



**SAP Thought Leadership  
SAP for Professional Services**



**USING TALENT SUPPLY  
CHAIN MANAGEMENT  
TO OVERCOME  
CHALLENGES IN THE  
PROFESSIONAL  
SERVICES MARKET**

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## EXECUTIVE SUMMARY

Most organizations are familiar with the discipline of supply chain management (SCM): the process of planning, implementing, and controlling the operations of the supply chain to satisfy customer requirements as efficiently as possible. The specifics of supply chain management – managing the movement, use, and storage of all raw materials, work in progress, and finished goods from origin to consumption – are well understood in the manufacturing industry. In fact, manufacturing companies have invested millions of dollars in software to optimize their supply chain processes. Within the professional services industry, the concept of a fully integrated and optimized supply chain management process is not commonly applied.

But market trends and related challenges are driving the need for professional services providers to apply a similar supply chain concept in their organizations: talent supply chain management. We will define the key processes within talent supply chain management and illustrate how small improvements to those processes can significantly affect the overall performance of an organization.

## TALENT SUPPLY CHAIN MANAGEMENT OVERVIEW

First, let's clearly define talent supply chain management. Building on the concept of a manufacturing supply chain, we define talent supply chain management for professional services providers as follows:

Talent supply chain management is the complete and integrated process required to hire, retain, and assign professional services professionals to successfully win business and execute client engagements as efficiently as possible.

Like a well-designed manufacturing supply chain, a comprehensive approach to managing the talent supply chain can reduce costs, add product value, extend resources, accelerate time to market, and solidify client loyalty. With an integrated talent supply chain management environment you can expect to:

- Enhance revenues by improving delivery performance and speeding client response
- Improve talent productivity at lower costs
- Fine-tune the precision of forecasts and shorten planning cycles
- Leverage suppliers for greater service and better pricing
- Improve service quality and produce more technologically advanced service lines for better client value
- Enhance internal communications, collaboration, and processes for greater employee satisfaction
- Produce more reliable financial information

To achieve these benefits, professional services providers must reorient their thinking about internal processes and begin to treat the talent supply chain as a competitive advantage. Instead of focusing on discrete tasks, such as hiring talent and staffing projects, think about leveraging a holistic, integrated talent supply chain that gives you the ability to identify, recruit, retain, and optimize effectively the talent needed to satisfy your clients.

## MARKET TRENDS

Market conditions are driving the need for professional services organizations to foster an integrated talent supply chain. After a sharp period of decline, professional services providers (including consulting, IT, tax, and audit companies) have recently enjoyed a modest rebound in revenues. Table 1 documents the slight revenue growth realized by 11 of the services providers tracked in the Technology Professional Services Association (TPSA) index of technology services providers. Because more companies are using professional services and deep discounting has declined, professional services companies can once again focus on recruiting and retaining staff rather than on simply surviving.

Company	Total Services Revenues Q4 2006 (in millions \$)	Total Service Revenues Q4 2005 (in millions \$)	Service Revenue Growth (in %)
Accenture	4,389	4,309	2
Affiliated Computer Services	1,314	1,311	0
BearingPoint	841	841	0
Computer Sciences Corporation	3,556	3,573	0
Convergys	703	645	9
DST Systems	524	601	-13
EDS	5,292	4,874	9
Fiserv	1,157	1,011	14
Keane	232	240	-3
MPS Group	483	427	13
Sapient	91	85	7
		<b>Average</b>	<b>3</b>

Table 1: Revenue Growth for IT Services Providers

Despite the slight uptick in top-line revenues, bottom-line profitability remains under fire in many pure services companies. Table 2 illustrates the increasing pressure on bottom-line profitability experienced by the same industry leaders from the TPSA index.

Company	Net Income Q4 2006 (in %)	Net Income Q4 2005 (in %)	Net Income Change (in %)
Accenture	8	5	3
Affiliated Computer Services	6	7	-1
BearingPoint	1	1	0
Computer Sciences Corporation	-2	3	-4
Convergys	6	7	-1
DST Systems	10	26	-15
EDS	2	0	2
Fiserv	10	11	-2
Keane	3	4	0
MPS Group	4	4	0
Sapient	-1	7	-8
		<b>Average</b>	<b>-2</b>

Table 2: Profitability for IT Services Providers

Professional services providers clearly must improve operations to improve these bottom-line results. But they must do so in a context of three complicating market trends: globalization, the focus on individuals over the brand, and client sophistication.

