

does it pay to outsource your contingent workforce?

MSP insights series



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Can your organization respond to sudden changes in demand or type of skills required? 69% of HR leaders believe to maintain a competitive workforce, the percentage of contingent workers needs to increase.* This calls for a robust strategy and a good view of solutions available to reduce risk and costs, enhance visibility, ensure compliancy and drive an agile, flexible workforce. Does it pay to outsource?

For a growing number of organizations, the flexible part of their workforce is increasingly important. It allows employers to be more agile when market demands fluctuate. Furthermore, contingent workers offer employers specific knowledge when they need it for just the right amount of time required, thus avoiding the overhead of permanent employees.

However, as employers increase their use of contingent workers, they necessarily create organizational complexity, workforce obscurity, and a different kind of overhead. It's a problem that companies of all sizes and industries share and one that could hamper their agility, profitability, and ability to comply with internal and regulatory mandates. To ensure they don't diminish the value of a growing flexible workforce, organizations must develop sound strategies, policies, and processes that effectively manage these workers.

What's the best approach? Should companies tackle these challenges through internal investments or are they better off partnering with an external managed services provider (MSP) that will oversee the program? What are the benefits and drawbacks of each solution? Will one result in a greater competitive advantage? Examining the merits of each approach will help you determine the right answer for you.

external hiring challenges

Managing flexible workers is a considerable expenditure for hiring organizations. Moreover, if insufficient control is in place, the following challenges may occur:

- unstructured and "hidden" hiring
- inadequate understanding of risks
- obscured view of the costs
- insufficient access to talent

Lets' examine how each of these problems can harm your contingent workforce strategy.

Unstructured and hidden hiring

Each hiring manager has a network of external workers, which often results in decentralized hiring and has a considerable impact on costs. Without centrally managed contracts, the organization generally pays too much for the skills offered. Additionally, the organization has obscured visibility of who works in the organization. Finally, a decentralized process usually brings about uncontrolled and complicated administrative and invoicing processes.

Inadequate understanding of the risks

Hiring managers are usually not aware of the risks associated with contracting external workers. Hiring companies are at risk of being accountable for tax payments if not paid for by the external talent (via chain liability in some countries) or if the talent is deemed to be an employee and

* Randstad Sourceright 2015 Talent Trends Report:
<http://goo.gl/88EAn6>

employment-related taxes are owing. Failure to comply with local regulations can result in back taxes and even fines from local tax authorities.

Obscured view of the costs

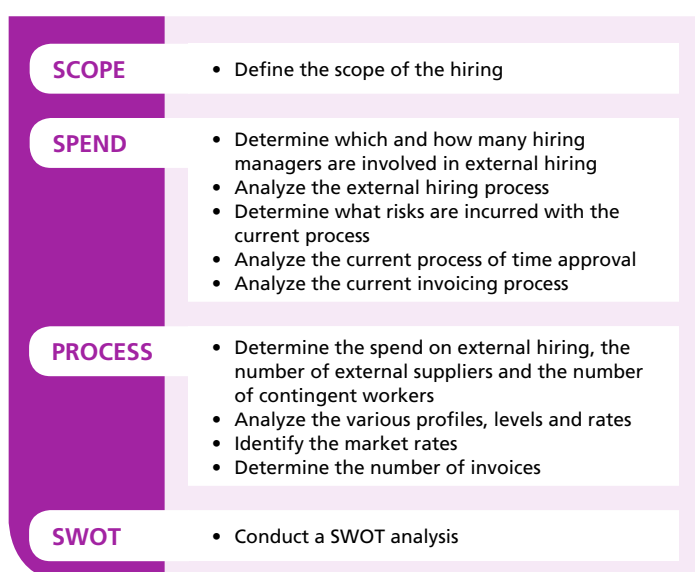
Because market rates can vary significantly, organizations tend to overpay for the skills they need. Hiring managers often pay insufficient attention to the costs because they are focused on having the external worker begin as soon as possible. Because contingent labor is a major cost in many organizations, improving transparency will likely result in significant savings. Besides saving on direct hiring costs, having a better view may also significantly improve indirect costs on services such as invoicing, processing, and administration.

Insufficient access to talent

Organizations do not always have access to the right expertise or talent they need. Often, the contingent worker may be overqualified for what he or she was hired. Moreover, organizations may lack knowledge about the niche suppliers that can deliver specialized skills needed. Failing to consult these suppliers can lead to a mismatch between the demand and supply of the required skills.

making the business case

How do you ensure your organization improves on its contingent workforce strategy? How can you address the problems cited above in a cost-effective and rigorous manner? To optimize the outcome, start by building the business case, which begins with assessing the current situation through the following steps:



Scope

Determine the scope of the external hiring. Distinguish between the different types of labor such as blue collar, white collar, and strategic consulting/statement of work (SOW).

Spend

- Spend on external hiring can be determined by extracting data from the general ledger and collecting spend through all external hiring suppliers. Many organizations already make use of spend analysis systems to easily identify external hires. Additionally, check with key hiring managers to determine if suppliers are missing from the extracted list.
- This data can yield the cost per supplier. This enables you to then classify by skills types such as IT, HR, finance, engineering, procurement, etc.
- Next, determine how many contingent workers each supplier provides. Organizations buying with purchase orders can use them to reveal how many contingent workers are hired. Another way to determine this information is through access cards or access to ICT systems. Again, hiring managers may help fill in an incomplete list.
- Analyze the various job profiles, levels, and rates. Based on this information, determine the number of external workers by category (i.e. IT, engineering, finance), by role (i.e. developers, testers, project managers), and by level (i.e. junior, medium, senior). Determine if the rates are consistent.
- Benchmark these rates with the average in the market (if such information is available) and determine potential savings.
- Determine how many invoices suppliers send annually and to what extent suppliers send invoices weekly, monthly, etc.

