MANAGEDWORKFORCE™

By the numbers…

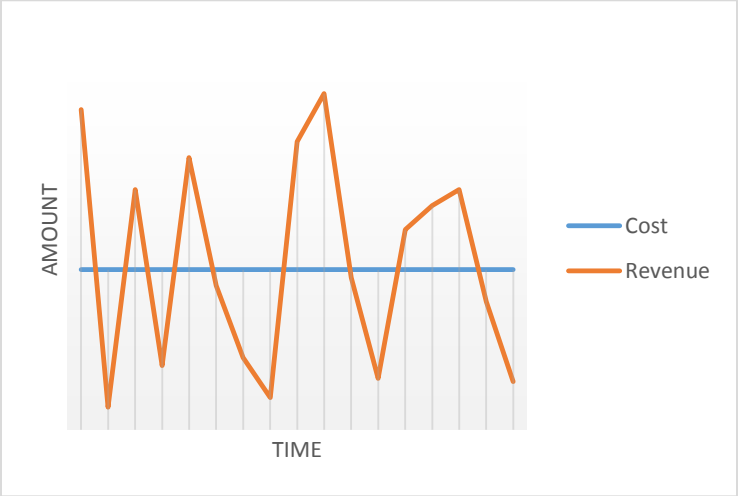
In the ever-changing world of field services, organizations must be flexible and agile in order to keep pace with the requirements of the market. Customers are increasingly moving to variable revenue models, higher SLA requirements, and deeper discounts. To accommodate this change, many companies consider moving from a fixed-cost field technician model and utilizing variable or contingent labor solutions to help mitigate their financial risk. However what they often discover is implementing this model carries with it new forms of risk that must be managed.

In this paper we will illustrate the strengths and weaknesses of the variable labor model, how to overcome them, and how Essintial can help you properly quantify the financial benefits of a ManagedWorkforce™ model.

The Problem – How can you optimize a fixed-cost field force in a fluctuating revenue scenario?

Example 1 – Variable Revenue

A customer has a nationwide fleet of printers under contract with a maintenance service company. They pay the service company on an annuity basis for labor, logistics, and management of their printer fleet. The services company, in turn, has built an extensive full-time field force to support their customer. Due to increasing cost pressures, the customer decides they want to move to a 'per call' cost model. The services company now has to manage a variable revenue stream against a fixed cost delivery model.



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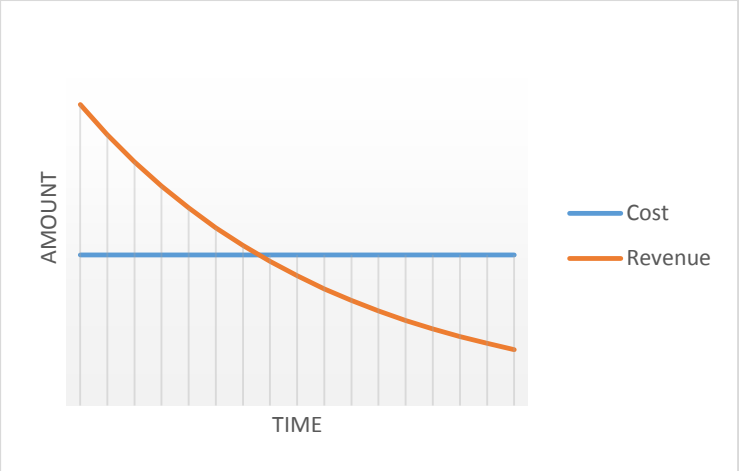
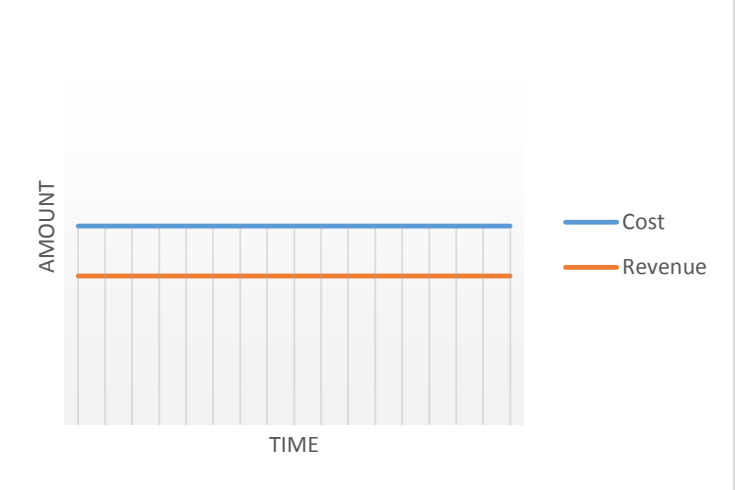
Example 2 – Revenue Attrition

