

forward focus

the 10 myths of an MSP program for human capital—
from a buyer's perspective



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Introduction

Contingent workers make up an ever-increasing segment of workers at many companies with spend estimated at over \$50 billion. For many companies, the implementation of a program to manage this spend can deliver significant results, both financially and from a control standpoint, as well as reduce risk. A successful implementation requires both the participation of critical stakeholders and an implementation plan with specific goals. Companies can create a strategy that will deliver cost savings to their bottom line and mitigate risks through compliance.

This paper will examine some of the common concepts and myths around engaging a Managed Service Provider (MSP) for human capital, and provide insight toward evaluating this type of arrangement, including:

- Benefits of outsourcing versus insourcing
- Change management considerations for end-users and suppliers
- Role of technology in an MSP program
- Types of managed service companies
- Potential benefits from deploying an outsourced model

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Myth #1

It's better to manage the supply base internally versus outsource to a Managed Service Provider (MSP)

The expertise of an MSP and the depth of their knowledge in such areas as risk mitigation, co-employment, process efficiencies, operational management and contingent labor market knowledge make this a category in which any significant user of contingent labor should weigh all factors seriously before making a decision, and not dismiss outsourcing lightly.

When evaluating whether to outsource or manage this category internally, the primary areas to consider are internal supply chain capabilities, including:

- Knowledge and expertise in this category
- Size, scope and complexity of your program
- Potential benefits the outsourcing partner could bring to the relationship

Most supply chain professionals have significant concerns in turning over the management of suppliers to a third party. What are the positives and negatives of doing so? Does it make sense? Supply chain organizations typically have little experience in the contingent labor category, shared in many organizations by human resources, finance, supply chain and the managers who engage contractors. Does the supply chain group have time to monitor the staffing industry, monitor pay rates and the labor market and become involved in the "people" issues that come along with the use of external labor?

What resources does your company have in its supply chain organization to manage these suppliers internally? Does the group operate lean with the depth and skill sets needed to manage staffing suppliers, contractual issues and operational issues—or is it more efficient to have the MSP manage these areas with their extensive experience? The acquisition of contingent labor is unlike any other procurement activity and many companies do not understand that market factors have a significant impact on the sourcing strategy of this category. Supply chain personnel need to account for such factors as the level of unemployment, supply and demand, geography, workforce makeup and others if they decide to manage this category internally instead of outsourcing.

Other areas to consider in deciding whether to implement an MSP include the scope and size of your program, as well as the supplier relationships. Will your program only include technical positions or will it be company-wide across all labor categories including administrative, light industrial and professional? What geographic area will the program cover (regional, national or global)? Do the contractors perform critical tasks or do they perform administrative tasks that are not crucial to company operations? Do you obtain highly technical contractors who need to know your business well and the products you manufacture or sell, or do you offer more generalized services or products where the supplier relationship is not critical?

Supplier relationships will have a big impact on the decision. What types of relationships do suppliers have or need with your company to provide quality service? Firms should consider their current relationships with labor suppliers and the criticality of those relationships to the operation of their business. Depending

on the complexity of your supplier relationship, the supplier's contractual relationship is an area to be considered carefully. Options include the MSP holding the contracts, the client having the contractual relationship or some type of hybrid relationship.

The managed service partner can bring a wealth of knowledge by:

- Improving contract and regulatory compliance
- Decreasing labor rates
- Reducing procurement cycles
- Lowering administrative costs
- Enhancing responsiveness to employees and suppliers

What are the factors that drive a decision to use or not use an MSP? The primary factors include whether to perform the work in-house or outsource to an MSP, the type of technology to use, the scope of the program (administrative, technical, professional, light industrial or some combination of all four areas) and the level of control over the program by the client.

The operational part of a program should not be underestimated and many times is not given proper focus. Management of the supply base for contingent labor is as much operational as it is strategic. As in working with any other situation involving people, the management of the category (people) is unpredictable—just ask your HR department. These are decisions that cannot be made by one department or group at the client, but should be considered through a well-managed process with the participation of all impacted groups including supply chain, finance, human resources, legal and those end-user departments using significant numbers of contractors.

Some of the most common failures in outsourcing involve the delivery cycle (poor service or quality, lack of flexibility or hidden costs). The parties need to develop appropriate service level agreements (SLAs) and metrics to mitigate these issues, and have the systems in place to measure both. They also need to implement controls at the process level, an area where leakage can be found, and enforce competitive practices down to the transaction and process levels to ensure a consistent system. The outsourcing arrangement also needs flexibility for it to succeed as the business needs of both parties evolve over the term of their arrangement. Any decision to outsource should be made after a significant and thorough review involving all of the parties to be impacted.

