

Understanding the MSP/VMS Marketplace

Best Practices: Selecting a Managed Service Program (MSP) Provider



What do you do?



Taking the First Step

Buyers of contingent workforce solutions have a number of options available to them in the structure, design, and potential to outsource all or part of their programs. The decision on what program is the most effective or the right fit is one that each organization must decide for themselves. Companies must weigh the options in the current marketplace with the elements by which they define and measure their own success.

Manpower has provided Managed Service Program offerings to our clients for more than a decade, and the cumulative experience with more than 40 clients in 35 countries has provided insight into the benefits and risks associated with the available models in the marketplace. This best practices document examines each of the available models, and explores some considerations that companies should take into account when considering any MSP engagement.

What are my options?

The universe of workforce management solutions can seem almost endless. At the highest level, the elements of all solutions can be broken down into three main functions – supply, program management, and technology.

	Software as a Service (SaaS)	Third-Party Management	Technology and Management	Employment Services	Full-Service MSP
Supply	Provided by External Supplier	Provided by External Supplier	Provided by External Supplier	Provided by Single External Supplier	
Manage		Provided by External Supplier	Provided by Single External Supplier	Provided by Single External Supplier	Provided by Single External Supplier
Provide Tech		Provided by External Supplier	Provided by Single External Supplier	Provided by External Supplier	

Contingent workforce programs are comprised of three main elements: Supply, Management and Technology. The different solutions in the marketplace are variations on the combination of internal management and outsourcing of these three elements.

Software as a Service (SaaS) – In this arrangement, a company purchases software, installs and manages it internally, and the fulfillment of orders is provided by an external supplier(s).

Advantages – Companies look to internally managed solutions when:

- Outsourcing is not culturally accepted or a viable option
- Key stakeholders want to maintain close control of the process and technology
- There is a goal of funneling all categories of spend (materials, commodities, and services) through a single program/process.

Risks – Some of the risks inherent in a SaaS solution include:

- Company personnel spending time focused on administrative duties related to the contingent labor program, rather than on core company projects
- Model may have to change as demand for contingent labor exceeds capacity of internal resources.
- Rapid rate of change in the technology marketplace may render the selected software outdated or obsolete in a matter of months.

Only 31% of buyers who manage their CW programs internally indicate that they currently use a VMS (software as service).

-Source: Staffing Industry Analysts' 2007 Buyers' Survey

Third-Party Management (aka Triad Model) – The triad model is noted by the marked separation of the three functions – supply, management, and technology – by outsourcing each component to an independent company.

More than 300 organizations of all revenue classes show that small businesses (with annual revenues of up to \$50 million U.S. dollars) are reporting a major up-tick in demand for supply chain management services.

*-Source:
www.aberdeens.com*

Advantages – Companies look to this model for:

- Ease of exit from parts or all of a program that is not meeting their needs.
- Perceived variety of program choices by incorporating multiple vendors rather than a “one-stop shop”
- Best-in-class performance on all three functions, by selecting the industry leader for each (perception that one vendor cannot specialize in more than one function)
- Promoting a supplier-funded model
- Mitigating risk in large scale/spend programs, since each firm can target their specific area

Risks – Some of the risks inherent in the triad model include:

- Multiple companies add their markup to overall program costs (paying the middleman)
- Slower move to overall program efficiencies, since multiple companies must work in sync
- Commoditization of supply base could erode the quality of candidates provided through such a program
- In the current talent shortage, it's more difficult to entice niche or specialty staffing firms to participate in a program with lower margins
- Taking a program global can be difficult if all outsource providers are not ready to cross borders
- Global expansion difficult, with few program managers having global expertise/footprint

Technology and Management – Companies using technology and management outsource the management of the program – including the technology – to an external provider, who also assumes responsibility for communicating the requirements to the supply base.

Advantages – Companies look to this model for:

- Ease of exit from a program that is not meeting their needs, without losing established relationships with key suppliers.
- Lowest cost providers, since third-party managers generally derive cost savings by compressing the margins on the participating suppliers.
- Potential synergies with a managed service provider who may be used to manage other categories of spend
- Promotes a supplier-funded model

Risks – Some of the risks inherent with third-party managers include:

- Third-party managers may have expertise in supply chain management, but may not understand nuances of staffing/workforce management.
- Limited options if one aspect of the third-party program (management or technology) is not ideal or working well.
- Added layer of management between supplier and hiring manager could erode the quality of candidates, particularly for professional skill sets.
- In the current talent shortage, it's more difficult to entice niche or specialty staffing firms to participate in a program with lower margins
- The financial stability of companies providing services may expose you to undue risk, should the company get into financial trouble.

Employment Services Model – A newer option emerging in the marketplace, the employment services model is the inverse of the third-party management model described above. Companies either purchase or outsource technology from one provider, and award the program management and the supply to a second provider.

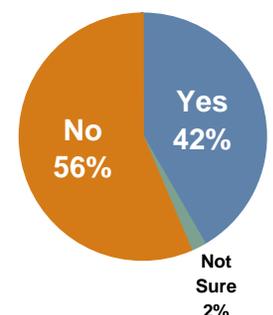
Advantages – Companies look to this model for:

- Ease of exit from a technical platform that does not provide desired functionality, without losing established relationships with key suppliers and program managers.
- Selecting the best of breed from technology and from staffing program management (often program providers are more HR/staffing focused and more attuned to workforce shifts/trends)
- Reduced change management for end users, if they already have a software program installed (migrating from an SaaS model to outsource program management).

