
Temporary Labor Sourcing

What You Need to Know to Successfully Source This Category





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Today's presenters

	
 <ul style="list-style-type: none"> • Global leader in supply chain management consulting • A CoVest limited partner • A CoVest partner for strategic sourcing consulting and technology • See www.atkearney.com 	 <ul style="list-style-type: none"> • Group Purchasing Organization (GPO) focused on indirect spend • Provides strategic sourcing and operational consulting services • See www.covestservices.com
<p>Rosanna Yang, Director, A.T. Kearney Procurement & Analytic Solutions, managed A.T. Kearney's consortium Leveraged Sourcing Network (LSN). Rosanna currently manages the strategic relationship between A.T. Kearney and CoVest.</p>	<p>Tom O'Neill, Managing Director, CoVest Services, was a Principal at A.T. Kearney. Tom was a founder of A.T. Kearney's Strategic Sourcing practice. He currently leads the management of the CoVest Sourcing Network.</p>

Topics for today's session

■ Background

- Category Definitions
- Market Overview
- Vendor Management Systems (VMS) Review

■ Strategic Sourcing For Cost Reduction

- Best Practice/Cost Reduction Strategies
- Sourcing Temporary Labor Effectively
- Group Purchasing Organization (GPO) Alternative

■ Case Studies

Contingent Labor... Independent Contractors... Temporary Labor... Consultants... what is the difference?



Contingent Labor

Persons who do not expect their jobs to last

- The U.S. Bureau of Labor Statistics definition: “persons who do not expect their jobs to last or who reported that their jobs are temporary. They do not have an implicit or explicit contract for ongoing employment.”
- Contingent Labor often includes temporary workers provided by a staffing agency and independent contractors, but they don't typically include workers from consulting firms



Independent Contractors

Have control of what will be done and how it will be done

- IRS defines Independent Contractor as: “The general rule is that an individual is an independent contractor if the payer has the right to control or direct only the result of the work and not what will be done and how it will be done... If you are an independent contractor, you are self-employed.”



Temporary Labor

Refers to workers of temp help agencies who work for limited time periods

- Temporary Labor (or “temps” or sometimes “contractor”) mainly refers to workers who were paid by a temporary employment agencies that place workers in companies for short-term assignments. They remain employees of the temp agency, temp agencies do not provide direct supervision of their employees at clients' work sites



Consulting Firm Staff

Consulting firm staff-responsible for delivery in terms of quality/time

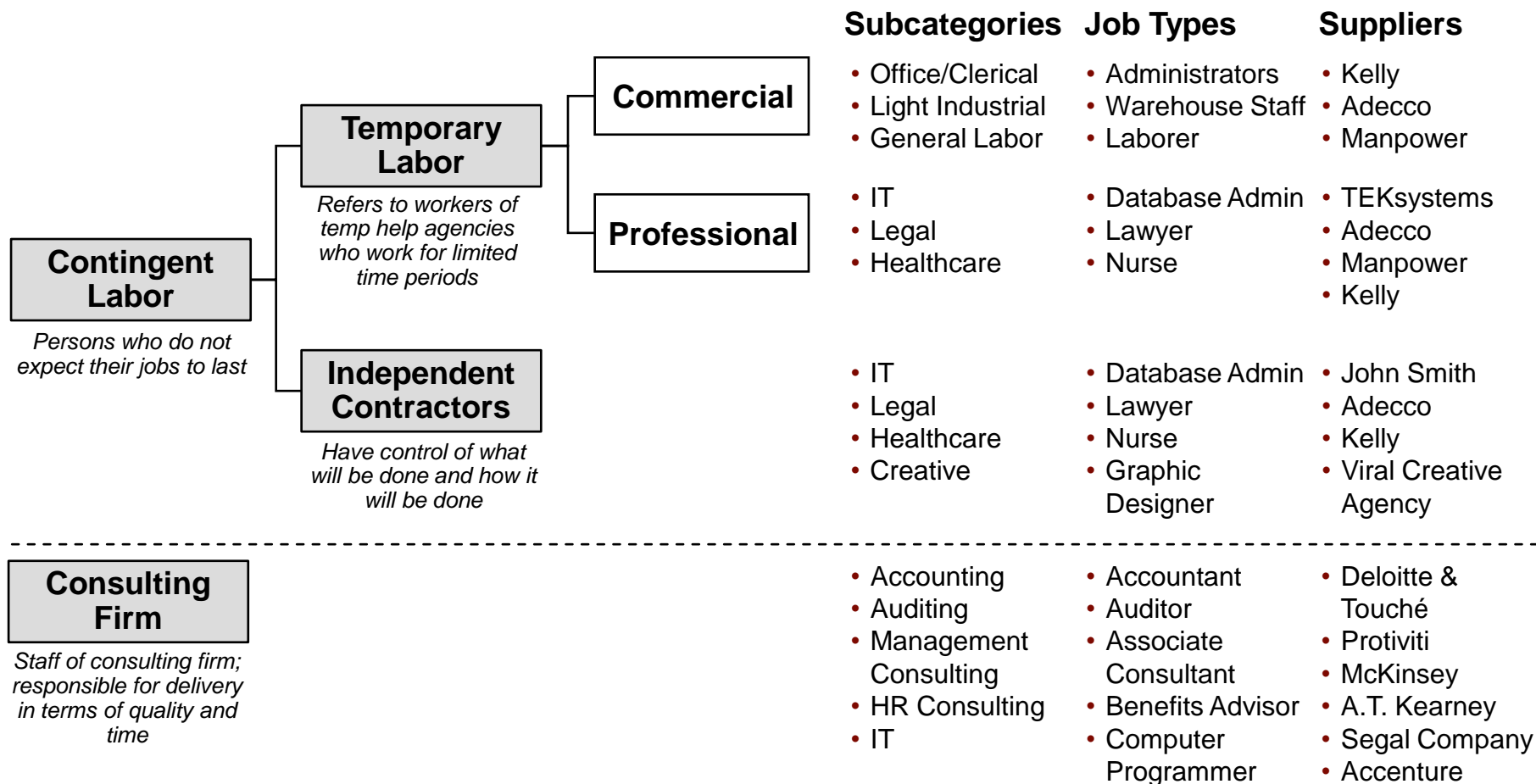
- Project Consulting usually refers to employees of a consulting firm that are responsible for (and paid for) the delivery of a project in terms of quality and time
- There is generally a defined time frame for project or deliverable
- They manage and have ownership of the work process



The temporary services market is typically segmented into Contingent Labor and Consulting Firms

Temporary Services Category Segmentation

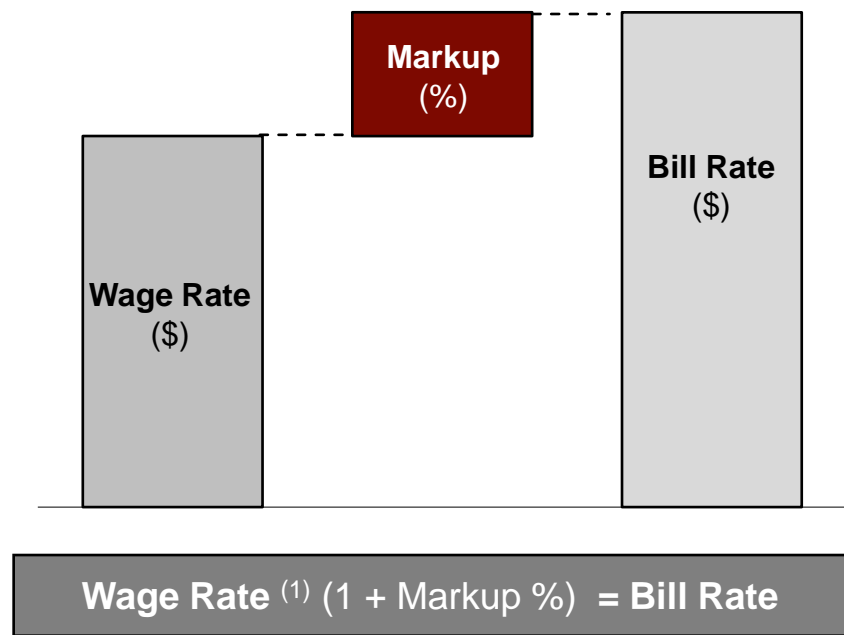
Samples





Temporary labor personnel charge a ‘bill rate’ that is made up of two components – wage rate and markup

Temporary Labor Pricing Definitions



Term	Definition	Factors That May Influence
Wage Rate	<ul style="list-style-type: none"> Gross hourly pay of temporary labor employee 	<ul style="list-style-type: none"> Full-time hire wages Local labor market Required skill sets
Markup % ⁽¹⁾	<ul style="list-style-type: none"> Percentage of gross hourly pay that is added to wage rate and charged to temporary labor customer by the temp labor agency 	<ul style="list-style-type: none"> Negotiations between supplier and customer Costs of benefits Costs for agencies' overhead costs Agency's profit margin Local tax levels
Bill Rate⁽¹⁾	<ul style="list-style-type: none"> Full hourly cost to temporary labor customer (wage rate plus markup) 	<ul style="list-style-type: none"> Markups Wage rates Negotiations between Supplier and customer

