

THE COMPLETE **BUYER'S GUIDE**

for Services Procurement

Abstract

Are you considering outsourcing the business processes involved in the procurement and management of human capital? The benefits of this strategy can be significant, but only if you select a solution that works best for your organization's particular needs; and the range of solutions and strategies grows more complex by the day. Being armed with a clear understanding of contemporary services supply chain management solutions can mean the difference between success and failure in this endeavor. *The Complete Buyer's Guide for Services Procurement* provides clear definitions of the standard functions and disciplines of solutions on the market today. Also included are critical questions to ask of a provider, helping ensure you arrive at the best solution for your organization.

Is a Services Procurement Program right for you?

Organizations that would benefit from a services procurement program:

- Are engaged in significant use of contingent workforce contract labor/professional services
- Possess multiple subsidiaries/business units with unique business processes and requirements
- Comprise numerous business unit locations, both domestic and global

Organizations that wish to enhance the effectiveness of their existing program to achieve:

- Improved quality of candidates
- Decreased sourcing time
- Sustainable cost savings
- Protection against compliance infractions (worker classification, S-OX)
- Increased process efficiencies
- Consolidated billing
- Greater productivity from their Procurement/HR department

What does a Services Procurement Program consist of?

Primary Sourcing Models

Master Staffing Model

The Master Staffing sourcing model utilizes a single staffing supplier company to provide all the contingent labor for the client organization. Second tier suppliers may be engaged to support the sourcing efforts of the selected master staffing supplier. The Master Staffing model is sufficient for organizations that rely on contingent workers in areas such as clerical/administrative and light industrial where the supply of candidates is high and bill rates are relatively fixed.

Vendor Neutral Model

The Vendor Neutral sourcing model provides a competitive bidding environment wherein numerous staffing supplier companies – large and small – receive the same requisitions and compete to provide the best candidates at the most attractive bill rate. Most appropriate for organizations that rely on contingent workers to perform highly skilled

jobs in such fields as IT, clinical/scientific, legal, etc. the Vendor Neutral model helps procurement source these high-demand professionals at the most competitive rate and rapid fill time.

Multiple Sourcing Models

In instances where an organization employs similar levels of lower and higher demand contingent workers, a combination of the Master Staffing and Vendor Neutral models may be employed. This enables your organization to take advantage of the best aspects of both sourcing models; using a Master Staffing arrangement to source light industrial contingents and a vendor neutral environment to source the high demand skills such as engineers and IT professionals. This multiple sourcing model can be very effective at yielding cost saving and efficiency boosting benefits. However, it can be unwieldy to manage in the absence of a strong MSP.

Key Solution Components

Vendor Management System (VMS)

A VMS is a web-based tool that automates the processes involved in procurement and administration of staffing services, temporary placement, permanent placement or contract labor. Characteristic features of a VMS application include:

- order distribution;
- spend management;
- consolidated billing;
- reporting capabilities; and
- integration with existing procurement systems.

The VMS is more efficient and effective than the manual, paper-based systems they often replace. VMS applications for services procurement are specially designed to address the unique and complex challenges inherent in sourcing human capital unlike existing ERP technologies (i.e. Ariba and Oracle), which were designed for more static commodities. Core VMS feature functionality is similar between all VMS providers.

Managed Services Program (MSP)

A Managed Services Program assumes primary responsibility for managing a company's contingent workforce procurement initiative. It does not replace the HR department; rather it frees HR to perform

its important functions for an organization's employees. The MSP is typically responsible for:

- overall program management;
- staffing supplier management;
- data collection, analysis and reporting; and
- order distribution;

Often, the MSP maintains program management personnel on-site at client facilities. MSPs vary between providers in the quantity of and type of specialty expertise groups they provide, which are a critical value add for the end user.

How is a program marketed?

Delivery Methods

VMS and MSP offered by Single Provider

The bundled delivery of VMS and MSP solution elements are implemented, administered and maintained by a single provider. Providers that offer a bundled solution tend to be larger companies with more employees than providers that only offer the VMS component. This is because it requires a significant investment of resources, manpower and expertise to be able to offer a bundled solution.

VMS and MSP offered by Separate Providers

As an alternative, the two elements of the solution can be chosen from two different providers. The transactional nature of a leading VMS combined with its ease of use means that one organization can typically operate another's technology without difficulty. During the current economic downturn, many businesses in the market for a services solution are considering this option, as they avoid placing all their trust in a single provider.

VMS only offered by Service Provider and MSP managed in-house

Some solution providers in the market offer a VMS software only solution, which is sometimes engaged by organizations that wish to perform the typical MSP functions in-house (aka "Client Self-Service"). Internal departments and processes for managing the non-technical aspects of the program are developed within the organization. The majority of Fortune 1000 companies engaging in a solution choose to

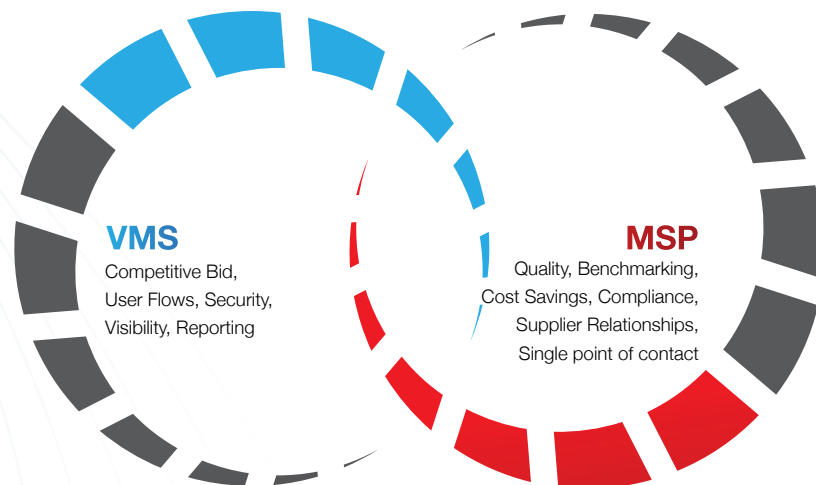
outsource the management of services because of the significant time and personnel resources required.

