

A STAFF MANAGEMENT SERVICES WHITE PAPER

Is Do It Yourself (DIY) still a valid strategy  
for Contingent Workforce Management (CWM)?  
The Trend Towards Outsourced Program Management

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**staff management**

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**As the trend continues towards greater use of Vendor Management Systems (VMS) and outsourcing contingent workforce program management to Managed Service Providers (MSP) - organizations face some critical questions: Do we manage the program ourselves or outsource it? What are the advantages to keeping program management in-house? What are the risks? What is the current best practice? Are there good reasons to buck the trend?**

### **Is managing your own program still a valid strategy?**

In the Staffing Industry Analysts (SIA) article [Paying Their Own Way](#) for the November/December 2009 issue of Contingent Workforce Strategies Magazine, SIA reported that in 2007 59% of companies indicated that they manage their own contingent workforce program. In 2008 that number fell to 40%. In the article Dana Shaw, the Senior Vice President of Strategies and Solutions for SIA, said "More than ever, companies with mature contingent workforce programs are moving away from acting as their own managed service providers." According to the Staffing Industry Analysts 2009 Buyer's Survey, the numbers got even less rosy for do it yourselfers in 2009 with Managed Service Provider (MSP) usage continuing to trend sharply upward; increasing from 38% in 2008, to 49% in 2009 and projecting it to rise to 64% by 2011.

While on the surface the data might indicate that a do it yourself strategy is waning in validity – what are the advantages of managing your contingent workforce program with internal resources? First and foremost, there is the potential to save on pure program management costs. There is a reasonable chance that you can establish an internal program management office for less than it will cost to engage an MSP provider. Additionally, there may be less risk of change and the upfront benefit of built in cultural alignment - the ability to eliminate the learning curve that an MSP provider will face in getting to know your company culture and how things work. Finally, might greater communication between the client and suppliers be an advantage in a DIY model?

### **What about a Managed Service Provider (MSP)?**

So what exactly does an MSP do? An MSP assumes responsibility for a company's end-to-end contingent workforce management including: supplier relationship and performance management; supplier and end-user training and issue resolution; requisition management; contingent worker on and off boarding; program administration, reporting and analytics; risk mitigation and compliance management; contractual terms monitoring and enforcement; Service Level Agreement (SLA) management; and hard and soft cost savings. Most MSP programs also include supplier sourcing and in some cases supplier payment depending on client preferences. MSP programs can be designed to allow for as much or as little contact between hiring managers and staffing suppliers as is optimal for best results.

So, what are the advantages of outsourcing program management responsibility to an MSP? Starting with the most obvious, you can minimize the number of fulltime employees required to manage your contingent workforce program and you gain a dedicated single point-of-contact for program management. More importantly, you gain access to a team of contingent workforce management experts with a range of talent and experiences. Hand in hand with that is the subject matter expertise and flexibility in program resources that comes with that access. Even if you have one or more internal resources with staffing industry experience, that experience has a shelf-life and the longer those individuals are out of the industry the less relevant their experience. So, you run the risk of reinventing the wheel to solve common problems, fewer insights into new





ideas and missing out on real innovation. MSP providers have a unique perspective across numerous client installations which means they have access to cutting edge trends and best practices to ensure the program is effectively rolled-out, continues to yield value and does not get stale.

MSP providers are hired to drive Return on Investment (ROI) for the program. They have the ability to benchmark broad market rate data, savings percentages and other measures of ROI in real time across their marketplace. Additionally, they share current best practices in areas such as industry trends, supplier management, contractual standards, compliance, co-employment and risk mitigation. Industry leading MSP providers bring with them well established audit protocols, sophisticated training curriculums and refined process efficiency strategies honed over their experience with multiple clients. Without current market data, subject matter expertise and best practices it is more difficult to realize maximum ROI due to lack of awareness of the latest techniques for driving savings, efficiencies, performance and compliance.

One surprising reality is that a third-party MSP can often achieve greater results than an internal program management office because the MSP is not restricted by internal politics and can be more aggressive when it comes to achieving savings, program adoption and performance goals. In fact, MSP providers are incented to be more aggressive because of the high standards they are contractually bound to uphold. They pay penalties if they underperform and accountability and transparency are engineered into the program. MSP's are held to a higher standard of performance than internal program offices by virtue of weighted SLA's and fees at risk. In fact, in some arrangements there is no MSP fee assessed until the provider is delivering on their savings commitments.