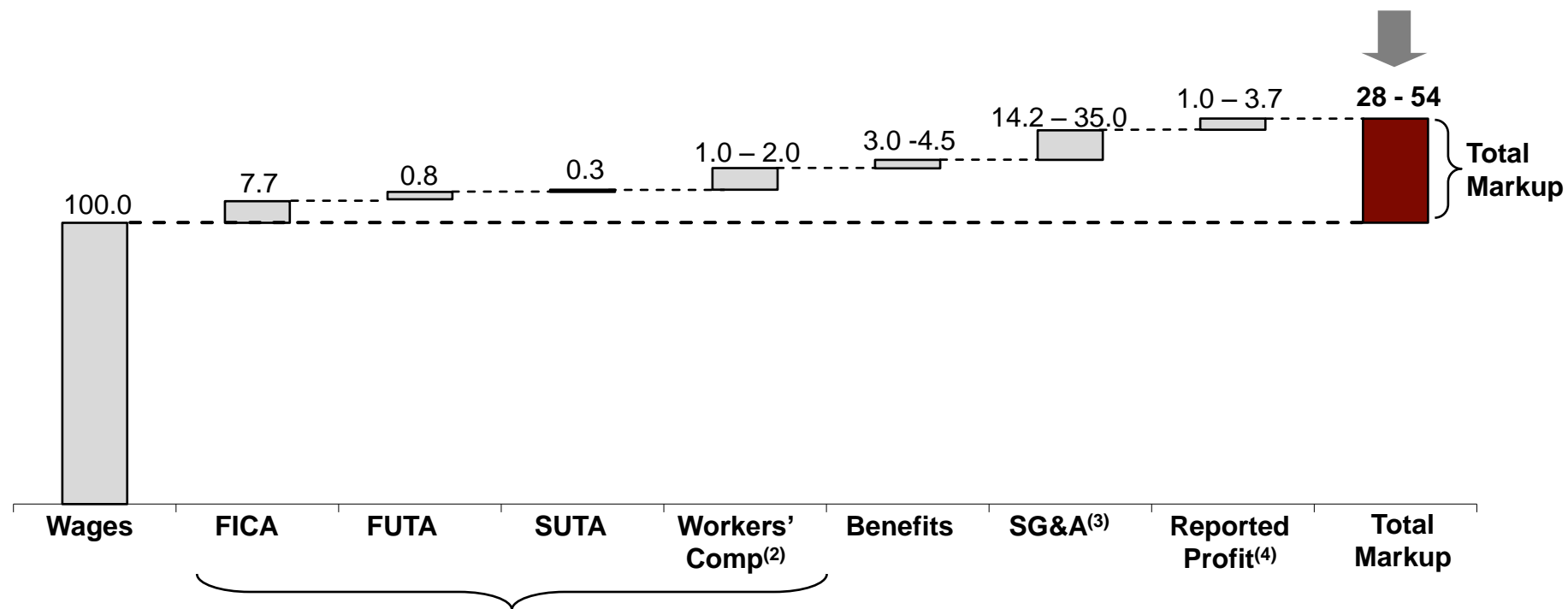
(1) Often negotiated by contract



Markup has multiple components

Supplier Price Analysis – Markups As a % of Wage Rates⁽¹⁾ (%)

Illustrative

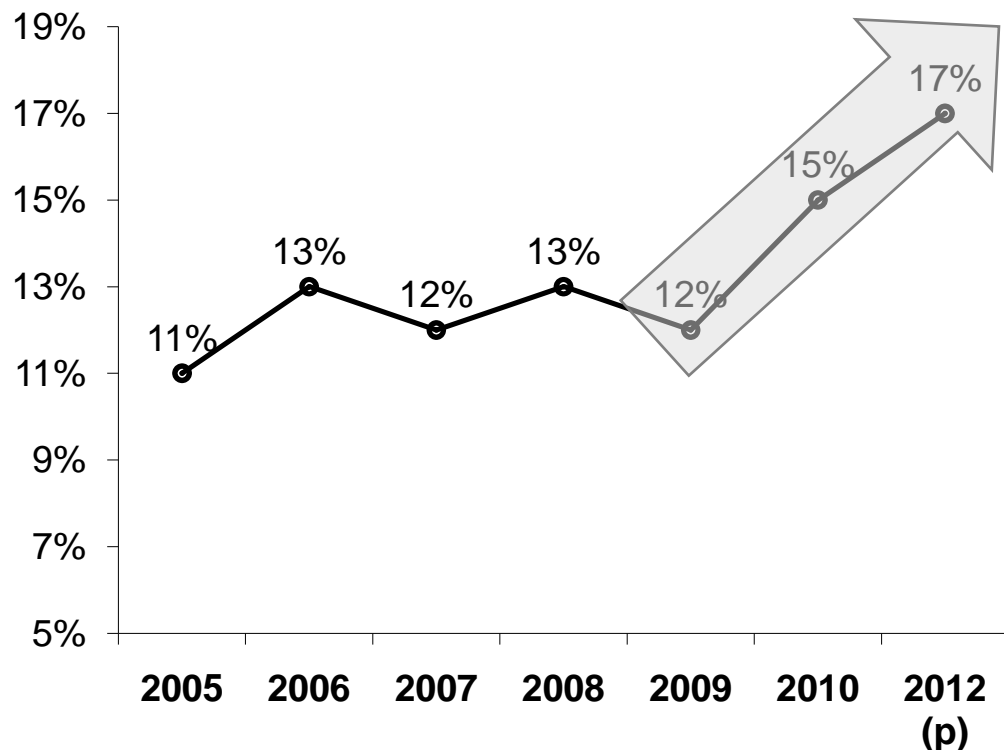


Statutory/regulatory requirements = 9.8 – 10.8% markup over base wages

(1) Wage Rates are unknown. Percentages are based on analysis of supplier financial statements, IRS tax rates, and A.T. Kearney best practices
 (2) Varies by location
 (3) Varies by agency
 (4) Varies by agency

U.S. companies are increasing turning to contingent workers to manage work loads, find skilled people and secure cost savings

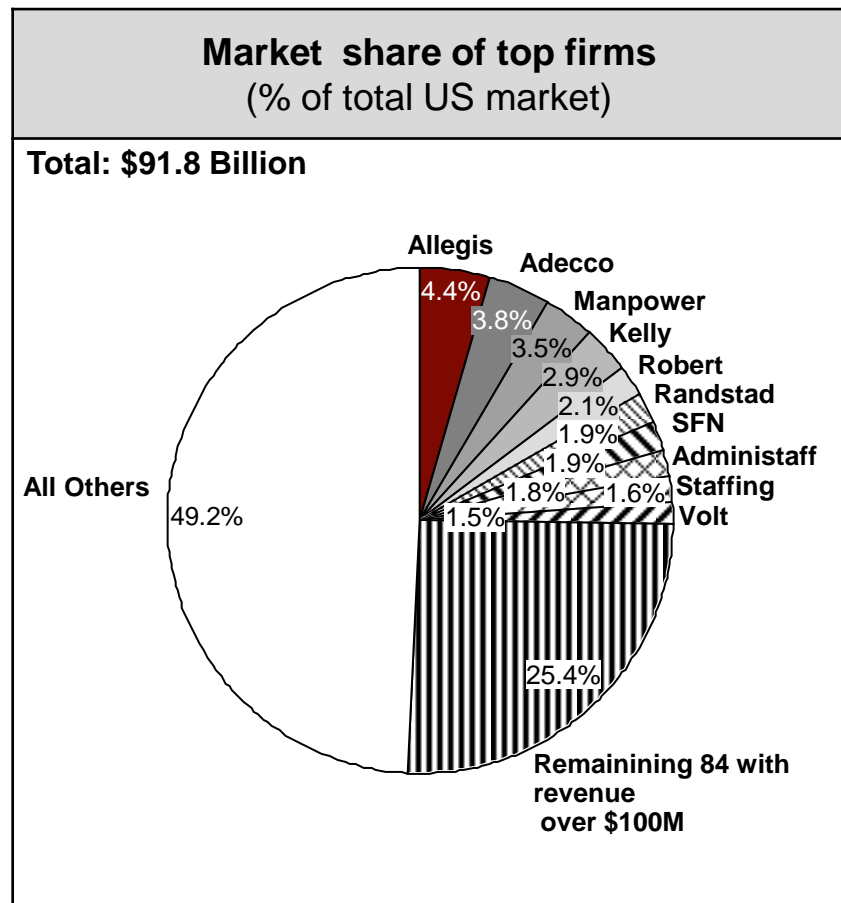
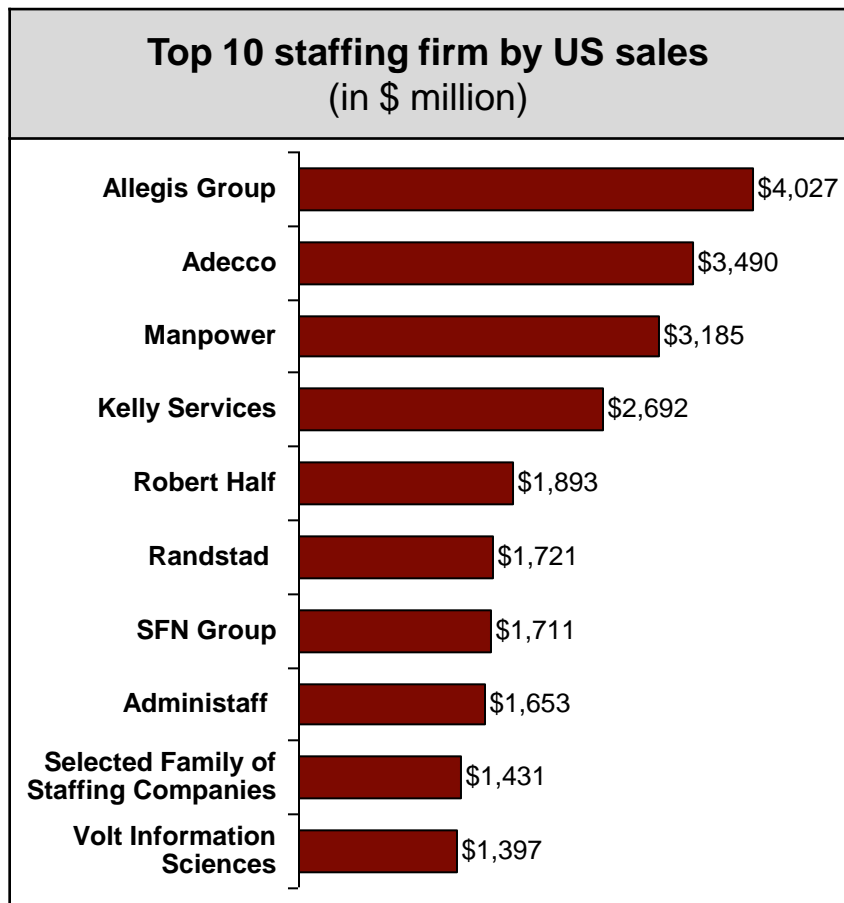
Large Buyers' Estimated Mean Contingent Worker Usage