Supply chain groups should reach out to other companies that currently use MSP programs to see what has worked and what lessons have been learned. Each company is comfortable with releasing different levels of control to a third party. What areas of the supplier relationship are your company comfortable in turning over to the MSP? The MSP can be engaged as a turnkey operation or with differing levels of control over suppliers (including supplier management, selection and contract management), a workforce tool (often referred to as a vendor management system) and program management.

Myth #2

My end-users won't adopt the program

Communications

The adoption of an MSP model requires several critical factors for success—the primary issue being executive support. Executive support means not just casual

mention in passing to others in the company, but a full and complete embrace of the concepts of an MSP model and willingness to be a change agent to other senior leadership in the company. Once the executive sponsor is willing to take on this task then they must be willing to become a “passionate advocate” of the program.

The executive sponsor then must begin to persuade others of the benefits and use of the program, and one important way is for the executive and other critical stakeholders to use the program themselves. These stakeholders must also promote the program at their staff meetings and challenge their subordinates when they attempt to bring in contingent labor outside of the program. Make sure you engage potential partners in dialogue around the depth and breadth of their change management capabilities.

Repetition is the key to communication. You are asking your users to make huge changes—that typically will not happen overnight.

- Don't be afraid to repeat your messages with frequency using multiple media channels.
- Determine what methods work best for your communication: for some a paper method works best while for others it is electronic communications.
- Information should be provided at a level that can be understood by your audience.
- Do not talk under or over the people to whom you are communicating the message.

One of the best ways to overcome resistance to change is to use testimonials. Once you have a program operating ask users for comments or quotes to

include in your communications. What is more powerful than to see other employees making a statement about using the program? Ensure any statement includes the benefits received from using the program. Also, make sure your communications include a call to action. Explain what you want to happen, such as to review new policies or processes for engaging a contractor, take a training session to understand the program, request a new login if a new software tool is necessary or some other specific action.

Administrative Benefits

One important benefit that users see immediately is a reduction in administrative chores that seem trivial to most managers, but are crucial to making a contractor productive once they arrive onsite. Such administrative tasks as managing system access/login requests, workspace requests, phone and voicemail requests, security badges and other traditional on-boarding tasks can be integrated into a centralized MSP program's operation. Centralizing these administrative activities with an MSP creates improved internal controls and audit capabilities.

Another area to highlight is the amount of time that can be freed up for managers. In today's fast-paced and multi-tasking work environment, time is crucial. Part of the message to convey is that you will give managers more time to concentrate on their core business activity, in not having to search for a qualified contractor or deal with multiple suppliers, payment issues, etc. Suppliers can quickly become burdensome to manage; let an experienced MSP handle these issues.

Branding

The branding of an MSP program depends on how a company tries to implement the

program. Will it serve as an extension of your supply chain, human resources or another department? A brand conveys a message, or promises a specified level of expectation to customers, and it can accomplish the same results with internal customers (employees). Brochures or materials should not be assembled by a third party, engage your internal corporate communications or advertising department to assist you.

Make any branding effort reflect your company, its values and messages so it has the look and feel of your company. In that way, users will know the materials have been reviewed by your company and are not just from some unknown program provider. If your MSP is going to support the program with onsite or dedicated personnel, make sure they know the verbiage that conforms to company culture. If you have branded the program make sure they refer to the branded name and not their own company name. If you pursue this option make sure your potential partners can provide examples of custom-branded logos and names they have previously used.

Myth #3

Suppliers won't engage in the program

Using an MSP requires that suppliers reevaluate their business model to the end-user. With an MSP using a software tool to issue staffing requirements, suppliers who use a large sales force to develop and manage their relationships will no longer be successful. Suppliers must change from a relationship-based arrangement to one that is focused on recruitment of quality candidates, in preferably a centralized environment with dedicated

recruiters assigned to a program. No longer will suppliers troll the hallways trying to get preferred status or place people in positions—which only results in the suppliers managing the process, instead of the client managing the suppliers. Suppliers need to reevaluate their approach to MSP programs as the metrics will be performance-based and not relationship-based. Metrics analyzed will include the number of responses to an opening, quality of placed candidates, placement rates, turnover and other operational measurements that will become factors used to measure supplier performance. Suppliers who do not make the grade will quickly be removed, so performance will be critical. Suppliers who perform well should be rewarded with further incentives, whether through supplier performance awards or some type of tiering or exclusive time period to respond to openings.

