Defining capacity planning

Businesses can't afford to guess when it comes to new services and opportunities. Mistakes can be costly, which is one reason why capacity planning is crucial in considering their input requirements, conversion process, and output.

About capacity

For service organizations, capacity has a measurable impact. It's the number of services they are able to perform, or people they are able to provide. While capacity planning is commonly used in manufacturing, it offers huge advantages to business service companies.

Businesses need to know, based on their current projects and time frames, how much of a service or how many people they can offer over a specific period of time. The service industry must strategize to match supply (long-term) with predicted levels of their demand (long-term) because services can't be inventoried. For firms, this might mean aligning prices or rates that they charge for their services so they don't over- or under-charge their clients and customers.

Service organizations must address the following:

- Allocating resources for specific activities.
- Pricing service contracts correctly.
- Acquiring, training, and terminating staff.
- Accurately forecasting demand to produce services.

Meet your budget

When service organizations use capacity planning, the goal is to meet demand with the least amount of waste, or increase their utilization rates. Often, organizations assume or "guess" they can meet demand instead of having a real plan in place based on their projected sales or demand forecast. This stresses the need for capacity planning.

Capacity planning includes categories that help businesses based on the timelines they have established:

- **Short-term capacity**: This is typically used for daily or weekly time frames. It can include quarterly time frames. Short-term capacity doesn't look at trends and cycles, but customer demand and seasonal variations.
- **Medium-term capacity**: Represents a one to three year timeframe.
- **Long-term capacity**: This is the maximum time frame, which varies depending on the type of service industry. Long-term capacity requires forecasting; the forecasts are converted into established capacity requirements.

How service organizations benefit from capacity planning

Capacity planning helps businesses with budgeting and scaling so they can identify their optimal levels of operations:

- **Budgeting benefits**: Capacity planning helps determine how services are offered, and the appropriate time frames and staff required to meet current demand and cover all operational costs. This is an important consideration when establishing yearly budgets to effectively allocate money for expenses. The use of demand planning software and demand forecasting software helps with developing financial projections.
- **Scaling benefits**: If a business is considering taking on more staff to help meet anticipated demand based on their capacity plans, they might find that aside from increasing employees by

10%, they need specific skills or a larger location for their staff and any new equipment they may need.

Factors that affect capacity planning

Capacity planning can accelerate an organization's innovation while decreasing risk. To help organizations meet demand, they must look at the different service demand factors that can affect capacity, including:

- **Process**: Skills, quantity, and/or quality capabilities
- **Staffing**: Job descriptions, total labor, training, compensation, and turnover rates
- **External factors**: Unions, governmental policies, and budget cycles

When considering demand, service organizations benefit from the use of demand planning software. Its features help match the needs of the business and offer "what-if" scenarios. Demand forecasts help service organizations with their financial plans and capacity to drive procurement that's used to deliver their services.

Capacity planning that uses demand forecasts helps with pricing and contract terms that assist with times, locations, and timeliness of their services. When these are aligned, the service organization can better determine the future profitability of service contracts.

Conclusion

Ultimately, service organizations have several areas to consider as they grow and scale. Whether it's adding additional staff or changing pricing, capacity planning helps determine how much capital is required. As capacity planning looks at data and operations to make future decisions, include demand planning software to run accurate "what-if" scenarios.

Capacity planning is an integral aspect to business that no service organization should be without. It helps structure growth to ensure the business maintains a competitive edge in a marketplace that's changing constantly to meet demand.

Element of service capacity

How successfully are organizations planning capacity today? When talking with project professionals we hear that capacity planning can oftentimes be the hardest part of managing projects. In a recent KeyedIn webinar, we polled the attendees to determine if other project leaders were facing the same challenges and here are the results.

As you can see, none of the webinar attendees thought they had it down perfectly! Now let's break down this data and determine the solution.

What many project leaders overlook about capacity is that it goes beyond a project and must be looked at from a strategic level in order to get it right and make it last! Capacity planning isn't just about the number of people you have, but should be based on the skills of those resources, the budget allocated to projects, and what business initiatives are being driven from an executive level. Capacity planning is only one of the factors to deliver business decisions successfully.

Let's take a look at 5 elements to consider for moden capacity planning:

1. **Capacity & Capability** Let's take a look at these two key elements and highlight the difference. Capacity is the number of resources you have and where they are assigned, while capability is the skill and will of those resources or what you can get out of them.

This is where resource flexibility comes into play and can often be a game changer when considering capacity vs capability. With very specialized resources, you are limited to the projects or tasks that those resources can be assigned to which often leads to resource gaps or resource constraints on projects. An organization's ability to address those capability gaps is important to understanding the risk/reward of how you fill those gaps. Reviewing capacity and capability on an on-going basis is an important part of these elements because portfolio initiatives change and internal shifts will affect capacity plans leading to ongoing revisions. Make sure you look at both capacity and capability when planning for resource

2. **Gap Management** This element of modern capacity planning is important to approach strategically. There is nothing wrong with having a gap because you likely won't have the all the resources you need all the time. There will be positive and negative gaps - sometimes there will be too many people! Here are a few ways to handle gaps.
   - You may choose to ignore/accept a gap because you believe it will naturally solve itself overtime.
   - You may decide to replan projects or reschedule the work when you have the right resources available.
   - You may decide to rebalance a project vs. operations vs. support or assigning people from different departments to new roles for a short time, but you have to understand the cause and effect of that and what might be lacking when making those changes.
   - You may re-prioritize those business goals all together because resources are tight on one specific goal and maybe you pause that goal until some higher prioritized goals are accomplished.
   - You may fill the gap by: **Building** - develop skills internally, **Buying** - hiring the skill sets you need, **Renting** - hire contract workers, **Outsourcing** - use third party. However, you must fill gaps from an executive level. You can't successfully achieve gap management by looking at individual department needs. Plan for long term needs not immediate problems including all business areas and all work types will make that easier. Determine the right mix of strategies - what is the easiest thing to do might not be the right solution long term.
3. **Business Integration** The business integration element of modern capacity planning is the idea that all corporate functions or business ares have to work together to solve your capacity and capability management issues. Resource management at the strategic level requires everyone involved because they will be part of the solution. Everyone must be up-to-speed. Nothing is "for free" when solving resource problems - make sure the benefit outweighs the costs for going ahead with those changes. Creating synergy will lead to more efficient and effective solutions that will LAST!
4. **Beyond the Project** This element identifies the need to think beyond the initial project including post project impacts and knowledge of the value of the completed projects. Impacts of the project go beyond the direct project work areas and customer groups. When a project is completed operationally, the impacts must be managed across the entire portfolio to minimize overall disruption or misalignment. If you don't think about the post project processes, you may be setting up that completed project for failure. There will be direct and indirect impacts from the project and that impact duration may be important to define. There may be disruptions to operations and support areas which is often greater

than the projects themselves, so managing that environment is important. Communicating "what's in it for them" is key in increasing collaboration between business functions which will lead to minimal disruption and greater project success.