### **The Analysts' Perspective**

Beyond the laundry list of potential advantages to outsourcing contingent workforce management to an MSP – what are industry analysts uncovering about the advantages or disadvantages of an outsourced MSP model as this space matures? In the Staffing Industry Analysts (SIA) 2009 Buyer's Survey, SIA identified that 59% of buyers with an MSP rated their contingent workforce program as cutting edge/best-in-class. For those buyers managing their program internally using a VMS, only 19% of them rated their program as cutting edge/best-in-class. In the Aberdeen Group's 2009 Contingent Labor Management study, Aberdeen ranked contingent workforce program performance as Best-in-Class, Industry Average or Laggard. Aberdeen found that firms enjoying Best-in-Class performance were nearly 80% more likely to outsource management of contingent labor to an outside program than those companies whose contingent labor management programs were ranked Laggard. Best-in-Class firms enjoyed an 88% higher rate of compliance, 1.3 times faster time-to-fill rate and 16-times higher rate of cost savings than Laggard organizations.

In their study, Aberdeen reported that there were specific strategies that Best-in-Class organizations used to effectively manage their contingent labor programs. One of the strategies was to outsource contingent labor management to an outside party. The study outlined numerous benefits of outsourcing management of contingent labor to a third-party solution and cited several risks with self-management. "Self-managing a contingent labor program can result in decentralized and non-standardized processes across the entire organization, resulting in poor visibility and inflated costs due to sub-par contracts and negotiations." Aberdeen also found that "One of the disadvantages to self-management of contingent labor is the inability to properly track spending on this





complex category.” Their study found that “less than half (43%) of the overall contingent labor workforce spend is currently tracked through the enterprise’s current program, leaving enterprises with millions of dollars of uncontrolled spending.” Aberdeen also found that organizations with an MSP in place achieved cost savings nearly 40% higher than enterprises that do not have an MSP in place.

The result of the greater savings achieved via an MSP program is that while the upfront program costs may be greater to hire an MSP than to run the program internally, the total program costs are actually lower due to the more significant savings generated. Of course, there is still a degree of risk with hiring an outside entity to manage such an important function. However, one might argue that with a rigorous vetting process and a proven change management process the risk may be less than tasking an internal group with limited or no experience with managing such a complex process. The findings suggest that despite the best of intentions, an internal program management office runs the real risk of unknowingly missing opportunities for savings and optimization due to lack of experience and visibility.

### **When does DIY make sense?**

While there is strong evidence that an outsourced MSP is the best-in-class solution in today’s marketplace, under what circumstances does self-management still make sense? First and foremost, if outsourcing non-core functions is not part of the overarching company strategy then outsourcing contingent workforce program management to an MSP will likely not align culturally. A self managed program may also make sense when the program is limited in size and scope and/or if contingent workers aren’t a strategic part of overall company workforce planning.

The complexities of finding and managing a contingent workforce are increasing as is the reliance on contingent labor. Given the complexities and the significance of today’s programs the DIY approach can be difficult to execute. A company contemplating self management must determine whether they have the expertise, time and budget to manage the program internally and the appetite to stay on top of new insights and best practices within the staffing industry to keep the program current. Ultimately, a company must determine whether or not it is desirable and/or practical to develop contingent workforce program management as an in-house core competency in order to maintain complete control over the program.

As the contingent workforce management space matures and becomes more sophisticated, more varied program configuration options become available to buyers. Programs can be tailored to meet the needs of the company and outsourcing can be applied selectively to maintain control where desired. So, for instance, a company may elect to outsource day-to-day program management and administration to an MSP but maintain responsibility for supplier sourcing, negotiations and management in-house. Or, they may maintain responsibility for sourcing and negotiations but task the MSP with managing the suppliers day-to-day.

Additionally, the amount of support required by a company will likely not be static. Therefore, the amount of support provided by an MSP can be adjusted up or down as appropriate. More intensive support can be applied at program inception when the program is being designed and launched, standard operating procedures are being established and achieving strong performance and user adoption is critical. Support can be backed down once a steady state is achieved but ramped up at key milestones. For





instance, the addition of a new region or division to the program might trigger program support to ramp-up while a business downturn might cause support to be ramped-down. This variability is possible with an MSP model because of the flexibility that comes with an outsourced solution. Ultimately, the degree to which program management is outsourced comes down to couple of key decisions. First, determining the level of control over the daily processes the company wants to exercise. Then, determining internal resource availability for program management and finally, determining the level of expertise in contingent workforce program management the company can and wants to develop and maintain in-house. From there, the rest is just a matter of fine tuning program configuration to best fit the company's current and long term requirements.