The funding method of an MSP is another area to consider, with models funded by the supplier or end-user being the most common methods in use today. While user-funded models add to the cost of labor, the overall price reduction in labor rates is made substantially greater by consolidating suppliers and leveraging rates. MSP fees can be funded from a single department that manages the program, or added as a percentage of the hourly labor rate and allocated among all user groups. Supplier-funded models sometimes result in suppliers building the fee into their pricing, which becomes a break-even situation.

Suppliers must become educated in using and supporting multiple technologies. Larger suppliers will look to create an interface for time reporting if they maintain their own systems for payroll. MSP users should consider the flexibility of the tool and complexity of developing interfaces

and integration points when selecting a tool. Many suppliers are developing recruiting groups specifically dedicated to MSP programs that focus on recruitment of contingent talent where speed, quality and price are the primary factors for success. The potential customer should always speak with references from the potential MSP supplier and contact both current and past customers.

Myth #4

I will lose control of my human capital supply chain

MSP contractual relationships can be established in a few different ways. One method is for the MSP to hold and manage the contract as well as taking on the risk. The MSP would hold the contract for the benefit of the end-user who is receiving the services. Another method is for the end-user to hold the contract with the supplier, so the end-user is responsible for the management of the contract as well as the risk. A third possible method is for the end-user to hold the contract, but make payments to the MSP or tool supplier to be passed through to the suppliers. One additional possibility is a three-party agreement that is executed by the MSP supplier, the suppliers in the program and the end-user.

Depending on the end-user culture and the depth of the relationships the organization has with suppliers, different levels of contact can be permitted between suppliers and users in an MSP. It is important to remember that one of the purposes of the MSP is to remove daily burdens from users in dealing with supplier issues, supplier sales reps and other operational issues involved in engaging a contractor. Supplier contact restrictions can

range from no restrictions to no contact with end-users at all. The important thing to ensure in developing this strategy is to effectively manage the supplier relationship and contractor engagement process. One other consideration is whether the MSP wants to present a level playing field to all suppliers, which can be a huge incentive for small suppliers to join an MSP. These small suppliers can compete and have the same opportunities that large suppliers have when a software tool is used to distribute requirements.

Supplier scorecards should be developed after reviewing the client's strategic business objectives, including those of the departments sponsoring the MSP program. Input should also be obtained from prospective users of the program.

- What are the primary objectives of the client in engaging a contractor?
- Are users looking for price, speed, quality or some combination of all three?

Supplier considerations should not be overlooked when developing scorecards or metrics, to assist them in providing higher-quality contractors when they are needed. The MSP should become an integral part of the client's supply chain group and act as one voice to the suppliers, so that a consistent message is sent on strategy and performance.

One final area to consider is the potential reduction of your supply base. The rationalization of the supply base allows the MSP to negotiate the best price, reduce operational costs and improve quality by leveraging buying power through fewer suppliers. Maintaining supplier records, making payments and maintaining contracts all have costs

associated with them. An MSP can provide the tools to offer very specific metrics at an individual supplier level to determine supplier performance. Supplier metrics can quickly identify poor performers, allow for root cause analysis of poor performance and assist in developing corrective action—or may result in removal of poor performers from the program.

Supplier scorecards should be issued at least bi-annually so that suppliers can review their performance and adjust to make improvements. The supplier summit is the proper venue to communicate what metrics will be tracked and what acceptable performance levels are required to continue as a supplier in the MSP. The competition between remaining suppliers will result in a better focus on the client's requirements, with increased submittal and start ratios that result in higher-quality contractors. Suppliers who are successful in MSPs are those who focus on the recruitment of high-quality talent and have high submittal percentages. The objective is to put candidates in front of the decision-makers at the client organization as quickly as possible.

Myth #5

Technology should be the primary consideration when making a decision

Should technology be the primary factor in your selection criteria for an MSP? While the tool is a significant factor, many other factors need to be considered in the final decision. Other factors to consider include: the capabilities of an MSP to support an onsite or remote program operation depending on the client's needs, the number of years and depth of experience the MSP has in operating programs that acquire the specific categories of

contingent labor to be covered in your program, whether the MSP is also a staffing firm that segregates MSP operation and has its own operations, whether it brings strong supplier relations capabilities including new suppliers to fill the client's needs, and whether it can easily adapt to meet the client's business strategy.

The MSP service model is one focused exclusively on the management of contingent labor and the performance of the suppliers who provide that labor. The MSP uses a workforce tool (software) to assist it in this process. The focus therefore is not on a tool, but the supplier who will manage and use that tool as part of the MSP program. While a flexible and properly configured tool is important and can save significant processing time and provide a high level of detail on metrics and reporting, the MSP with its depth of experience focused on the contingent labor market is the factor that makes it all work. The MSP can bring a wealth of knowledge and expertise on system configuration, control points, process optimization and reporting. In addition, it brings the knowledge of the contingent labor market, recruiting expertise, awareness of legal risks and program management experience.

