8 WAYS WORKFORCE PLANNING CAN INCREASE YOUR PROFITS

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INTRODUCTION

Companies of all sizes are learning how to leverage data to boost their bottom line and stay one step ahead of fluctuating business conditions. With so much focus on data-driven decision making though, it seems that many business managers have forgotten that their workforce is what drives their enterprise forward.

Companies that want to stay competitive must have the right talent in the right positions at the right time. This might be easy for small businesses with only a handful of employees but companies with a sizeable, dynamic workforce stand to lose a lot of money and productivity if they don't make Workforce Planning a key component in their forecasting process.

Employee costs can vary greatly by industry but they often *account for 70%* of a company's operating expenses—and annual salaries are on the rise. According to a 2016 study conducted by the *Society for Human Resource Management (SHRM)*, the average yearly salary increase was 2.7% with a target bonus of 4.7% for non-managers and 10.2% for executives.

It's not just salaries and bonuses that are compounding your operating cost; 61% of employers surveyed by SHRM said they offer tuition reimbursement averaging $4,000 and 92% offer a retirement benefit with a maximum 6% employer match. Don't forget to add the $4,129 average cost per hire—not to mention computer equipment, software and other resources purchased for each employee.

The highest-performing organizations know that Workforce Planning is essential for minimizing operating costs and maximizing the value of each new hire. With the right approach, Workforce Planning will help you:

- Anticipate talent deficits in key areas of your company;
- Avoid over- and understaffing;
- Enhance customer satisfaction;
- Improve efficiency; and
- Reduce the impact of workforce fluctuations on your strategic, operating and financial plans.

Let's examine eight best practices to help you get more value out of Workforce Planning:

1. DETERMINE YOUR CURRENT HEADCOUNT

You can't plan where you're going if you don't know where you're at. For many organizations, calculating the size of their workforce is not as easy as it sounds—especially if they hire temporary workers and independent contractors.

Most of your company's current headcount data can be garnered from your payroll and/or HRIS but that still leaves out contractors and contingent workers and it only provides a small snapshot in time that might not be entirely accurate due to the dynamic nature of a workforce.

Although IT systems are available to help organizations with Workforce Planning, they do not always account for people who intend to leave or retire, paid time off, maternity leave, sick time, or the time it takes to fill an open position with a new hire. So at any point in time, your headcount data may be out of date.

Although you can use spreadsheets to account for these variables, they can quickly become unwieldy and cumbersome. High-performing organizations integrate their data sources into a single tool that pulls human resource data together in real time. This provides the most current picture of a company's workforce as possible.

2. FORECAST ATTRITION

Countless hours have been spent on Herculean budgets and trying to develop the perfect series of tests to determine whether a candidate would be a smart hire. Although there's certainly evidence that some of these assessments work, every organization is going to lose employees for a variety of reasons that might not be related to their performance.

On average, a person can expect to change jobs *12 times* in his or her lifetime. Many organizations have come to embrace the fact that they are simply one of many places where employees will spend their working career.

Your attrition forecast should be based largely on historical data- the goal here is to identify patterns in employee turnover. Key variables to consider include turnover by period, job category and type of termination (voluntary or involuntary). You should also refer to employee work file information, such as whether they had been disciplined or given poor performance ratings before their departure.

High-performing organizations take attrition forecasting a step further by using data analytics to determine the risk of turnover, retirement and workforce mobility. They also evaluate external economic conditions to predict what employees might do. The more data points that can be added, the better. For more robust attrition forecasts, consider using Workforce Planning software that offers sophisticated data modeling.

Combining an organization's current headcount with forecasted attrition will produce a company's true internal workforce supply. This will help you determine your workforce supply risk and, if desired, allow you to target high-risk areas and positions for retention. Attrition forecasting will give your company the intelligence it needs to offer strategic promotions, introduce knowledge transfer initiatives and develop succession plans.

3. FORECAST WORKFORCE DEMAND

How will your workforce needs change over the coming weeks, months and years? If you can answer this question accurately, you could save a veritable fortune in employee expenses and ensure that your organization has sufficient staff to maintain productivity and customer satisfaction.

A driver-based process is ideal for forecasting workforce demand because it allows for:

- The greatest alignment of strategic, operating and financial plans;
- Quicker root-cause analysis to explain staffing variances;
- Less-sandbagging by stakeholders in their requests for resources; and
- Higher productivity with more focus on business operations and less on empire building.

Workforce drivers must be unique to the line of business (LOB) or department, and preferably generated from information systems or other third-party sources to minimize biases within the process. For example, call centers could use calls received, warehouses could use trucks unloaded and professional service firms could use hours billed as their workforce drivers. For cost centers such as accounting, workforce drivers might include transactions processed, reports created or tax forms filed.

The goal here is to identify quality drivers that link workforce to business performance. To accomplish this, business managers should coordinate with finance teams to decide the optimal workforce drivers for their areas. As the shot-callers charged with headcount decisions, business managers need to collaborate with finance teams to understand how changes in one metric will affect their headcount.

Although you can manage this process through email, high-performing organizations are using cloud-based tools that allow them to set up workflow and collaborate in real-time on a single platform.

4. PERFORM A WORKFORCE GAP ANALYSIS

Once you know your company's current headcount and the headcount you will need, you can then perform a GAP analysis to figure out the headcount deficit at specific points in time. This step is critical for developing an actionable Workforce Plan that allows your company to minimize risk, set expectations and ensure the workforce is sufficient to meet all business objectives.