Top Factors that Encourage Use of Contingent Workers

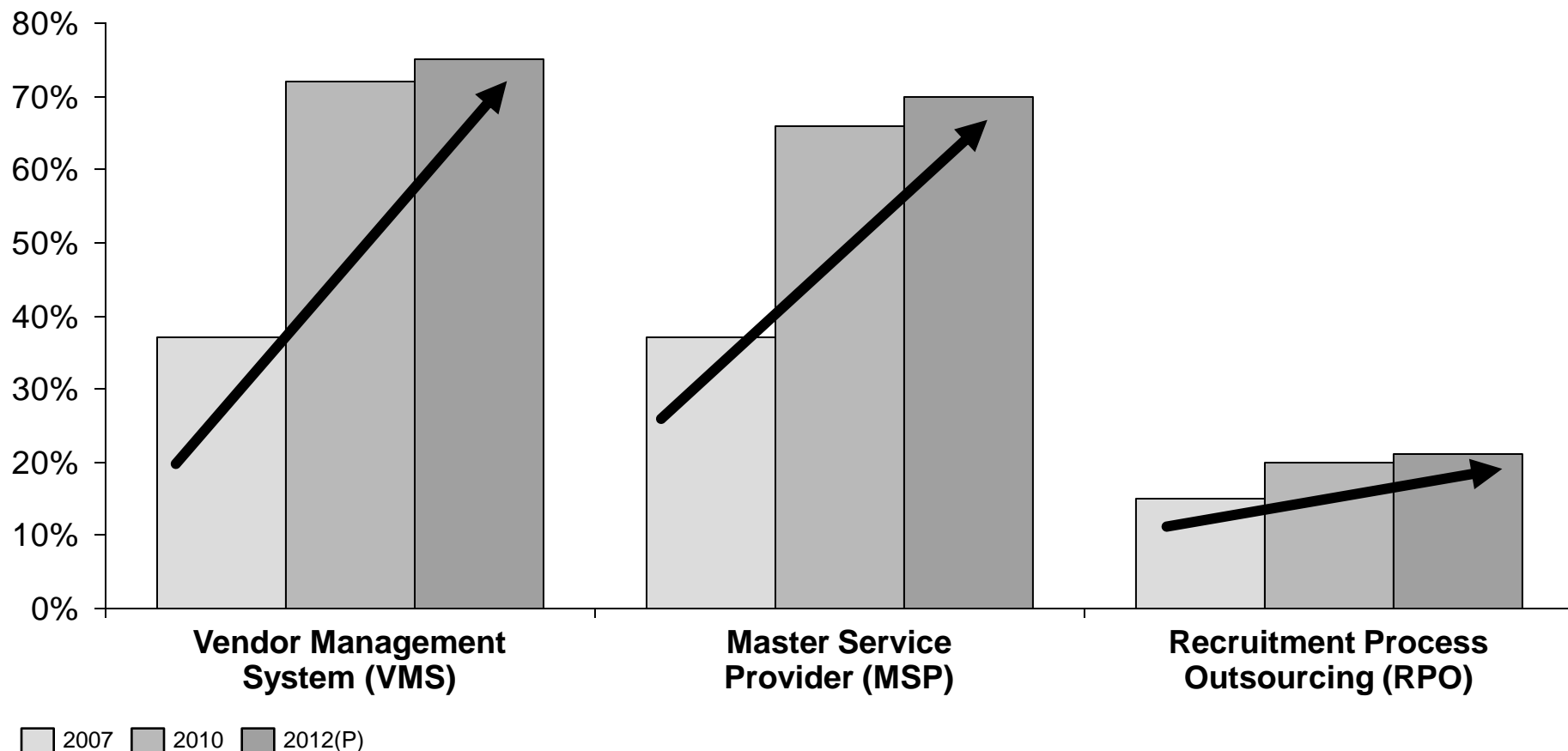
- Variable or unpredictable workloads
- Increasing free agent proportion of work force, currently 44%, predicted to level off at 30-35% after economic recovery
- Rapid growth of organization
- Difficulty finding qualified people
- Benefits/health care costs of regular workers vs. contingent workers
- Fully loaded costs of regular workers vs. contingent workers

The U.S. staffing industry is highly fragmented, indicating opportunities for competitive cost savings



Growing numbers of organizations are managing their contingent workforce via VMS/MSP and outsourcing their recruitment process

Contingent Buyers' Usage of VMS, MSP and RPO





Vendor Management Systems (VMS) are an internet-enabled tool that facilitates and automates the temporary labor work management process

Develop Staffing Requisition

- Selected VMS Functions**
- Create and maintain job catalog
 - Support rate card
 - Review historical requisition and apply to new ones
 - Handle routing/approval workflows

Solicit Requisition Responses

- Vendors submit resumes and rates online
- Screen and rank resumes
- Rank candidates by bill rate, experience and qualifications
- Flag candidates with previous assignment

Select & On-Board Candidates

- Automatically give electronic notification of the result of requisitions
- Archive candidate data
- Monitor the status of requisitions on a real-time
- Track service levels for response times and fill rates

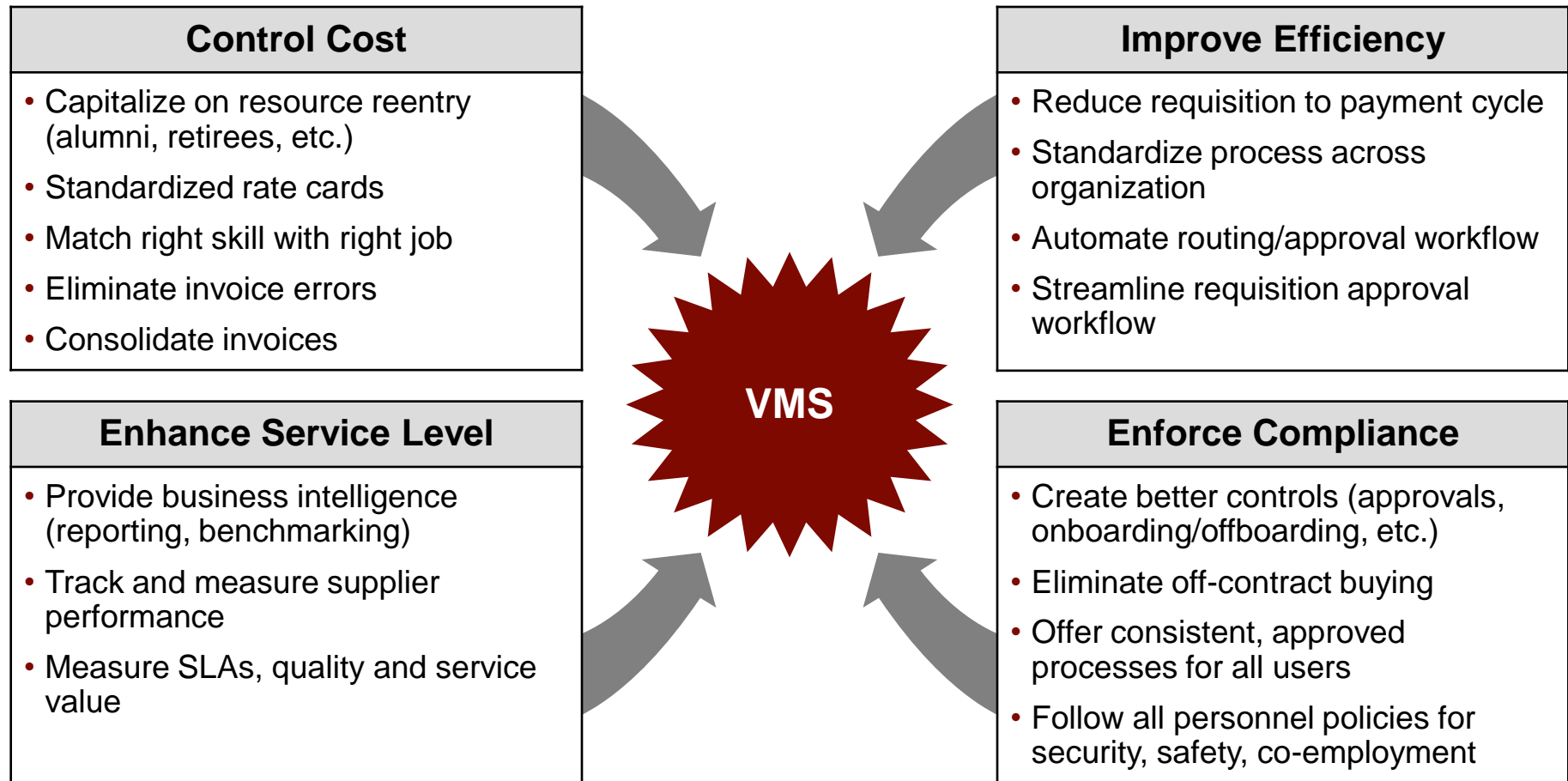
Manage Day-to-Day Performance

- Generate pre-populated billing templates
- Give notification of upcoming end dates for assignment
- Flag job performance and staffing recommendations
- Monitor the tenure for each contractor