Technology is important when it comes to the transactional and reporting areas of any MSP program. The ability to have a user-friendly tool configured to meet the client's current business needs as well as provide accurate reporting is critical in determining the benefits of an MSP. Consideration should be given to such factors as ease of interface or integration points, future enhancement roadmaps of the software, capabilities to handle fixed-price work, internal client IT capabilities versus hosting solutions and user training. Data ownership and management is

also important, and whether to license the software or allow hosting by a third party with the purchase of a user license. Finally, support after implementation is an important area for consideration.

When considering technology it is important to consider future goals as well as current needs.

- What if the MSP relationship goes bad?
- Are you considering bringing the program in-house in the future?
- Can you change the technology out quickly?

Consideration should be given as to whether the technology is separate from the MSP or part of a bundled package. If the client purchases it as part of a bundle of MSP services and later regrets the MSP choice, then disentanglement can be complex and costly. As part of the due diligence in selecting and implementing an MSP a client should investigate all options with regard to technology. Options include licensing from the MSP, licensing directly and selecting it as part of the client's internal ERP system.

Myth #6

Technology takes out the human factor

One concern many users of an MSP have is that using a software tool to request, source and select contractors removes the human factor from the decision. By automating the process, the individual becomes a commodity when in fact their ability to interact with others, their personality and work style may have a big impact on their ability to be successful at the work they have been engaged

to perform. The MSP program needs to adapt to the work environment at the client, and structure the contractor selection process to meet those needs. The program will need to consider whether the client will screen or interview the contractor, or just have the first qualified individual show up on the start date. The method used is largely based on the culture of the client's workplace, the individual department and the type of work to be performed (administrative vs. professional or technical).

The MSP should perform a discovery as part of their setup process to determine how the client engages contractors prior to the launch of any program. Many times as a result of this discovery process it is determined that clients maintain limited and piecemeal information about contract workers. Performance of workers, pricing and supplier performance is not measured or shared within the company. So, if one contractor failed to meet a manager's expectations, that worker could end up in another department with no history of his performance readily available. Also, if a contractor is involved in a safety or HR-related situation there is no way to monitor whether this contractor returns at a later time.

Myth #7

The MSP should not be part of a staffing company

Most successful MSP programs employ a strategy that puts all suppliers on a level playing field and encourages competition that provides the best value to the user. A few solution vendors come with complicated relationships and hidden agendas that put too much focus on the relationship instead of focusing on

meeting the end-user's requirements. These can reduce performance and impact your bottom line. Investigate any hidden vendor relationships as part of your due diligence process during the RFX phase by asking the right questions.

When evaluating MSP suppliers during your RFX process consider the financial stability and resources of potential MSP suppliers. Can they support your program in the way you expect to be supported? The MSP should have extensive capabilities and resources to adapt to your needs. Can they bring on the needed resources if your program expands quickly and do they have depth and size to handle slow periods as well? Financial stability should not take into account only dollars, but performing reference checks on existing programs. Feedback from these references should indicate flexibility to grow with the client's business and the ability to adapt to changes in business levels without any problems.

The MSP can offer a wealth of knowledge concerning how to manage your contingent labor workforce. Contingent labor issues continue to be a significant control issue, especially for public companies under Sarbanes-Oxley Section 404. Just consider your local newspaper headlines for stories related to issues involving immigration raids, co-employment lawsuits, failure to pay overtime and discrimination claims. These issues can create tremendous liabilities for companies in both dollars and public perception. When evaluating an MSP supplier, consider their experience in the staffing business and how they can assist in managing these risks. Suppliers with significant experience can assist the client in developing processes and policies that will mitigate such risks. If your company has a global footprint then you will want to

consider an MSP supplier who has global capabilities and experience, so that they understand the potential risks in each country where you conduct business.

Recognized issues that can be addressed through both strong client management of the MSP relationship and appropriate contractual language in the statement of work and SLAs include:

- A vested interest in withholding job requisitions from suppliers while the MSP attempts to provide a candidate
- Claims by the MSP concerning the capabilities of its software tools
- Properly trained onsite personnel with the necessary knowledge of not just recruiting, but federal and state tax law, employment law and regulations.

