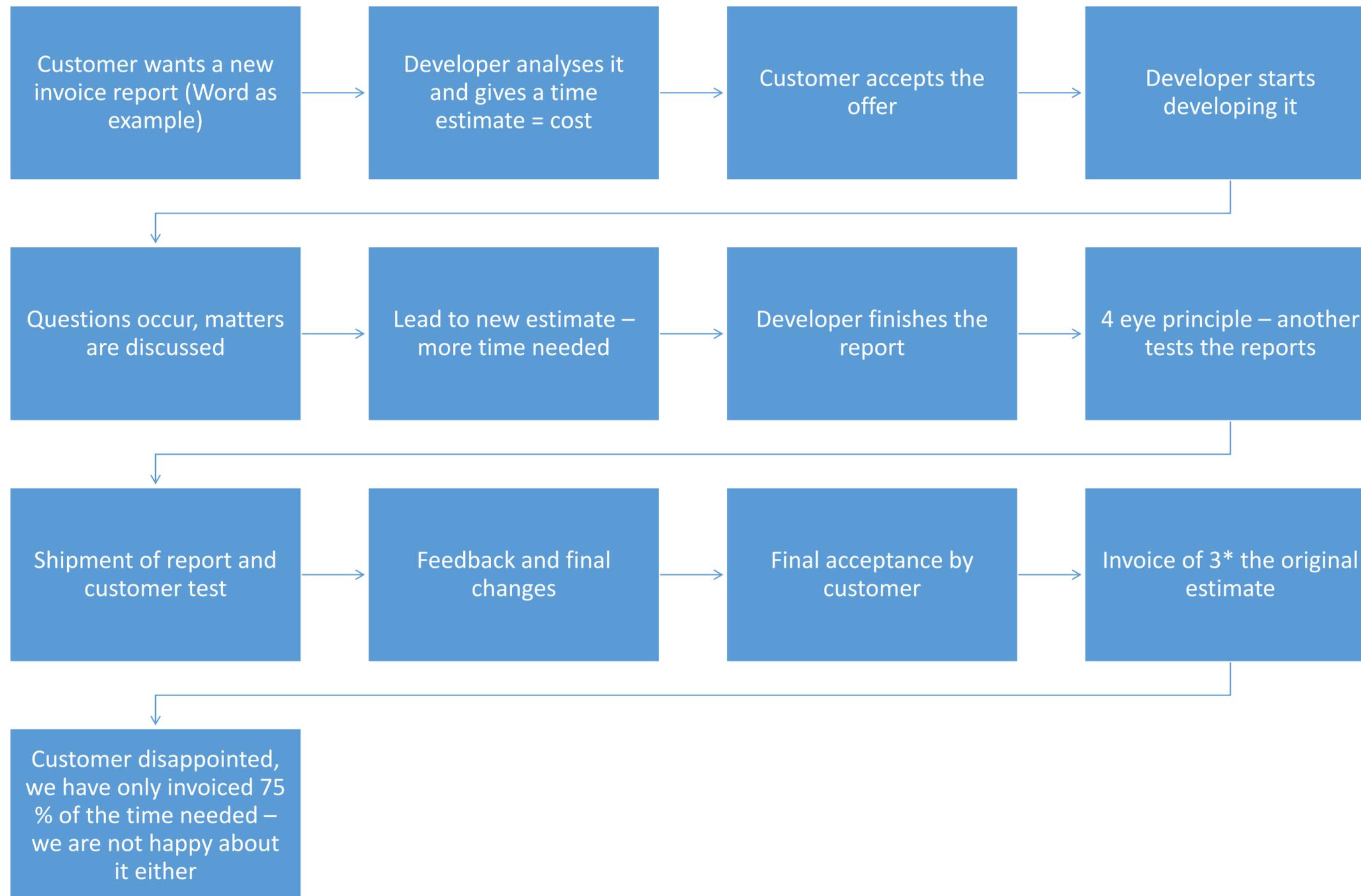


- Then you have hand-over meetings, documentation needs, cross-team planning, feedback-loops