Manage Supplier & Invoicing

- Reference invoice number line items to T&E entries
- Enable subcontractor(s) to submit electronic invoices
- Track and automatically trigger any variable rate card discounts

VMS tools can bring benefits beyond cost savings



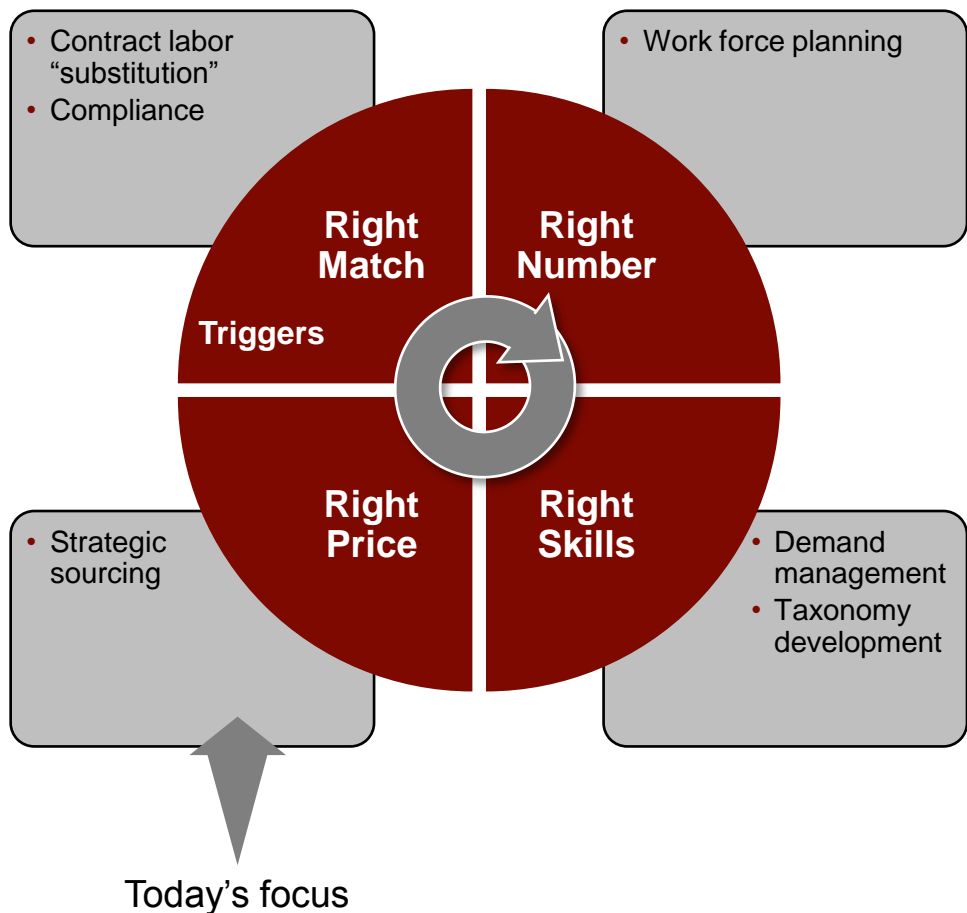
A number of models exist for staffing services and technology

Typical Models for Staffing Services and Technology (VMS)

	Model 1: Company Managed	Model 2: Full Service Staffing Agency (Master Vendor)	Model 3: Technology (VMS) w/a Master Service Provider (MSP)		
			Preferred Vendor/ Proprietary VMS tool	Preferred Vendor/ 3 rd Party VMS tool	Vendor Neutral/ 3 rd Party VMS tool
Supplying the labor	<ul style="list-style-type: none"> Multiple Temp Labor Agencies 	<ul style="list-style-type: none"> Temporary Labor Agency as the Primary Temp Labor Supplier 	<ul style="list-style-type: none"> Temporary Labor Agency (MSP) as the Primary Temp Labor Supplier and provides a proprietary VMS software tool 	<ul style="list-style-type: none"> Temporary Labor Agency (MSP) as the Primary Temp Labor Supplier 	<ul style="list-style-type: none"> Multiple Temporary Labor Agencies - Vendor Neutral. Each position "bid out"
Managing the sourcing process	<ul style="list-style-type: none"> Client company 				
Providing the software	N/A	N/A		<ul style="list-style-type: none"> VMS Technology Provider 	<ul style="list-style-type: none"> VMS Technology Provider



Our experience is that a comprehensive approach is required to optimize contingent labor



“Right Number” – Manage the total

- Find the right balance of permanent and contract staff based on clear “make vs. buy” strategy
- External experts/ staff could be leveraged for functions that strategically do not fit company’s core competencies

“Right Skills” – Know what you have

- Build a comprehensive taxonomy with job titles, levels, and descriptions; don’t add titles for the sake of hiring – take a strategic view
- Balance the industry standards with customized needs of the organization, to facilitate smooth discussions amongst stakeholders and with suppliers

“Right Price” – Get the best price

- Source strategically to achieve the right price for the skills. In current economic conditions, suppliers are being very aggressive in pricing to gain or retain business
- Request suppliers to unbundle their pricing, into wage rate and markup, to help with visibility. This also helps to manage labor retention and turnover

“Right Match” – Align the right resources to skills

- Ensure that appropriately skilled resources are performing the work they were staffed for and are paid the right price. Resources constantly slide from one role to other and usually, the changed roles don’t reflect market rates
- Understand there is a large change management component and be creative with techniques to ensure the optimum balance of right skills/right price/right work



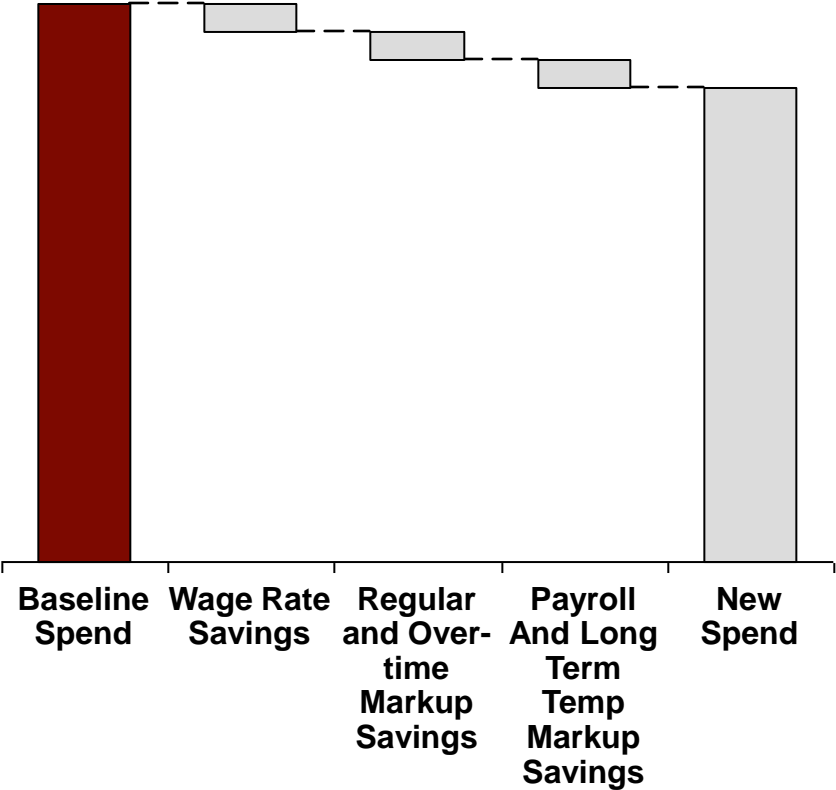
Strategic Sourcing in the Temporary Labor category typically focuses on wage rate and markup opportunities

Wage Rate and Markup Opportunities

Illustrative

Typical Strategies
<ul style="list-style-type: none"> • Adjust base wages to market rates – negotiate “not to exceed” rate cards • Drive regular and overtime markup to most competitive rates • Negotiated lower payroll markups • Negotiate lower markups for long term temps (e.g. reduce markup after 1000 hours)