Myth #8

Benefits of the MSP program are not sustainable after year 1

Cost savings can be measured in one of two ways. One area is the hard cost saving you can obtain by rate reductions through the RFX process, consolidating your suppliers and leveraging volumes. The second area is soft cost savings such as reduced transactional costs, improved efficiency of your process through using a software tool to source contract labor and improved supplier and contact management.

While first-year cost savings can be dramatic, it is important not to stop after the first year, as other cost savings will appear in subsequent years. For example, companies should review their fixed price deliverable or consulting areas to make sure they are not overpaying for consulting labor that should be correctly

categorized as contingent labor at the lower contingent labor rates. These savings can be significant depending on your particular spend in this area. Also, ensure your contracts mandate that existing suppliers transition their existing contractors to the new rates as a result of the RFX. Finally, include a clause that if your suppliers perform both contingent labor and consulting services, and you find them performing consulting services that are really contingent labor services, the rates revert to those lower rates.

Engaging an MSP provides you with human capital consultants who will configure the program as market conditions change (e.g., bill rate analysis) or business objectives evolve/change (e.g., acquisition of a new company in a line of business or location where you do not have experience, but your MSP partner does have experience). An MSP has the experience of involvement with small- to large-sized corporate clients, regional, national and global workforce environments and many different types of industries in the services, manufacturing and retail areas.

Public companies are required to comply with Sarbanes-Oxley and must have controls in place. One area many companies do not consider is in the non-employee category. An MSP can assist in developing and managing compliance paperwork such as ensuring that Non-Disclosure Agreements are in place with contractors, monitoring completion of drug screens and background checks, managing the on-boarding and off-boarding processes such as asset return, security badge return and the access or termination of computer systems.

Myth #9

Suppliers will lose visibility to client

Supplier Conferences

One complaint commonly heard from suppliers is that with an MSP they will lose visibility to the client, lose the close relationship they had with the client and an understanding of their client's business needs, both current and future. These types of concerns can be addressed through a number of initiatives from both the client and the MSP. For example, one way to keep suppliers involved and aware of the client's needs is through supplier conferences.

The MSP can host supplier conferences one or more times a year depending on their need to discuss such issues as supplier performance, the issuance of new or modified policies or procedures about the program, and to allow a Q&A session. As part of these conferences, managers representing different business areas of the client can attend to discuss future opportunities, outline future projects that will require the use of contract labor and the associated skill sets or experience needed.

Manager Meetings

Another way for suppliers to obtain information is for the MSP to host manager meetings that bring together suppliers and managers to discuss future needs and projects where they expect a need for contract labor. Suppliers can ask questions to assist them in focusing recruitment efforts based on skill sets, certifications or work experience needed for the future work. Managers can also provide suggestions on sources for recruiting that sometimes suppliers have not previously considered. Finally, suppliers can ask questions about the work environment or culture so they can recruit employees who are a better match and reduce turnover.

Myth #10

Small suppliers cannot be successful in an MSP relationship

The use of vendor management system (VMS) technology can streamline the "req-to-check" process for clients and suppliers. When a VMS system is deployed, MSP best practices implemented and policies enforced, it creates a fundamental shift regarding the relationships suppliers have with the client. Prior to the engagement of this model, there often is a dedicated effort by the supplier's business development team to establish relationships directly with hiring managers. Some of the issues that surface from these direct relationships include inconsistent pricing, loss of volume leverage, few if any standardized processes and poor internal controls. If implemented properly, the MSP model with its embedded controls and formalized processes reduces or eliminates these issues. It also provides a delivery-based model where suppliers are held accountable through service level agreements, statements of work (if applicable) and metrics focused on performance and quality. When this type of change occurs, small suppliers now have the opportunity to submit candidates to all potential openings with minimal investment. Traditionally, smaller suppliers have had a difficult time gaining access to all potential opportunities and decision-makers. With the engagement of an MSP and accompanying technology, large suppliers with substantial account teams no longer hold the advantage as all suppliers are on a level playing field. No longer do small suppliers have to spend substantial sums hiring external sales personnel and marketing themselves to clients within a complex matrix of business units to find the decision-makers. These companies can now spend that money

on hiring recruiters to focus on meeting the client's needs, based on job orders distributed through the VMS technology.

Conclusion

The examination of these myths should give all potential users of an MSP a basis for review of potential solutions to their needs concerning management of their contingent labor spend. Contingent workforce management is a complex effort that has an impact on many stakeholders within a company. Each company must go through a comprehensive review process to determine what model best fits their strategy and business goals. In addition, once implemented, compliance and support are critical to ensure success and the benefits, such as cost savings must be measured. The cost of failure in this area can be substantial in terms of legal risk and negative publicity.