VMS offered by Service Provider / MSP offered by Staffing Firm

The delivery of the VMS and MSP components by different service providers, typically referred to as an “unbundled solution”, is frequently promoted by providers selling VMS software only solutions. In this scenario, the VMS software-only provider partners with a third-party staffing company, responsible for the MSP component. In theory, an unbundled option is appealing to an end user because it allows them to select their preferred VMS with their preferred MSP. However, this is not the case, as VMS-only firms do not allow end users to pair their VMS solution with an MSP that the client wants due to competitive reasons. MSPs run by diversity staffing firms can aid in the acquisition of diversity spend, however, staffing firms in general, do not make the ideal MSP provider because there is an inherent conflict with the vendor neutral model when a supplier is managing it.

Interdependent Components

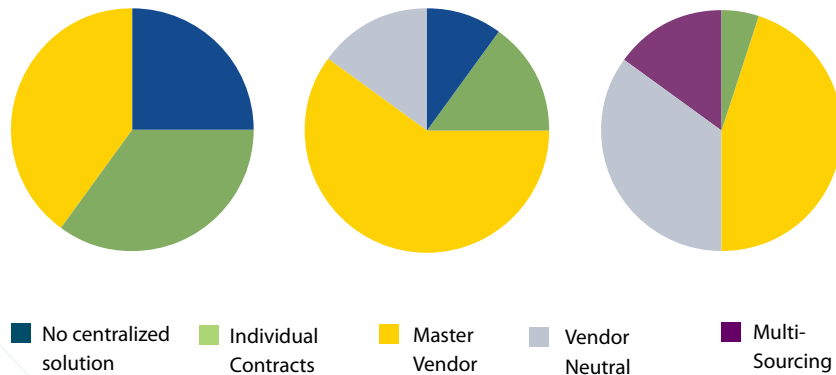
Regardless of how the program is delivered, the VMS and MSP must work together—as each cannot function optimally without the other. The VMS handles process (i.e., competitive bid, user flows, security, status, reporting), while the MSP drives performance (i.e., fill time, quality, cost savings, compliance, supplier relationships).



Typically, a bundled solution, i.e., VMS and MSP, provided by a single service provider is the delivery model that most benefits the client. Unlike solutions where a VMS only provider partners with a third-party staffing company, the bundled solution eliminates conflicts of interests and provides a single point of accountability. And unlike a “client self-service” scenario, bundling eliminates the burden on HR and Procurement while achieving greater savings and other benefits. Most services procurement solution providers, even those that had previously partnered with third parties to provide MSP services, have moved toward offering a bundled solution. This trend lends credence to the efficacy of the bundled solution.

How has services procurement evolved and where is it today?

As HR and procurement departments have grown more cognizant of the benefits of outsourcing services procurement, a natural progression from no program, to more and more elaborate programs has taken place.



Where the VMS for services procurement was once viewed with suspicion, it has become a standard business practice. The initial efficiencies captured by the automation brought to the services commodity by VMS technologies have been realized. The next step in the progression will focus on methods and strategies for optimizing these benefits. These strategies and methods will not be driven by technology. VMS technology provides the standardization and visibility required for more incisive and strategic supply chain management. This management however, is driven by expertise in areas such as Business

Intelligence gathering and analysis, human resources expertise, project management expertise, process improvement techniques and total quality management strategies. In short, the MSP hold the promise of ongoing performance enhancement.

What should you look for when evaluating providers?

Compare MSP Providers with these critical factors:

- Financial stability
- Escrow accounts to keep client funds separated from provider's operating funds
- The level and extent of account management services (on- or off-site)
- Distinct, dedicated specialty MSP groups rather than multi-tasked groups
- Large number of supplier relationships (2000+)
- Experience running global programs
- Provides workforce analytics in addition to linear reports
- Dedicated supplier inquiry center
- Level of billing accuracy

Compare VMS Providers with these critical factors:

- Financial stability
- Implementation timeframe
- Level and scope of training
- Completed SAS-70 Type II audit of financial controls
- Core functionality/features
- Flexibility to provide application customization beyond simple configurability
- Back-end integration
- Accessibility and availability of help desk support
- Level of help desk outsourcing
- Ability to handle complicated workflows, unique business rules
- VMS is largely a commodity – user preference is subjective

Evaluate carefully understanding the difference between initial and ongoing benefits:

- Initial savings and process efficiency gains are low hanging fruit when the previous situation was not controlled. Sustaining savings and improving processes year after year is a much more difficult goal to achieve.
- Sustainable cost savings and continual efficiency enhancements require a best-in-class MSP; one that provides a dedicated BI team utilizing sophisticated statistical techniques and project management expertise to continually monitor and revise processes throughout the program's maturation
- This kind of ongoing program maturation strategy cannot be performed through any VMS tool alone. Services procurement is no different from any other spend category in that it's the combination of expertise and technology that drive performance.