Savings Impact on Baseline Spend

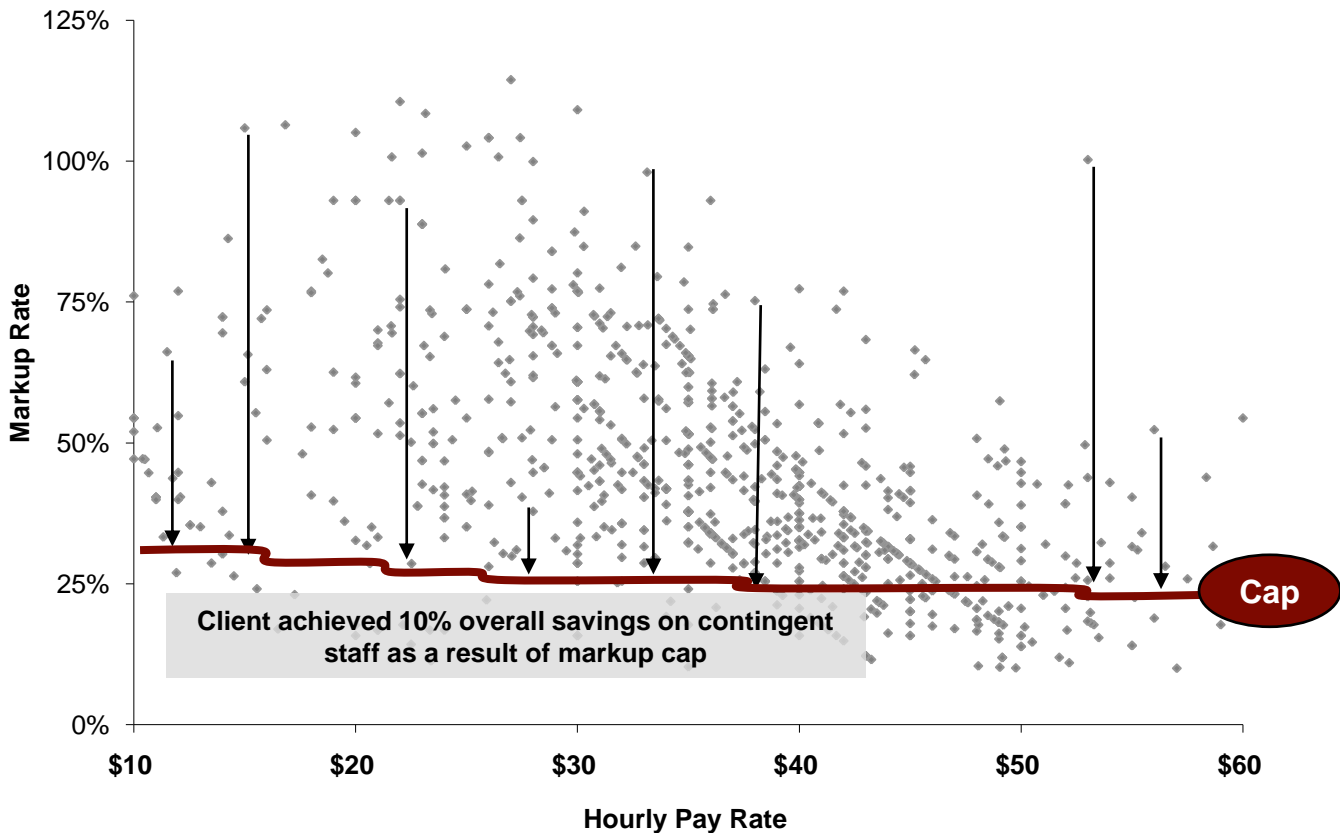




Often clients may not have visibility to markups and may be paying significantly above benchmark

Markup on Wage Rate 985 contractors⁽¹⁾

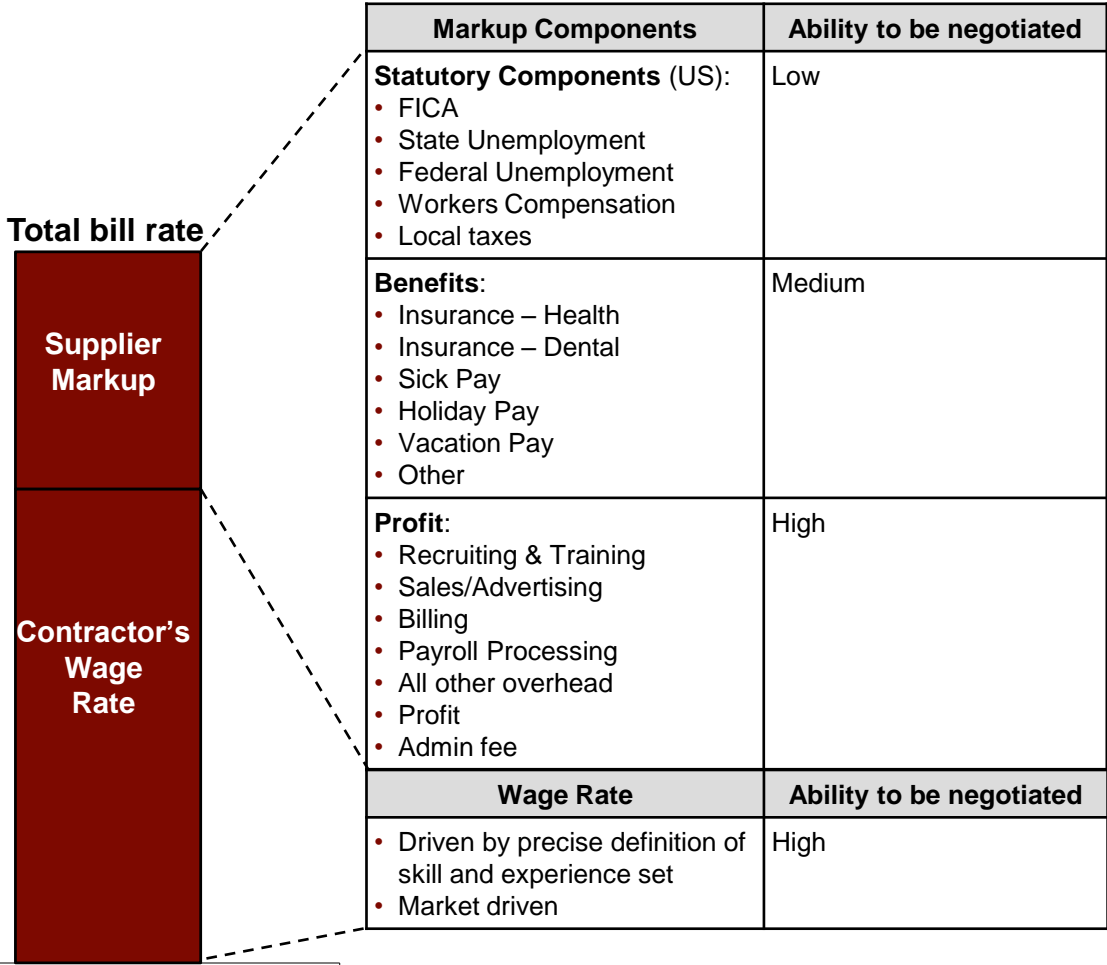
Prior Client Example⁽²⁾



(1) Comprises hourly contractors being provided from all vendors to the client
 (2) Chart shows actual markup data points from a prior A.T. Kearney engagement
 Source: A.T. Kearney analysis

Unbundling supplier markups and commoditization of labor categories create opportunity for rate reduction

Illustrative



Labor Category	Degree of commoditization
Office/Clerical	High
Administrative	High
Finance	Medium
Accounting	Medium
Controller or Managerial (Professional)	Low
Systems	Low

■ Opportunity Areas

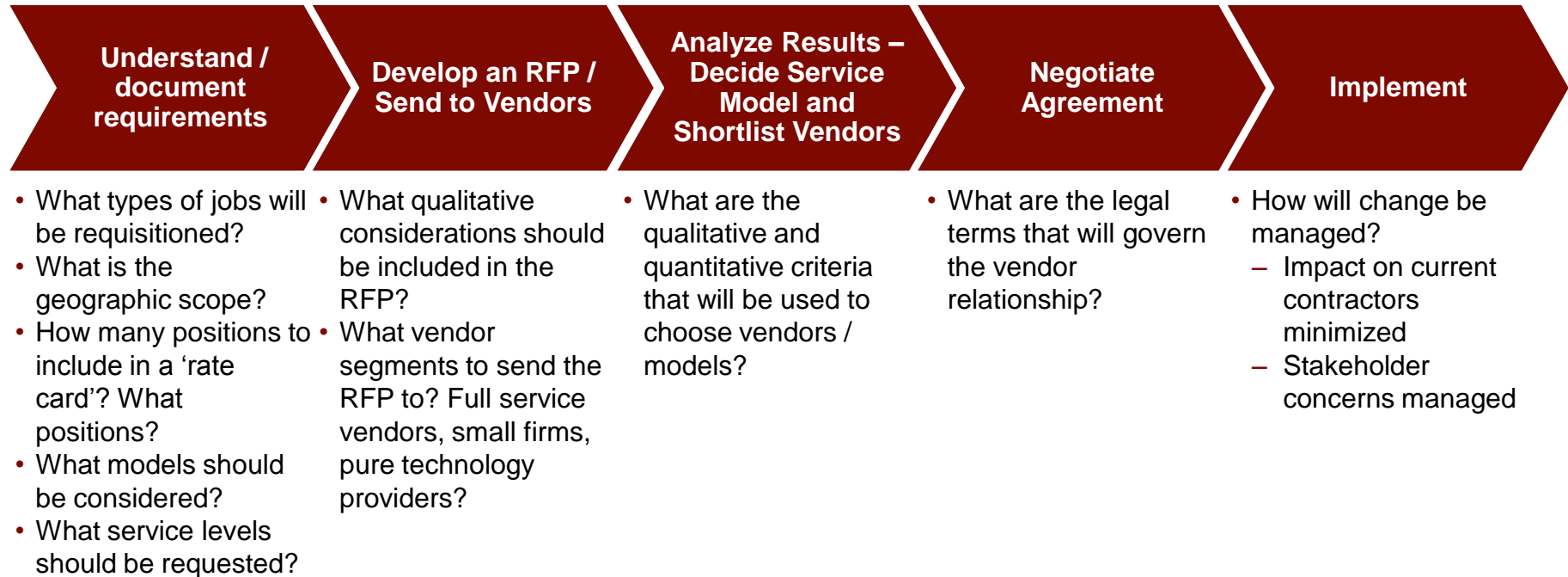


Learning from recent strategic sourcing projects

- Base rate reduction presents significant opportunity in total cost reduction - manage the total "Bill Rate" not just the markups
 - Base rates level should be systematically re-assessed on a regular basis (quarterly, semi-annually, or annually)
 - Standard rate cards should be established with target and not to exceed base rates
- Detailed job specifications are required for accurate quotation and comparison
- Significant analysis effort is required to deal with the increased complexity
- Internal process/policy change and demand management is an important cost reduction lever
- MSP/VMS model has become more and more commonly used by buying companies