### Globalization

Global clients require global support. They want consultants who are fully versed in local cultural, language, and compliance issues. For example, as companies expand into central and eastern Europe, they want access to local knowledge about emerging regulatory landscapes and business practices. As a result, even the largest professional services companies must hire and staff homegrown talent to provide localized advice and to sell services locally. Globalization does not just affect the largest professional services providers. To compete, even small and midsize organizations must extend their global reach, either through organic growth, acquisition, or flexible partnership models.

More recently, professional services providers are being asked to leverage global resources to reduce project team costs. Offshore providers are pricing services aggressively, winning engagements that historically were only awarded to providers with a local presence. Faced with this new offshore competition, global services providers must aggressively improve their ability to manage and deploy talent on a worldwide basis. What was once the challenge of outsourcers has become the challenge of professional services providers: how to leverage the least expensive talent. To achieve this objective, providers need to efficiently hire and administer resources based in lower-cost countries. Providers are also using partner networks that can provide commoditized skills at lower price points. To implement these tactics, professional services providers require a seamless global delivery model that includes real-time visibility into both internal and partnered resources throughout the world.

### **Focus on the Individual over the Brand**

In addition to the impact of globalization on the professional services industry, providers are increasingly making hiring decisions based on the individual talent they employ rather than by company or by brand. This is especially true for IT services. Even the largest global professional services providers, which spend hundreds of millions annually on broad-based branding and advertising, must compete on very individualized and specific terms against much smaller competitors. When the brand equity of a large company does not compensate for the lack of specialized knowledge, the large company must work to secure that expertise by hiring talent or partnering with a company that already has that specialized talent. To establish credibility with a potential client, you must be able to match individual skill sets to specific client needs so you can get the right consultants in front of the client as early on in the selling process as possible. This requires real-time visibility across demand management, resource management, and supplier management activities. In short, you must understand what skills your clients want for a particular project and where those skills are available – either internally or through a partner.

### **Client Sophistication**

Finally, increasingly sophisticated clients affect the professional services market in two ways. First, as prime consulting talent opts to work in industry this depletes the available talent pool for services companies like yours. And second, with more ex-consultants on the client side, clients are increasingly discerning, routinely expecting you to offer highly seasoned consultants and provide greater visibility into engagement pricing and structure.

As your clients demand deeper skill sets, consultants with industry expertise and experience are replacing legions of freshly minted MBAs. This shift toward attracting and retaining more experienced talent requires you to change your organizational structures and to adjust the profile of and strategy for hiring consultants.

More sophisticated clients also expect greater transparency on engagement pricing and management, often demanding price and scope concessions. Fixed-price services are more common, raising project and delivery risk. Clients are focused on establishing measurable ROI for every service, so careful analysis of skill levels and pricing packages is required to ensure that you continue to meet the needs of your clients while maintaining a healthy profit margin on every service offering.

## IMPACT OF MARKET CHANGES

These market shifts – globalization, increased focus placed on the individual rather than on the brand, and greater client scrutiny – drive the following realities for professional services providers:

- Clients are becoming more sophisticated and demanding.
- Increasingly, consultants must have specialized skills to meet these client requirements.
- Partners are becoming more important than ever as sources of unique expertise and lower cost talent.

To address these realities and compete effectively in this market environment, you need to look at the entire talent supply chain to ensure your organization is acquiring the right talent, retaining that talent, and augmenting that talent with the right partner resources. Talent supply chain management requires that you successfully integrate and manage five key business processes: talent management, resource management, demand management, supplier management, and offering development.

### **Talent Management**

Talent management is the discipline of selecting, recruiting, developing, and retaining staff. Because talent is the most important differentiator for professional services providers, you must be clear on exactly who you want to attract and retain within your organization. Hiring and retaining top talent is a critical success factor for any professional services provider.

### **Resource Management**

Most companies recognize the importance of effectively managing resources. By integrating the process used to assign resources with both talent and demand management, your organization can maintain the highest resource utilization levels. Typically, you can generate and manage information on opportunities and resources in two different parts of your organization. To streamline capacity planning, integrate information silos in a way that is

meaningful and productive so that it becomes easier to balance supply and demand. With this integrated view into data, you can determine whether you have the right resources – based on skill set, knowledge, and experience – to match your clients' expectations. If a gap develops between skills in demand and skills in the resource pool, you can proactively hire, partner with another provider, or cross-train current employees to fill the need and close the gap.