Process

- Determine which and how many hiring managers are involved in the process of external hiring, how decisions are being made, and how procurement works. Who is responsible for applications of the requests, approvals, setting up the purchase orders, or any other way of order placement?
- Determine the requirements current suppliers must meet. Are there concerns about meeting the legal requirements of the specific country in which contingent labor is used (e.g. regarding data protection)? To what extent are candidates screened in accordance to internal controls?

assessment score card

The following is a sample worksheet to determine the value of various components of contingent workforce engagement. The value must be assessed against two key components: cost and quality. This basic checklist helps you paint a picture of the current situation and drivers. In practice, this is much more detailed – but here is a quick way to help you consider what might be relevant to your organization.


Costs	Information available	Value
Direct costs		
Pay rate reduction		
Volume reduction		
Overtime reduction		
Indirect costs		
Management time (in €) spent on managing third-party suppliers		
Administration time (in €) used in the back office, i.e. invoice processing, payment queries, and HR issues		
Cost avoidance		
End date management		
Tenure discount		
Overtime reduction		
Quality	Information available	Value
Risk management		
Third-party compliance		
Process		
Optimized hiring process		
Optimized invoicing process		
Performance		
KPIs set with three parties		
KPI satisfaction with hiring managers		
Flexibility & control		
Easy access to reliable management information		
Full transparency and visibility in hiring process		
Increases and decreases in demand while maintaining quality and adherence to standards, policies, and procedures are managed well enough		
Current process for authorization is sufficiently efficient and effective		

- Find out the current timesheet process. How does the control and approval of hours take place? What's the process and policy for declaring overtime?
- And finally, identify the invoicing process for checking, approving, and payment. In practice invoice processing costs are between € 35 and € 75 each.

SWOT

Finally, develop a SWOT analysis of the current external hiring process to assess the status quo. For example:



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- know your situation
 - envision your ideal situation
 - develop your roadmap and solution to get there

developing your roadmap

Once the current situation has been mapped, determine how to solve the biggest issues first. Envision the ideal situation, how risks can be minimized, and potential cost savings can be realized. Financial gains can be categorized as “hard” or “soft” savings. Hard savings are achieved by lower tariffs or bundling volume with a rationalized base of suppliers that offer better rates. Other hard savings can be achieved by avoiding rogue spend (using unapproved suppliers) and by establishing a fixed-rate structure. Soft savings results from optimizing the hiring process, reducing the number of invoices, reducing overtime, etc.

In practice, total savings of 5-20% is achievable with such rigorous controls.

know the market

In recent years, employers have advanced the way they manage their contingent workforce. At the same time, external solutions have rapidly evolved also, and different models have emerged as effective ways to address the challenges associated with hiring contingent labor. The three most common approaches include utilizing:

- an in-house solution
- a broker
- a managed services provider

In-house solution

A number of large organizations work with in-house staffing agencies that provide customized temporary blue collar solutions for their organization. This solution may be appropriate for all external hiring including professionals-level talent. In situations where the hiring volume is large enough and where there is continuous

demand for a limited number of job profiles, in-house can be a good solution.

Broker

With this solution, all contracts are placed with an intermediary. This party is responsible for overseeing contract termination and invoicing, and ensures that the applicable laws and regulations are met. This model enables hiring managers to continue to use their own supplier network, but contracting is administered by the broker.

Relying on a broker can be a good solution when a decentralized process is preferred.

Managed services provider (MSP)

This is a holistic solution in which an organization outsources the entire contingent hiring process to an external party. The MSP takes on supplier management, external staff supply, and billing and payment. The MSP model can be a good solution for organizations in which the hiring process is complex and transparency and compliance are critical. The big advantage of an MSP is that the entire hiring process is in the hands of a provider that specializes in managing contingent labor. The provider knows the market, has an excellent understanding of the rates and regulations, and has the tools and processes to make the process completely transparent. Choosing an MSP is a strategic decision leading to a strategic partnership over the course of several years and possibly more. Selecting the most suitable provider is, therefore, a decision that requires careful diligence.

These are just the first steps for improving your process for acquiring and managing flexible labor. After determining if outsourcing is right for you and which solution will make the greatest business impact to your organization, bear in mind that it will take time to reap all the benefits. Regardless of whether you do this internally or through an external provider, identifying future potential gains in your workforce planning is an ongoing process.

business impact of MSP

Managed services programs (MSPs) is a centralized approach in which a service provider oversees a client's process of acquiring and managing contingent labor. This includes optimizing the staffing supply chain, streamlining the hiring processes, and integrating a vendor management system (VMS) to create efficiencies and program visibility. The benefits are many:

Cost efficiencies

Through its market expertise, an MSP provider can realize both hard and soft savings by implementing infrastructure and process enhancements.

Visibility and measurability

An MSP can provide full transparency of the hiring process through the use of a vendor management system. Through controls and analytics, the program can also help determine inefficiencies and gaps by measuring KPIs such as contractor performance, compliance rate, and fill ratio.

Access to talent

The dedicated supply experts of an MSP have extensive knowledge of the labor market, the availability of talent, and the suppliers for specific scarce profiles to ensure access to the best talent.

Compliance

The provider's supply chain experts know how to mitigate risks. The hiring process is fully controlled and compliant to local legislation.

About the author

Erwin Duits, supply chain manager EMEA Randstad Sourceright, has extensive experience in procurement and has helped many multinational organizations improve their procurement processes and achieve a competitive business advantage.

Read more about how MSP can benefit your business at:

www.randstadsourceright.com

For further information on how an MSP solution can support your business, please contact:



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