A disciplined process is required to choose a model and vendors

Key questions that have to be answered when implementing a program



It is important to develop a work plan which will allow sufficient time for potential implementation/transition

Temp Labor Sourcing Work Plan

Illustrative

Tasks	February				March				April				May				June	July	August	
	Jan 31	Feb 7	Feb 14	Feb 21	Feb 28	Mar 7	Mar 14	Mar 21	Mar 28	Apr 4	Apr 11	Apr 18	Apr 25	May 2	May 9	May 16				May 23
Collect detailed spend data to develop baseline	█	█	█	█	█															
Develop and Issue RFI to gather market information and generate supplier list			█	█	█	█														
Develop and issue RFP						█	█	█												
Receive and analyze RFP response										Suppliers respond →		█	█	█	█					
Negotiate (or auction) with selected suppliers															█	█	█			
Recommend supplier/Negotiate contract																		█		
Implement new supplier																			█	█
Stakeholder Updates			▲					▲									▲			



Stakeholders need to be managed throughout the process

Concern	Reality
<p>“I will lose my contractor?”</p>	<ul style="list-style-type: none"> • Typically the contractor base does not change – contractors simply move to the new provider • New provider matches their pay rate as well as benefits package
<p>“My contractor absolutely does not want to move agencies”</p>	<ul style="list-style-type: none"> • If there are reasons that the contractor does not want to move and is very important to the client, clients should not mandate the move (this pool should be limited)
<p>“I like my vendor. Will I get the best resources?”</p>	<ul style="list-style-type: none"> • Most contract personnel will list themselves with multiple providers – if one asks for resumes from the big firms, often the same resume ‘shows up’ from different firms • Typically relationships with small firms limit the pool a company has access to • Small vendors may be retained in the mix if they have niche skills



The design of the RFP should allow flexibility in evaluating different options

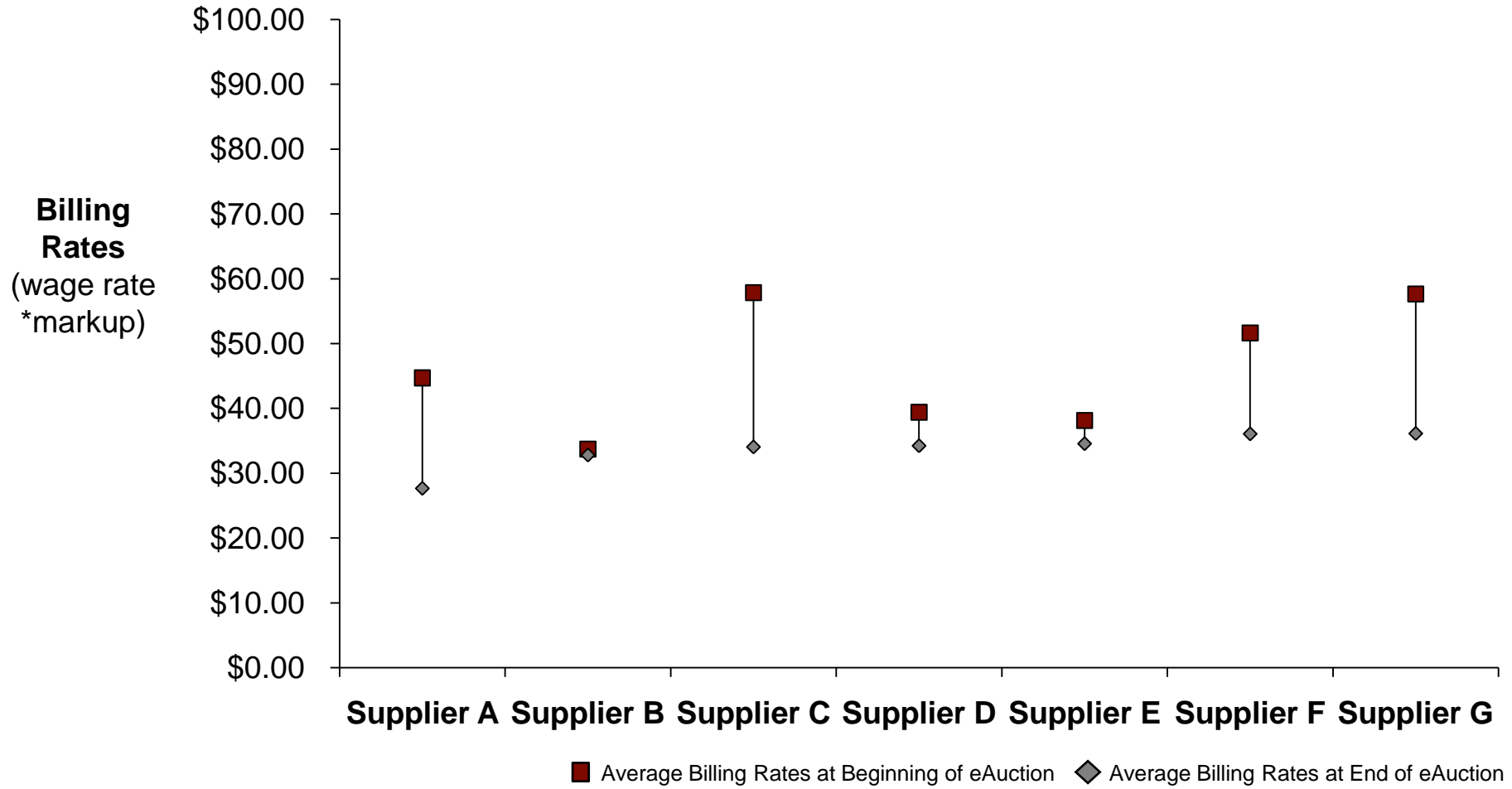
	RFP Components	Description
Option 1 – Master Vendor	<ul style="list-style-type: none"> Staffing Operation Capabilities 	<ul style="list-style-type: none"> Questions regarding suppliers' operations and capabilities in providing temporary labor Staffing service metrics
	<ul style="list-style-type: none"> Bill Rate Pricing 	<ul style="list-style-type: none"> Detailed bid sheet to allow suppliers to bid on base rates for specific job title/location
	<ul style="list-style-type: none"> Markup 	<ul style="list-style-type: none"> Allow vendors to provide standard markup by state by job category Markup should be provided for regular work, overtime work, payrolling and long service discounts
	<ul style="list-style-type: none"> Conversion and Direct Hire 	<ul style="list-style-type: none"> Fee schedules on conversions and direct hires
	<ul style="list-style-type: none"> Drug and Background Check 	<ul style="list-style-type: none"> Fee schedules on drug tests and background screening
Option 2 – MSP/VMS	<ul style="list-style-type: none"> MSP Service capability 	<ul style="list-style-type: none"> Questions regarding a vendors' capabilities and credential in the MSP space
	<ul style="list-style-type: none"> MSP/VMS Pricing 	<ul style="list-style-type: none"> Vendors' pricing on MSP or MSP/VMS bundle services