### **Demand Management**

To manage the talent supply chain effectively, you also need to create visibility into the sales pipeline so that you can evaluate the pipeline, resources, and current projects and compare this data with the availability of your total talent pool. Growing competition from offshore, manufacturers, and niche companies complicates the analysis. To sell more services to both new and existing clients, you need a complete picture of committed projects and resources – a transparent view into the project pipeline, project schedules, future skill needs, and talent utilization.

In addition, your organization needs to become more adept at adapting and driving a service mix that builds on the demand for the most profitable service offerings.

### **Supplier Management**

Increasingly, professional services providers use subcontractors and cost-effective offshore resources to assist in the delivery of engagements. TPSA reports that a majority of IT services companies benchmarked use subcontractors to deliver at least 20% of each engagement. The use of partner resources creates both scalability and cost advantages. To be successful, professional service providers must manage this level so that all talent resources – whether in-house or outsourced – appear to be part of a seamless service delivery.

### Offering Development

Finally, to optimize the talent supply chain, consider the specific service offerings you develop and take to market, taking into account the specific technical and industry expertise you can provide as a means of differentiation.

For any professional services provider, these five processes must be overlaid on three external communities:

- Customers: the individuals and companies that consume professional services
- Industry talent: the pool of external talent from which you recruit professional services consultants
- Service partners: the providers that can supply talent (onshore or offshore) to help extend or deliver services

Figure 1 illustrates a complete talent supply chain management environment that combines the five key business processes discussed above with these three external entities.

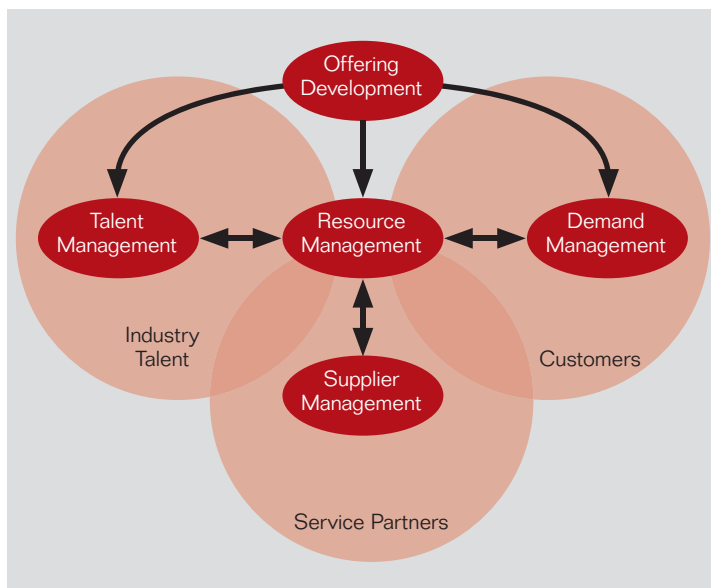


Figure 1: The Talent Supply Chain Management Environment

## EVALUATION OF CURRENT LEVELS OF MATURITY

How well do professional service providers perform within each of the business processes?

### Resource Management

Resource management is the most mature process area. In a TPSA benchmark study, over 70% of participating companies stated that they have a professional services automation system to track consulting resources. Over 60% of participating companies have the ability to calculate resource availability in real time. But because most companies use point solutions, these tools alone are not enough to fuel a significant advantage in the increasingly competitive world of professional services.

### Talent Management

Most professional service providers feel confident in their ability to identify and hire new talent. But fewer providers have disciplined or systematic processes for constantly evaluating and developing consultants once they are on board.

### Demand Management

Many professional service providers track a pipeline of service opportunities, but are less adept at proactively driving the most profitable service mix possible. TPSA benchmarking reveals that “identification of new services opportunities” is consistently the weakest step in the client engagement workflow.

### Supplier Management

Many providers have programs in place to identify new delivery partners. However, TPSA benchmarking data found that only 32% of professional services companies have formal evaluation programs for their service partners. The ability for partners to step in and quickly deliver core offerings may lag behind client demand. In addition, companies need a way to offer competitive rates by blending onshore and offshore resources – a process that is, in itself, an emerging science.



## Offering Development

Most professional service providers have data sheets that describe service offerings and many have service delivery methodologies. But only a few providers consistently reduce delivery costs by optimizing delivery methodologies and proactively hiring consultants with the skills required for emerging solution offerings.

Table 3 illustrates the maturity of the industry in each of the five process areas. Green indicates the most mature and red the least mature.