A services organization has multiple annuity maintenance contracts in place and a fixed cost field force to support all of these accounts. Over time equipment bases decline, discounts are provided, and service requirements are changed. The service company now has to maintain their same service footprint, but experiences increased nonproductive time in the field force. Their costs remain fixed, while their revenue and margin contribution is changing.



Example 3 – Price Competitiveness

A services organization has a new opportunity in areas they do not currently have a field presence. In order to properly deliver on the requirements, they develop a price based on incremental headcount in the field to ensure proper coverage. However, the call volumes and therefore the price required to win the business is less than the incremental cost the company would incur.

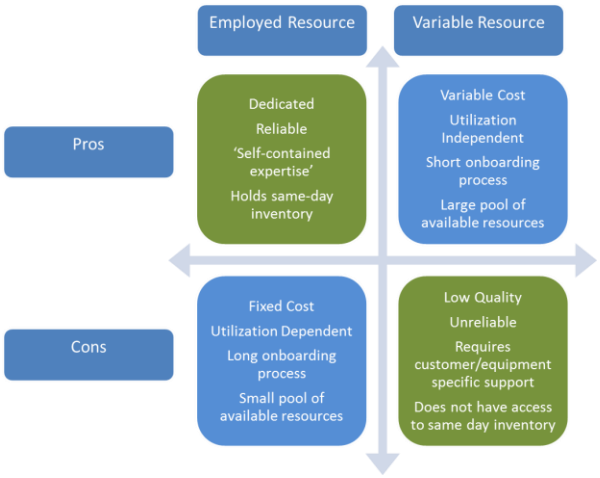


The Challenge – Variable Labor

If you've been faced with any or all of the problems listed above then you've probably considered or even tried a variable labor solution. Variable labor can take on many different forms including temporary employees, subcontracting the work to smaller companies, or utilizing 1099 individuals. In any of the cases the intention is the same; to replace fixed cost resources with variable cost ones.

Many companies that explore this option quickly realize that there are differences that must be accounted for when shifting from full-time technicians delivering service to a variable labor model.

These are the common perceptions of a “W2” vs “Variable” delivery model:



The perceptions of variable labor being unreliable and providing lower quality are not necessarily misconceptions. Employed, full-time labor is by definition more reliable and controllable than variable labor because they are dedicated to your organization. A variable resource maximizes their income by servicing multiple companies. Today they’ll work for you and tomorrow they’ll be working for someone else.

Because of this, variable labor requires a different kind of infrastructure and support to ensure equal quality and reliability as their full time counterparts. This lack of infrastructure is typically how these perceptions quickly become reality to organizations who have tried to utilize variable labor and failed.

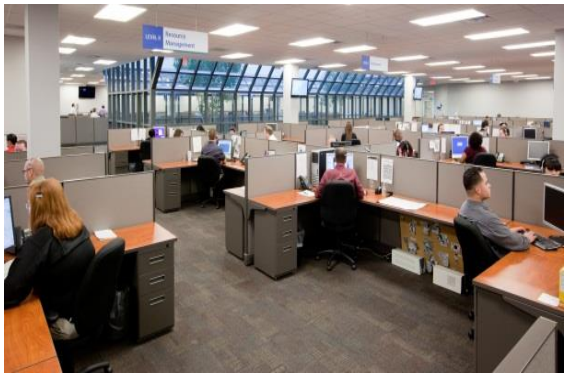
The Solution – ManagedWorkforce™

Essintial's ManagedWorkforce™ solution is an analytical approach to fulfilling each field coverage requirement in the most cost effective way. It uses a variety of factors to find the proper balance between fixed and variable cost labor resources while ensuring high quality delivery by providing the infrastructure to support this field force.