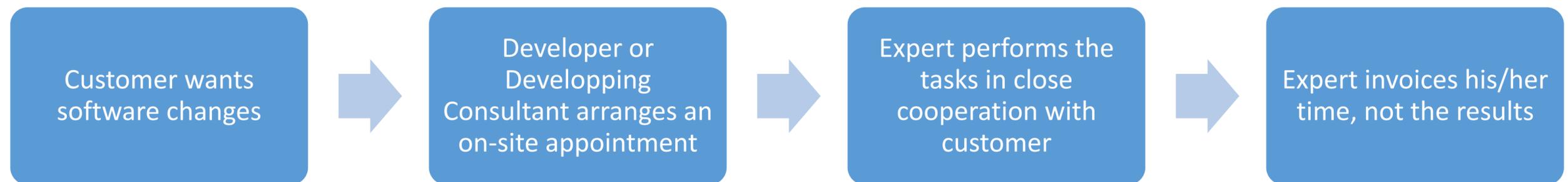
Productivity and billing time (hours, person days)

- This is our current „service“ model (know-how*time*personal effort)
 - I guess 80 % of our work is billed in Hs or PDs in the average NAV business model
 - Issue 1: We can improve the rate or increase prices, but it is not scalable
 - Issue 2: If our hourly fee gets under pressure, our productivity sinks; it is a purchase price/own cost plus margin calculation
 - Issue 3: we charge hours but deliver results in the form of NAV objects, problems solved or advice given (time in not the value here)
 - Issue 4: the better our experts are, the less time they need for even complex results, the less money we get (if we have enough work to do and are interested to be efficient and transparent)
- The calculation is:
 - **Cost per h** (49,16 / Consultant, 37,80 / Developer) + **Margin** (100 %) = 100 Euro / Consultant; 80 Euro / Developer

Let me give you an example



What is another approach to this?



Why does this increase productivity in comparison with other models?

- Customer sees developer working – no doubt about presence, dedication to his tasks
- Customer input is direct and visible and not a ping-pong through emails
- Genius of solution, quality assurance – they are no issues
- Complete time can be invoiced
- **Generally speaking: the longer one person can stick with one task, the higher is the productivity of that person**
- **Are you already planning according to this insight?**

And the cloud ...

- as a delivery model?
 - Will not necessarily change your approach
 - It will create less uncertainties as to the platform and infrastructure once you master it
- as a billing type?
 - Enormously – your cash flow will be different
 - Our KPIs (as to the enterprise level) will change
- as an opportunity to pool customers on one or more tenants / implementation?
 - Enormously – we will see that in the next sections

Other billing models for time

- Retainers per month for standard support or development work (just another method of paying over time)
- Contingencies for special prices (discounts for paying up front)
- Fixed caps on tasks and projects or decreasing fees according to increasing budgets
- Agile projects and sprints – increase productivity of customer, our billing periods and often the risk of both partners

The question is – can we break up the direct dependence of billing and time?