Process Area	Description	Industry Maturity
Resource management	Securing and assigning	Green
Talent management	Selecting, recruiting, developing, retaining	Yellow
Demand management	Demand generation, forecasting, proposing, closing	Yellow
Supplier management	Partner and subcontractor selection and management	Red
Offering development	Offer identification, scoping, development, resource requirements	Red

Table 3: Current Maturity Level of TSCM Process Areas

To help illustrate how and why professional services providers should make improvements in talent supply chain management, consider the hiring cycle and the process for retaining top talent.

## The 12-Week Hiring Cycle

At the end of 2006, SAP conducted an independent survey and received responses from over 250 professional services providers. Only 14% of respondents said their talent management process was “advanced,” and the majority characterized their talent management process as “standard.” This implies that most providers believe their talent management process is no better – or worse – than the competition. So while providers seem to think their talent management processes are adequate, the question is really whether this industry bar is high enough to serve as a benchmark, particularly in light of the changing marketplace.

Survey respondents were also asked how long it takes them to fill an open position. Fifty-nine percent of the respondents reported that it takes them longer than eight weeks to fill a position. In a separate survey, TPSA benchmarking data indicated 65% of professional services providers take longer than 20 days (or 4 weeks) to on board new hires and put them to work as a billable resource. Considering these two data points together, it appears that the majority of providers take a minimum of 12 weeks to identify, hire, and start billing for a new consultant. If a strong pool of industry talent is not readily available or the 12-week cycle is not reduced, professional services providers will find it increasingly difficult to meet client demands to deliver qualified consultants in a timely manner.

Consider the impact of talent supply chain management on this situation. Imagine the impact if a provider reduced the “acceptable” 12-week hire-to-enable cycle by just 10%, or 1.2 weeks. For example, the provider suddenly has a resource available who can start generating revenues sooner, plus the new skill set becomes available to include in bids for new business. From helping to win client engagements to increasing the ability to competitively price engagements, addressing areas of opportunity within the talent supply chain can help move you from average performance and complacency to a more competitive position in the marketplace.

### **Retaining Top Talent**

After investing three months of effort to identify, hire, and enable a consultant, it is a financial tragedy when that resource leaves the company prematurely. Thus, a critical process within talent supply chain management is supporting and retaining top employees once they are on board. Top recruits expect targeted skill development – often through automated or self-service delivery channels – as well as long-term career development. Many top performers have little patience with the inefficiencies caused by disparate IT, HR, and financial systems. Effective talent supply chain management can ensure that back-office time and expense systems are tightly integrated with client billing or project resource management, supporting consultants and increasing employee satisfaction.

For the talent management process to move from simply adequate to one that actually contributes to competitiveness, resource management and other key parts of the talent supply chain should be coordinated, supportive, and efficient. Currently, providers are simply not addressing talent management processes from a holistic perspective. In fact, many providers lack discipline in most areas of talent supply chain management. To successfully optimize all five components of the talent supply chain, professional services providers need to mature each of these separate process areas, as well as to integrate them and take advantage of their synergies and efficiencies.

## **CONCLUSION**

The professional services industry has shifted fundamentally. The market is now characterized by the need for global service delivery, the increased importance of retaining key industry talent, and increasingly demanding client expectations. As the industry addresses these challenges, professional services providers will need the benefits of a truly integrated supply chain environment in order to remain competitive. Supporting the concept of talent supply chain management, TPSA benchmarking data indicates that providers that invest in infrastructure and processes that support the talent supply chain improve operating profits.

While hiring, ramping up, and retaining talent are important aspects of the complete talent management, other areas – such as resource management, demand management, supplier management, and offering development – are equally important. Individually and as an integrated whole, these areas present opportunities for professional services providers to optimize their overall business. By moving from average or acceptable performance to a fully integrated, efficient talent supply chain management environment, you are in a position to:

- Increase revenues from optimized hiring, staffing, and delivery processes
- Improve client value from quicker client response and fulfillment rates at lower costs
- Enhance employee satisfaction levels by improving internal communications, staffing, and career-development processes
- Increase utilization and support greater productivity from your talent pool
- Improve forecasting precision and shorten planning cycles

Achieving these benefits requires that professional services providers think in terms of a complete and integrated environment for talent supply chain management. To secure market position and improve bottom-line profitability, professional services providers need to look at the entire talent supply chain, ensuring that they retain the talent needed – and optimize the talent they have – to meet increasing client demands for quality, delivery, and speed.

To learn more about talent supply chain management and how the SAP® for Professional Services solution portfolio can support an integrated solution, visit [www.sap.com](http://www.sap.com).

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