Risks – Some of the risks include:

- Limited options if one aspect of the program (management or supply) is not ideal or working well.
- Selected provider may not have the expertise to address future or unforeseen needs (new skills, geographies, or sourcing models such as offshoring)
- Perception that a program manager who also supplies cannot provide a vendor neutral program

Buyers Whose MSP Is Also Primary Staffing Supplier



Source: 2007 SIA Buyers Survey

Full Service MSP – In what we refer to as a “full service” MSP, a single or sole supplier provides the entire gamut of services. Companies establish a partnership relationship with a single staffing firm that is responsible for the supply, management, and technology.

Advantages – Companies look to this model for:

- A long-term successful relationship with a workforce solutions company that offers a managed solution
- A quicker, smoother implementation (easier to sign contracts, agree on service levels and implement with a single provider)
- A deeper connection with the rapid shifts in the workforce
- Economies of scale and lower cost through a single provider

Risks – Some of the risks of a full-service MSP include:

- Putting “all your eggs in one basket” – exiting such a program prior to contract end can be difficult
- Perception that a single partner cannot excel in all three functions
- Few firms can provide such services globally

Buying Considerations

There are a few things that any company considering a move to consolidate, centralize, or redesign a CW program should keep in mind, regardless of size, scope, or position in the buying process. These suggestions are supported by the best practices for MSP as published by the American Staffing Association. Manpower held two of 10 seats on the American Staffing Association’s Industry Best Practices committee for Managed Service Programs and Vendor Management Systems, published to ASA members in March 2008.

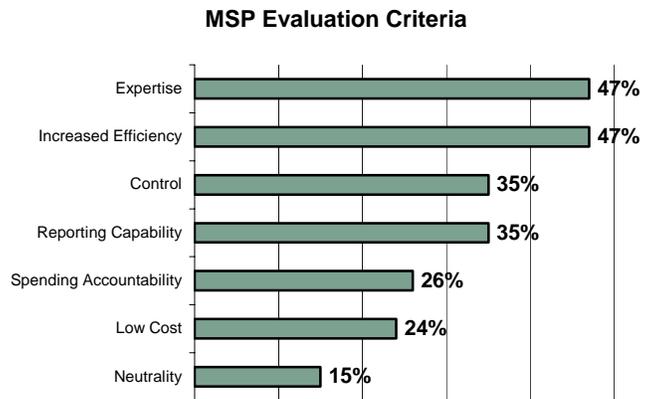
Investigate Financial Stability – With the recent collapse of the world’s largest VMS provider, Ensemble Chimes Global (ECG), the financial stability of program providers is rightly under increased scrutiny. Often technology providers are funded by venture-capital companies and subject to the fortunes of the umbrella company’s acquisitions and divestitures. Companies exploring their options for MSP and VMS should ask pointed questions about and pay careful attention to the financial statements of the partners they are evaluating. Understanding the financial position of a staffing partner will help mitigate your risks of selecting a partner without the financial strength to support the payment “float” necessary in most programs.

When Axium (parent of ECG) filed for bankruptcy in January 2008, staffing companies scrambled to collect outstanding bills that have been estimated at anywhere from \$100 million to \$300 million.

-Source: Workforce Management Online, February 2008

Consider and Consult Key Suppliers – Most staffing suppliers have experience working in externally managed programs, and likely have preferences or opinions about particular program managers or third-party technologies. In the tight talent market, keeping high-performing suppliers happy and productive is key to ensuring top talent continues on your assignments. These suppliers can be valuable advisors during the evaluation process, offering the perspective from the supply chain.

Balance Savings and Service – Cost savings is at the top of most procurement departments’ lists of goals. It is true that program consolidation and the introduction of technology to the process can drive some efficiency and establish control over bill rates across the program. However, companies should temper these cost savings initiatives with an emphasis on overall program quality. An MSP program is only as good as those who participate, and if prices have been squeezed so low that suppliers cannot participate and still be profitable, worker quality will suffer. Consider savings targets that include “soft-dollar” savings through process efficiencies, developed and implemented over the life of the program, rather than one-time cost compressions.



Despite the pressures on organizations to drive year-over-year savings, the criteria that most buyers indicated they used to evaluate their programs were expertise and increased efficiency. *Source: 2007 SIA Buyers’ Survey*

Focus on Program, Not Technology – The employment services technology marketplace has become sophisticated and specialized in recent years, with companies branching off to focus on this aspect or that aspect of the overall workforce management process. Add in the flexibility of custom configuration available, and this leads to an almost infinite number of choices for companies when it comes to technology. While this functionality provides critical data for your program – and an element of “flashiness” – it’s important to remember that technology enables your CW processes. The industry leaders in CW technology provide essentially the same functionality (order management, assignment management, time capture, invoicing, reporting). The best program will be the one that meets your stated goals, is intuitive for your end users, and supports the processes you have already established for your company.

So Now What?

This last question is critical to your next steps in the process. Manpower has provided Managed Service Program offerings to our clients for more than a decade, and we have seen the effects of the large-scale change management associated with a move to MSP. Manpower can help you move forward to consolidate, centralize, or change your current contingent worker procurement process.