Our Approach – Addressing the 'Cons' of Variable Labor

"Variable Resources are unreliable"

Reliability and quality is a direct reflection of engagement and consistency. Essintial employs an in-house Sourcing Department responsible for vetting, tracking, and measuring the performance of every variable technician. We manage our own network of variable labor resources driving consistent predictable volume to them to ensure their loyalty. Variable resources are treated no differently than their employed counterparts. They participate in team meetings are provided training by Essintial, they are issued assets, and are rewarded for excellence.



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“Variable Resources require additional support”

This is a fact. In a typical field services model, the technician is their own self-contained expert. They are familiar with the customers in their territory, their equipment, and is knowledgeable on how to support them. In a variable model we expect our resources to be knowledgeable and self-sufficient, but we also provide them an avenue for support. To provide this support, Essintial has brought the subject matter expertise in-house in our 24x7x365 Technical Support Center. This organization contains individuals who are knowledgeable on every device we have under contract, allowing for all of our technicians both, employed and variable, to have a place to turn should they need assistance.

Inventory

Often times, employed technicians will manage their own inventory and plan accordingly for their spare parts in accordance with their customer base and call history. This is typically known as ‘trunk stock’. Variable labor will often have no available inventory and will rely on the organization to facilitate the parts to meet the customer requirements.

To ensure that all of our labor resources have access to the inventory needed to meet customer requirements, Essintial entered into a strategic alliance with FedEx to provide nationwide forward stocking that makes inventory available to all field resources both employed and variable.

Our technicians have access to 155+ Forward Stocking Locations that carry all same-day parts required to meet our contractual requirements.

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The Math

With the infrastructure in place, measuring the effectiveness of the ManagedWorkforce™ solution is paramount. Essintial has developed a proprietary set of tools and algorithms to accurately measure the balance between full-time and variable labor. We call this "Resource Balancing". This process takes a myriad of factors into account to find the financial breakeven point between a fixed cost solution and a variable one. These factors include skillset, utilization, call volumes, salary, travel, geography, equipment density, and many more. Once all of these factors are properly identified and accounted for, the result is a calculation that determines the potential annual savings and the determining utilization factor that justifies moving to or from a full-time, employed resource.

$$(W) - ((V \times C) + I) = A$$

Annual savings formula

W=Total burdened full-time tech cost

V=Variable cost per call

C=Annual call volume

I=Incremental infrastructure costs

A=Annual savings

$$(C/d) \geq (W/V/d)$$

Utilization break-even formula

W=Total burdened full-time tech cost

V=Burdened variable cost per call

C=Annual call volume

d=Working days per year

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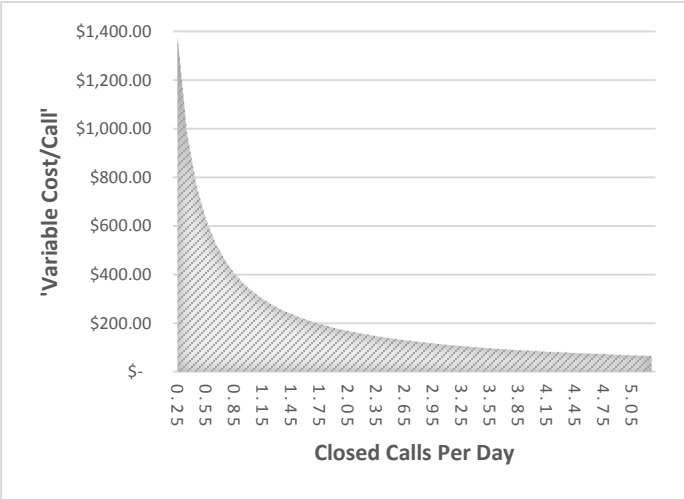
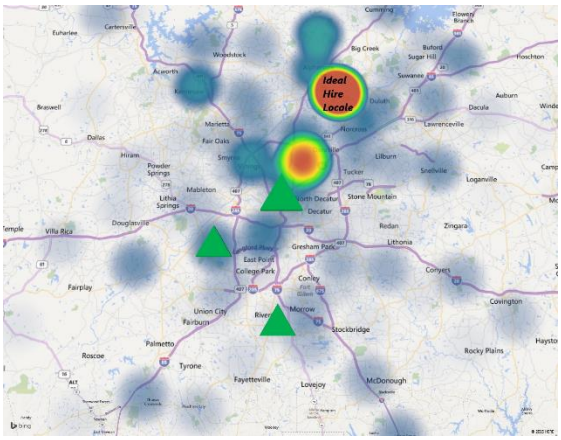
When plotted, these formulas produce a graph that shows what you might expect. The utilization of a full-time resource is exponentially proportional to the cost per call of a variable resource. For example, in the graph shown to the right, this specific technician (at a senior level salary) running 3 calls per day would require a finding a consistent variable technician whose cost per call is less than $125 (fully burdened) in order to financially justify moving to that solution. Conversely, the same technician averaging only 1 service call per day requires an average variable cost less than $375 per call to justify moving away from a full-time resource.