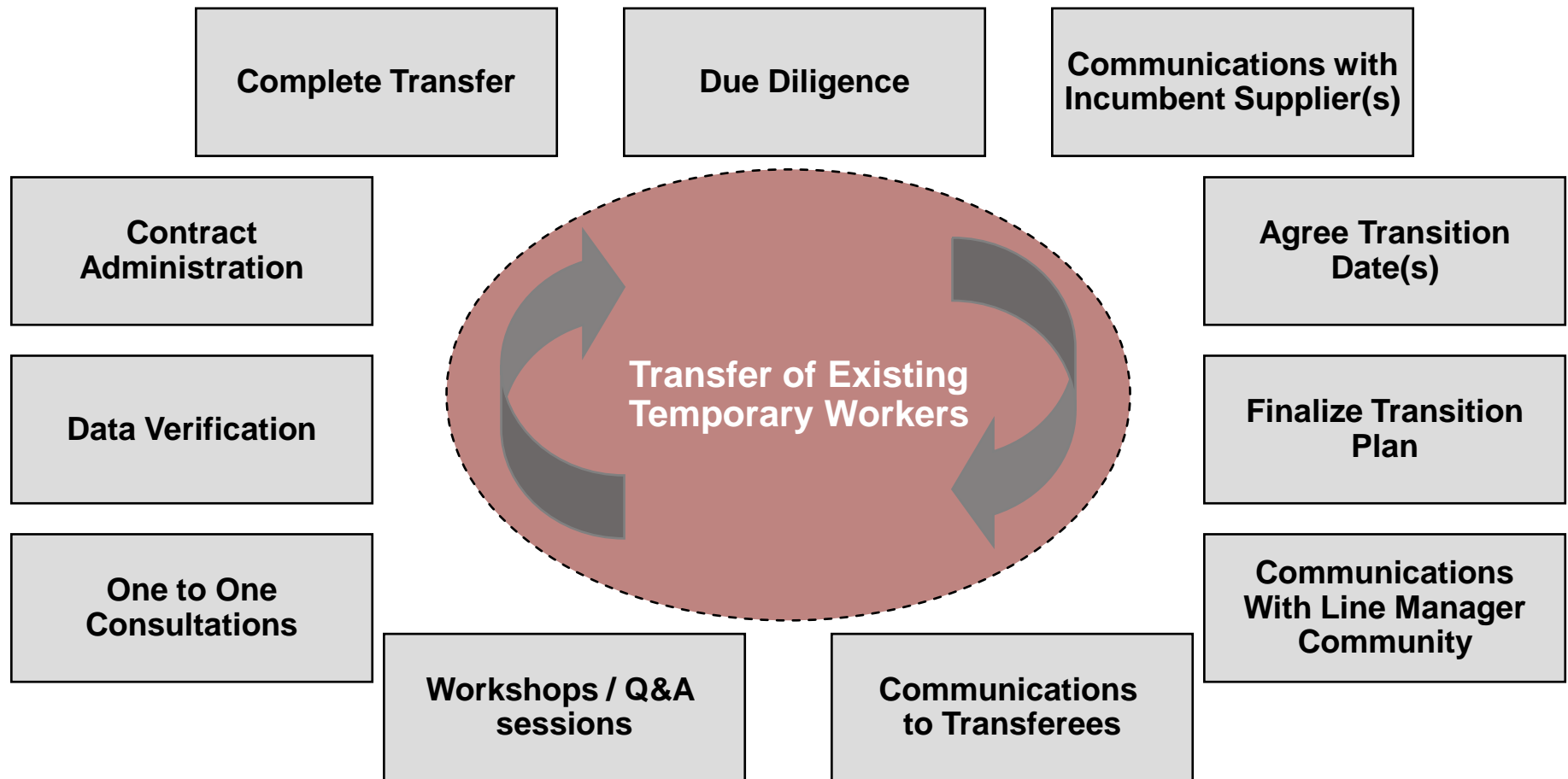
eAuctions can be useful in compressing billing rates from RFP bids

Position Billing Rate Results from eAuction

Illustrative Client Example



Temporary worker transfer is an integral and crucial element of the Implementation Process



Successful implementation requires attention to these key factors of success

Key Success Factors

- Clear service scope and understanding of service spend breakdown
- Top management support - communicated
- Internal stakeholder involvement and support
- Structured Communication Plan w/ clear definition of target audiences and key messages – what, to whom, how and when (RACI* framework etc) – avoid miscommunications
- Structured Transition/ Implementation Plan and Management
- Track progress vs. plan milestones – proactive/ timely corrective actions
- Report results, provide data to manage process
- Leverage entire spend, across the enterprise/ robust compliance management (track and convert rogue spend)

Note: * RACI (Responsibility, Accountability, Consulted, Informed)

Source: Kelly Services

What is a Group Purchasing Organization (GPO)?

Key Characteristics of GPOs

- Leverages the spend of member companies to achieve price and service levels superior to what they can achieve on their own
- Focuses on indirect spend categories of materials and services that are common among most companies
 - Examples are office supplies, temporary labor, office equipment, industrial supplies
- Provides services to strategically source the categories
- Provides on-going category management on behalf of the member companies
- Generally funded by supplier rebates that offset the supplier selling costs

Types of GPOs

- **Vertical GPOs**
 - Same industry segment, such as Healthcare
 - Source broad range of direct and indirect materials and services common to the segment, e.g. surgical gloves, uniforms, medical equipment, etc.
- **Horizontal GPOs**
 - Different industry segments
 - Source categories common to all companies, e.g. office supplies, MRO or temporary labor



GPOs provide indirect outsourcing capabilities that result in substantial member benefits

What GPOs Provide	How Provided	Member Benefits
Categories	<ul style="list-style-type: none"> • Experienced sourcing professionals • Indirect category SMEs 	<ul style="list-style-type: none"> • Frees scarce purchasing staff to work on strategic categories
Technology and Methodologies	<ul style="list-style-type: none"> • Spend analysis tools, supplier databases, robust strategic sourcing methodologies, reverse auctions, negotiations best practice 	<ul style="list-style-type: none"> • Ensures best in class pricing – 10% to 30% typical savings • Ensures proven, high quality suppliers
Category Deals	<ul style="list-style-type: none"> • Referral/frame agreements with pre-negotiated pricing 	<ul style="list-style-type: none"> • Saves time and resources (purchasing and legal) • Savings achieved in weeks vs. months
Implementation Support	<ul style="list-style-type: none"> • Apply proven implementation approaches 	<ul style="list-style-type: none"> • Avoids delay in savings achievement
Category Management	<ul style="list-style-type: none"> • Contract compliance audits, spend compliance analysis • Issue resolution, periodic pricing updates 	<ul style="list-style-type: none"> • Prevents erosion of savings
Supply Market Knowledge	<ul style="list-style-type: none"> • Monitor supply markets for changes, “trigger points” for revamping category sourcing strategies 	<ul style="list-style-type: none"> • Ensures members advantaged by shifts in supply technology, economics, etc.
Knowledge Sharing	<ul style="list-style-type: none"> • Member forums/meetings • White papers 	<ul style="list-style-type: none"> • Members learn and benefit from each others successes
Other Value Add	<ul style="list-style-type: none"> • Category deals extended to member’s employees, e.g. Flowers & Gifts, Office Supplies 	<ul style="list-style-type: none"> • Provide employees with additional benefits at no cost

Members can achieve savings quickly tapping into pre-negotiated contracts for Temporary Labor

Traditional Temp Labor Sourcing vs. GPO Approach

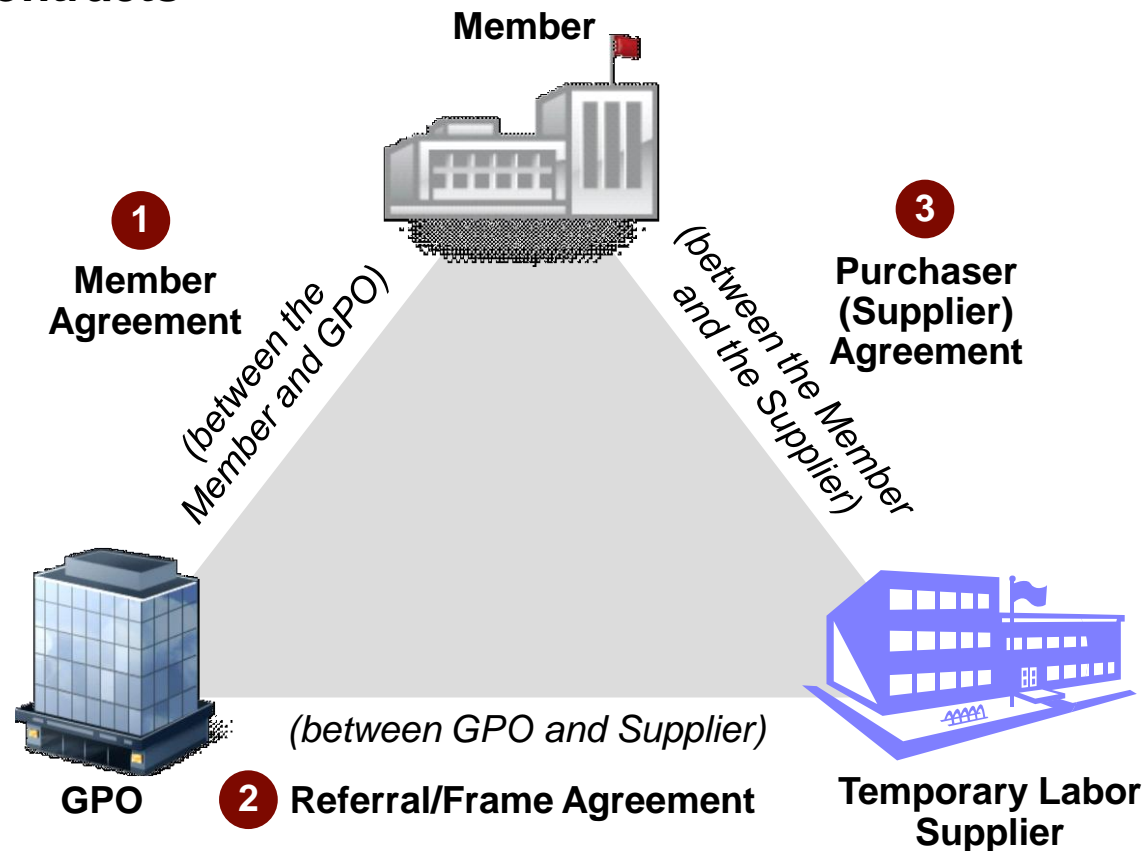
Traditional Sourcing	GPO Approach
1. Develop Category Profile	1. Develop Category Profile
2. Generate Supplier Portfolio	
3. Develop Sourcing Strategy	
4. Select Path for Implementation	
5. Negotiate and Select Suppliers	
6. Implement New Agreements	6. Implement New Agreements
7. Sustain the Results	7. Sustain the Results
4-6 Months	4-6 Weeks