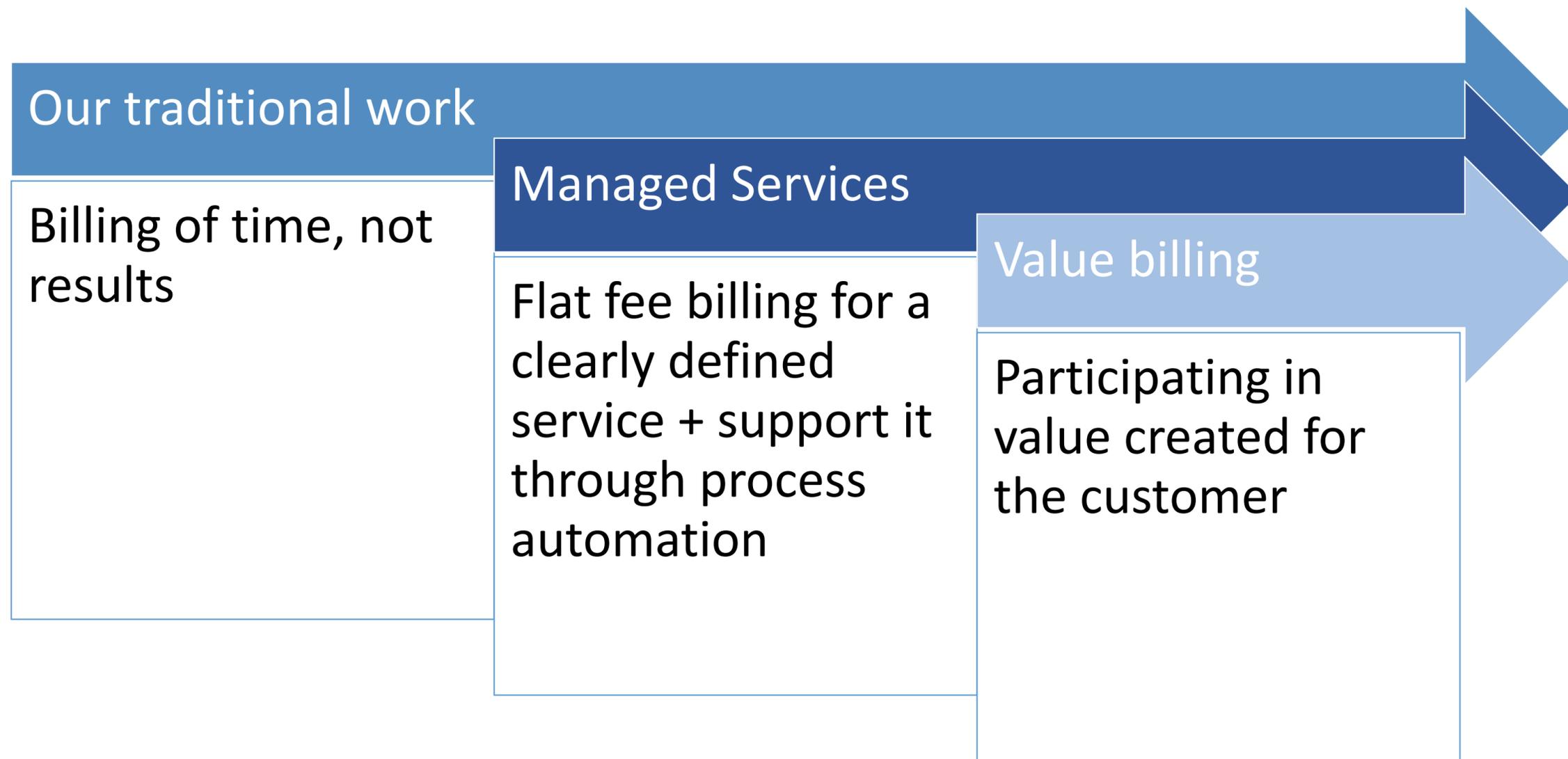
Sizing projects according to budgets

- The idea is here an agile implementation that moves along limited budgets
 - The calculation is now
 - NAV is logically divided in modules (CRM, Sales, Purchase, Finance, Contracts, etc.) with estimates what it costs to implement them one after the other in a standard way and a definition of what will be the result after the implementation
 - NAV partner defines a fixed price for these modules
 - Customer accepts the budget per Module and knows fairly well what he will get with that and what his contribution will have to be
 - **NAV partner prepares routines / workshop preparation / documentation for the modules in order to standardize process and leads customer through process**
- There is no need for a budget for a complete implementation but partners can start with smaller packages
- The productivity gain comes from **predefined routines** (data migration, workflow setups, master data setups) that can be charged at a fixed price within the modules / sprints

And the cloud ?

- I do not see why and how this approach should dramatically be influenced by the delivery model of the solution
- It is rather a way of „design thinking“ than technology

How do we get out of this time trap?