In short, the less utilized a technician is, the easier it is to financially justify moving to a variable labor solution.

However the value of this program is not just from moving from employed technicians to variable but also the inverse. Monitoring the variable spend to understand when it's financially beneficial to hire a full-time resource is equally as crucial. It is a two-way analysis. Using advanced analytics techniques, we monitor every area of the country to determine in what areas the variable labor spend has become cost prohibitive. Based on that, we can then make a recommendation for hire based on density of call volume, location, skillset, and even provide potential candidates from the existing pool of variable resources.

Graphical representation of how Essintial monitors service areas for consistently high variable spend and makes data-driven recommendation on skillset, geography, and preferred shift for potential full time technicians



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Within this analysis, we also look beyond just the quantitative aspects. Every organization has their own unique exceptions that must be taken into account in order to maintain their high standards of quality. These are the qualitative factors and are equally as important as the quantitative ones. Examples of these include tenure, territory mapping, training, and experience just to name a few. Each factor is blended into the data model and given an assigned 'weight' to counter-balance the quantitative aspect of the analysis accordingly.

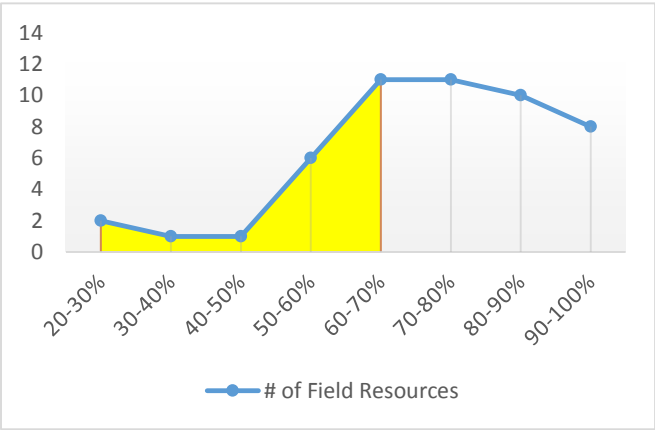
The Opportunity

How do you know if you have a fixed cost issue?

Simple! If you've read this far, you do. Any fixed cost field force has opportunity to be optimized. It's just a matter of degree. Companies can often fool themselves by looking at the average utilization of their field force and comparing it against an industry benchmark to decide if its 'good enough'. The problem with averages is that they are just that; averages. By definition there are resources that perform above the mean and those who fall below it. Understanding the standard deviation of your field force utilization is as important as understanding the average.

Take the example company that has 50 full time, roving field technicians. Through analysis, they've determined that the optimal utilization for their field force is 70% and have successfully tracked against that average for some time. Based on that metric alone they are fully optimized. However further analysis shows the real story. 21 of the 50 technicians fall below that optimal utilization average. Meaning that 42% of the field staff is underutilized and there may be potential savings by moving to a variable solution.

% Utilized	# of Field Resources
20-30%	2
30-40%	1
40-50%	1
50-60%	6
60-70%	11
70-80%	11
80-90%	10
90-100%	8
Field Resources	**50**
Average Utilization %	**70%**



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The Question

How will you address your fixed cost issue?

ManagedWorkforce™ isn't a single analysis, it's a company culture that an organization must adopt and maintain in order to be successful. There are four steps:

1) Measure the Workforce
2) Manage the Workforce
3) Optimize the Workforce
4) Repeat…

After nearly a decade of continuous refinement and improvement Essintial is now offering our ManagedWorkforce™ solution to organizations that face fixed cost issues. Our Business Intelligence team offers a consultative approach to working with you to show how best to optimize your labor force and yield the maximum amount of savings while never sacrificing quality.

To learn more about Essintial and its ManagedWorkforce™ methodology, visit www.essintial.com or call 800-384-7000.

If you have any questions regarding your potential use of this material, contact:
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