Advantages

- Leverages combined spend levels of GPO members
- Eliminates complex and lengthy sourcing process
- Ensures optimal results based on pricing achieved through a rigorous, technology enabled, professional process
- Streamlines contracting process
- Saving begins months earlier than traditional process
- Minimizes impact on scarce company purchasing resources

Member agreements are direct with suppliers similar to a normal contract but based on the referral agreement pricing

Three Types of Contracts



Major benefits provider leveraged sourcing, demand management and a new MSP/VMS model to generate a 24% reduction in temp labor spend

Situation

- Client is a large benefits providers
- Goal of reducing costs by \$200 million
- Client spend \$22MM annually on non-IT staff augmentation

Approach

Bill Rate and Markup Compression

- Consolidated spend across suppliers to leverage volume
- Issued RFP to incumbents & other suppliers - evaluated based on quality, reliability of service & financial value

Demand Management

- Reviewed tenure to reduce co-employment risk & unneeded roles
- Defined common, enterprise-wide job titles and specifications
- Improved alignment of job titles /skills with business needs

MSP/VMS Operating Model

- Assessed MSP/VMS capabilities to design new operating model
- Issued competitive RFP to incumbent & new VMS/MSP providers
- Established new staff augmentation requisition process, policies, and controls

Results

- Restructured relationship with incumbent MSP/VMS and reduced MSP/VMS service fee
- Improved process, policies and technology and established fulfillment practice to compete every staffing requisition with Tier 1 suppliers to ensure dynamic market adjusted rates and to enforce not-to-exceed rate card
- Leveraged standardized job titles and levels to better match resource needs with market competitive rates
- Bill rate compression resulted in 16.4% benefits or \$3.6MM
- Demand management & the new operating model resulted in 7.2% benefits or \$1.6MM
- Total benefits were 23.6% or \$5.2MM on \$22MM in spend

Global firm leveraged collaborative optimization to source \$200MM of temp labor, resulting in savings of > 17.6%

Situation

- Scope of the project covered contingent labor located globally, as well as a concurrent effort to select a Managed Services Provider partner
- A variety of labor types with multiple regional stakeholder groups and more than thousands of active hiring managers
- The annual spend was ~\$200 million
- Goal was to achieve 5-8% annual savings

Approach

- 250+ suppliers RFI; 119 suppliers invited to RFP
- Utilize CO to go to find optimal solution focusing on both labor rates and supplier overheads
- Develop >50 potential award scenarios based on client business constraints and desired outcomes
- Leverage multi-national spend with global suppliers maintaining competition with local/niche suppliers & maximizing commitment to diversity
- Concurrently manage RFP process to select MSP partner & determine best MSP model for client

Results

- Received over 119,000 bids from 104 suppliers generating significant competition across all 3700 lots (between 6 & 52 supplier bids per lot)
- The client prescribed Most Desired Outcome award scenario, through detailed CO technology workshops, resulted in a 17.6% savings from baseline pricing, while retaining the largest incumbent suppliers for a minimum of 65% of spend to ensure supplier continuity, stakeholder buy-in and minimal business disruption.
- 15.1% savings achieved on pay rates and 2.1% savings on mark-up
- Number of preferred suppliers were reduced by more than 35%.

Traditional sourcing approaches were limiting the category inherent complexity in order to keep bids “comparable”

Sourcing approaches for Temp Labor

Traditional Approach

- **Reduce complexity**
 - Negotiate only supplier Mark-up
 - Aggregate demand on category per country level
 - Focus on big players
 - Outsource to MSP

Our approach

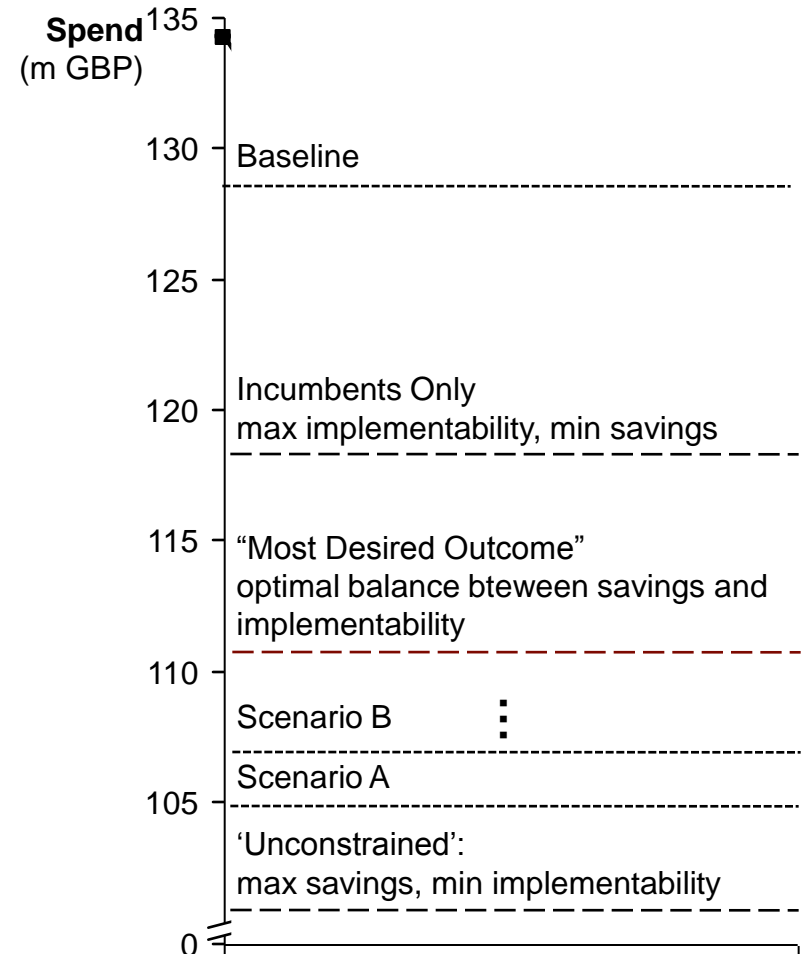
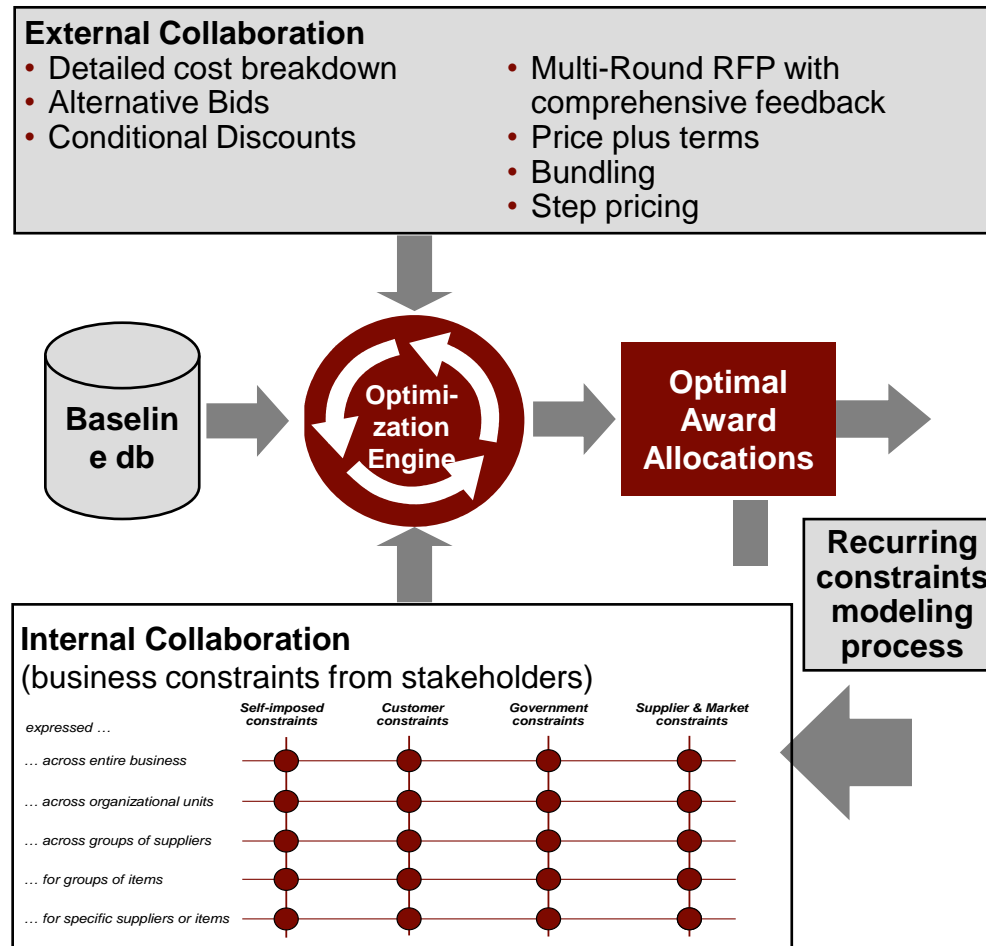
- **Manage Complexity to our advantage**
 - Comprehensive cost model inc: pay rates, skill type, worker status (PAYE/Ltd Co, W2/1099), regular/over-time hours, payrolling, other benefits, taxes,...
 - Multi-round negotiation, “slow auction”, comprehensive feedback to suppliers between bid rounds
 - Flexible conditional discounting
 - Capacity Validation
 - MSP sourcing in parallel
 - “Compare” bids using best-in-class collaborative optimization analysis tool



Scenario Analysis allows to find the optimal balance between business constraints and the cost that they imply

Collaborative Optimization

Example



Thank you!

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