Productivity and billing of results

- The idea here is that you give a fixed price for highly standardized services = Managed Service
 - The calculation is now
 - What is the time and my costs to execute a service if I do it the first time or always individually?
 - What would be my time if I standardize / support it by automation tools?
 - How much would that service cost the customer if he did it himself?
 - Now I can define a fixed price for the service including an exact description of what it contains
 - The more I sell this service the more I try to optimize the time, the resources and the tools used to execute this service
 - Fits into Software as a Service / Managed Service framework and will go to Managed CRM/ERP/DMS, ...

Many of us do it already

In our approaches to support

- Flat fee for support (% of the license value, fix amount per person with access to support per month, fee for support calls)
- -> the services relative to license value will have to be changed if we have subscription models

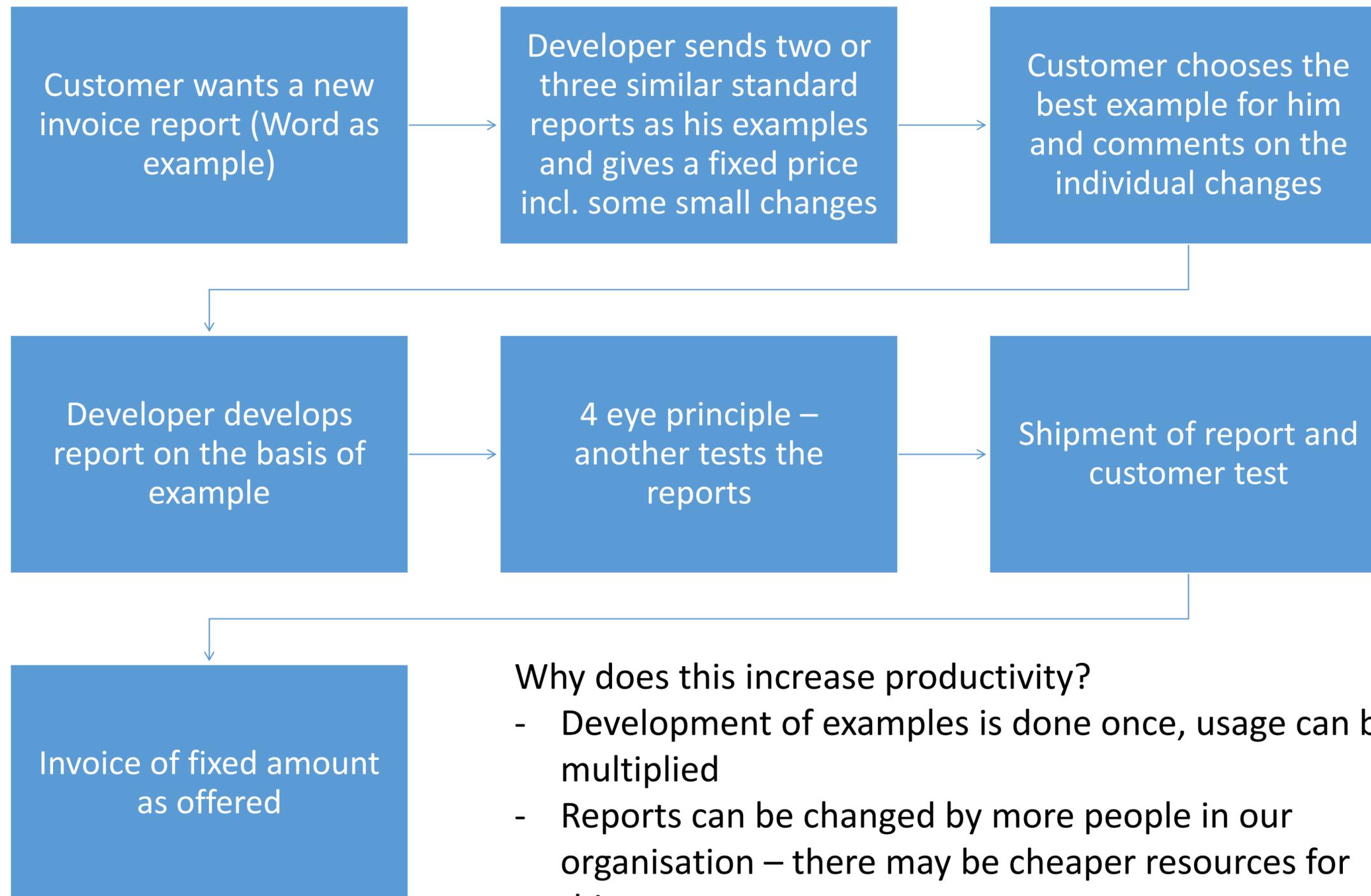
In our approaches to software changes

- We give an estimate of the time/cost of a software change and then cap it / regard it as a fixed price