A Workforce Plan does not always involve hiring. The goal is to get the right people in the right positions at the right time. Quite often, that means transferring, retraining, downsizing and outsourcing. Additional considerations such as organizational change management initiatives, cultural implications, efficiency and customer/client impact must also be considered.

Your Workforce Plan should be as adaptable as your operating and financial plans. As business conditions change, their effects should ripple through the Workforce GAP analysis, which will need to be updated with the current makeup of the workforce.

For example, it is common for growth organizations to reach a point where they are unable to hire as fast as their needs require. This creates a human resource "bow wave," which is a wave of job openings that have yet to be filled to meet organizational demands. These companies must develop a plan to mitigate their ongoing resource losses but the situation needs to be monitored closely as economic, market and hiring conditions can change quickly and cause the bow wave to evaporate. Consistent updating of the workforce GAP analysis will ensure that your organization will not be caught off guard.

5. RUN WORKFORCE PLANNING SCENARIOS

The world is filled with uncertainty, and this is never more evident than in Workforce Planning. Although you cannot anticipate all business fluctuations, you can plan for various scenarios that might affect your workforce demand.

The following variables should be considered when performing a Workforce Planning scenario analysis:

- Ratio of contractor and outsourced workers to in-house employees;
- Ratio of full-time to part-time workers;
- Relocation, openings and closing of operations;
- Pay strategy and merit increases;
- Reorganizations, promotions and lateral transfers; and
- Changes in productivity, ramp-up time and driver ratios.

Running scenarios is not about finding the optimal workforce mix; the goal is to understand what levers you can pull when certain situations arise, and to create a playbook of actions based on a well-structured model. These analyses will make your company much more adaptable and allow it to take advantage of new opportunities and mitigate losses.

Nearly *90% of spreadsheets have some type of error*. These errors are not usually a cause for concern but they can build up over time, making even the most well-checked model prone to significant variances. When an organization runs scenario analysis, this error rate is exponentially compounded as scenarios are typically run in rapid sequence with various changes to different parts of the model. High-performing organizations understand this risk and choose to house their plan in a Corporate Performance Management System with controls that prevent errors and allow rapid scenario analysis.

6. DEVELOP A HIRING PLAN AND SET EXPECTATIONS

With a driver-based hiring plan, managers will know when they should hire and when they are overstaffed. If budget cuts are needed, they will know what actions to take against which departments or LOBs.

A driver-based hiring plan will also give managers the intelligence they need to negotiate service level agreements (SLAs) with other departments to retain their talent, or to transfer, relocate, or alter their staffing ratios (part-time vs. full-time) as needed.

Your hiring plan can be enhanced using data analytics. Tracking applicants by job category or position, location and recruiting method will help you identify trends and determine where to advertise each position and how many applications are needed per hire. This gives further credibility to those departments charged with delivering on a recruiting SLA.

7. USE WORKFORCE PLANNING TO EFFECTUATE TACTICAL STRATEGY

Time is money, and nobody knows this better than those in the retail and professional service industries.

Many retailers staff their stores based on sales volume without considering traffic data; however, taking a traffic-based approach to Workforce Planning offers numerous advantages. For example, the store might see an increase in sales that were previously lost due to understaffing. Conversely, the store might see a reduction in employee costs without impairing customer service.

This same supply-and-demand logic can be applied to professional services. Instead of developing a Workforce Planning model based on the number of new partners or span of control, base it on the number and type of proposals being sent out. This will ensure a better alignment of resources.

For example, let's assume that over the past three months, a professional service firm received a 50% increase in proposals for implementing a new technical accounting pronouncement. In such a scenario, the Workforce Plan should adjust to seek new hires with that specific skill set. This would increase the potential productivity of new employees and reduce their downtime.

Labor-intensive businesses are not the only companies that can use Workforce Planning to improve daily operations. Businesses of all types and sizes should look for ways to leverage their Workforce Plan to gain a productive advantage.

8. REMEMBER THE HUMAN FACTOR IN WORKFORCE PLANNING

Simply offering the most money isn't enough to attract and retain the best talent. When it comes down to it, most people want to work for a company that cares about them.

Workforce Planning may not seem like a people-focused process with its use of data analytics and performance optimization. It is for this very reason that companies must consider qualitative factors when creating their Workforce Plan.

Some employees are attracted to great benefits or the ability to work from home. Others want flexible work hours or a fun office environment.

These qualitative factors should have just as significant an impact as the quantitative factors within your Workforce Plan. They should play a key role when forecasting attrition or workforce demand, performing a GAP analysis, or developing a hiring plan.

And don't forget training. Often overlooked in many Workforce Plans is the need to include time for employee training and development. Investing in an employee's future skills is just as important as investing in fixed assets or new software.

Understanding an employee's motivation and designing a Workforce Plan that balances the needs of the organization with the needs of employees will increase morale, motivate your workforce and enhance customer satisfaction.

START WORKFORCE PLANNING TODAY

Smaller organizations can focus their Workforce Planning process on individual employees. They can start by adding a Workforce Planning worksheet to their financial planning and analysis Excel workbook.

For larger organizations, it is more efficient to analyze employee classes or departments. They should start by breaking down business silos, enhancing collaboration and integrating data sources into a Workforce Planning solution as a component of their corporate performance management system.

Regardless of the size of your company, Workforce Planning should be a key component of your overall Corporate Planning process. It will help your organization gain an edge over competitors, increase forecast transparency and better align your human capital requirements with your business goals.

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