In our approaches to projects

- In some countries and verticals it is wide spread to have a fixed price for a whole project

Let me give you an example for this



Why does this increase productivity?

- Development of examples is done once, usage can be multiplied
- Reports can be changed by more people in our organisation – there may be cheaper resources for this

How do we measure productivity now?

- Timesheet has to be with a reference to flat fee of a service or work package
- Maybe more than one person is working for this flat fee – the fee has then to be split in order to measure individual productivity
- Where does the development of a new service (in our case the five layouts for a report) go? Where does the time go that people need for supporting a service through process automation tools?
- If the service is well calculated and well supported by tools – where do the productivity gains show? Who do they belong to as revenues?
- The consequence for us coming from a time based productivity measurement:
 - We may have to change our productivity KPIs for our employees
 - We have to check if employee contracts have to be changed if part of their income is dependent on productivity

And the cloud ...

- as an opportunity to pool customers and services on one tenant
 - Gives enormous potential to bill according to results
 - setting up a new company
 - creating and maintaining users and their rights
 - adding new resources in a company
 - Do regular backups
 - Implement new objects into the database
 - Keep test environment up to date
 - etc.
 - The more standardized your services the more we can create process tools for them – the more scalable they are – the higher your productivity

Productivity and billing of value

- The idea is here that we not only charge time or a fixed price for the outcome of a service but get a share of the value we create
- The calculation is here:
 - if your customer does have a 50 T Euro fixed cost block a year – and you make a suggestion for him to save a considerable share of this – and you get a part of these savings
 - The profit sharing contributes to your revenues and thus increases the productivity of your organisation

Let me give you an example

- A Service Organisation for Press Clippings uses NAV and sends out invoices for its subscribers quarterly
- Partner creates PDFs for mass invoicing out of NAV - sends them in a digitized form to the recipients - handles to reception notes etc. - saves a lot of surface mail fees - gets 50 % of the savings the first year, 20 % the second, 10 % from then on

The challenge from this idea ...

- Time is a measurement that is clear to everybody
- The ticking off of contents of a list of managed services may also be clear to a lot of people
- This type of thinking has been tried in the past – some failed, some succeeded, the ideas still have to be developed in the CRM/ERP environment plus the customers have to like that sort of approach
- this approach can nevertheless be a win-win approach

How would we attribute this to productivity KPIs?

- After having agreed with the customer we write an extra invoice – then the amount is in our revenue
- We could open a new revenue type for this and call it „productivity refunds“ internally – a source of revenue we as an enterprise would be particularly proud of
- If the value gain goes to one developer or consultant – it is also easy – we attribute it to the person who is responsible for it
- In all other cases we have to decide on a key for revenue splits on different levels
- Otherwise people will not be motivated to look for opportunities like that

I found this in Dunn's *The firm of the future* (2003, p. 267)

Customer loyalty drives profitability and growth

Customer delight drives customer loyalty

Value drives customer delight

Productivity drives value

Commitment and systems drive **productivity**

Team happiness drives commitment

Internal quality drives team happiness

Good reads

- Dunn, P., Baker R 2003 *The Firm of the Future*. Hoboken, NJ: Wiley.
- Gordon, Robert J. 2010. "Revisiting US Productivity Growth over the Past Century with a View of the Future." *NBER Working Paper Series*
- Phelps, Edmund S. 2015 "What is Wrong with the West's Economies?" *New York Review of Books*

And now ...

- Comments / questions ?
- I will be around for individual conversations
- My contact adress is

boeck@singhammer.com