What is an MSP? The Role of Managed Service Providers in Contingent Workforce Management

HCI White Paper
September 13, 2007
By Tom Durgin

TALENT STRATEGY

Human Capital Institute
WHAT IS AN MSP?

A Managed Service Provider (MSP) is responsible for the process and program management for procuring contingent workers through a network of vendors, using a Vendor Management System (VMS software). In other words, an MSP is the outsourced company, using VMS technology, to acquire and manage contingent workers for its clients and take ownership of the entire process.

EVOLUTION OF CONTRACT WORKFORCE MANAGEMENT

In a rather short period - about a decade - contract workforce management has undergone an evolution from a simple decentralized model to a powerful and sophisticated model that emphasizes an enterprise workforce solution approach. This evolution can be traced through five phases, each with distinctive characteristics, as outlined by Jay Lash, Product Development Director at Allegis Services:

PHASE I - DECENTRALIZED

- Several suppliers used
- Procurement done on an ad-hoc basis
- Management done internally

This could be considered the do-it-yourself and do it with a handshake era. Procurement was done reactively instead of proactively, and the process was managed internally by whoever was using the workers.

PHASE II - PREFERRED SUPPLIERS

- Selective set of suppliers
- Contracts in place

During this period improvements were made in choosing suppliers. The process was formalized, contracts became common, and SLAs defined the deliverables and company expectations. Procurement started to play an active role.

PHASE III - MASTER VENDOR

- One supplier, possibly managing second and third tier suppliers
- One point of contact
- Direct cost savings on bill rate and usage
- Customized SLAs and process

The precursor to a true MSP, Master Vendors provided companies with increasingly sophisticated services that kept better track of costs and needs. A Master Vendor would sometimes manage second and third tier suppliers in the manner of an MSP. Selected master vendors often provided on-site management through a VOP (Vendor on-Premise) model. Procurement took responsibility to negotiate and manage the relationship.

PHASE IV - MANAGED SERVICE PROVIDER (MSP)

- Objective: to capture 100% contract workforce spend
- One point of contact for suppliers, contractors, and hiring managers
- Direct cost savings on bill rate and usage
- Integrated e-tools for total process
- Total cost of ownership savings

The MSP outsourced the entire end-to-end process,
from Requisitioning of labor to the payment of suppliers and reporting of performance. Procurement often establishes a group to oversee the program. VMS, ERP of other Procurement or HR systems are engaged. Processes, Rates, Supplier Performance and other functions are standardized and compliance to policy, regulations and best practices is enhanced. Soft cost savings are improved dramatically.

**PHASE V - ENTERPRISE WORKFORCE SOLUTIONS**

- Total workforce spend under management
- Complete workforce visibility
- Direct cost savings on bill rate and usage
- Customized SLAs and process
- Non-compliant spend minimal or eliminated
- Increased total cost of ownership savings
- Additional productivity and process savings
- High degree of value-added services

This final phase in the evolution of CWM represents a very small portion of the programs today. Human Resources usually assume ownership for the relationships at this stage and procurement has less involvement. These are completely outsourced programs and the providers have sophisticated processes, systems and personnel to manage their clients. In addition to the traditional temporary or contract labor, consultant project workers and
independent contractors (1099) resources are in the scope of these programs, as they begin to leverage the resources of service providers with expertise in these areas. It is expected that programs of this scale will continue to evolve and assume roles in HR Talent Acquisition functions.

The increasing complexity of CWM solutions allows the control organizations need to manage their contingent human capital needs efficiently in a highly competitive environment. As the skills and competencies of the contingent workforce become more important to companies grappling with talent shortages and global competition, it is expected that the role of MSPs will continue to evolve, and rather quickly, to the Phase V model, especially in larger organizations whose contingent workforce needs may require a great deal of flexibility. Figure 1 illustrates the contingent workforce processes that need to be managed (top center) and the benefits expected (bottom center) from a properly conducted CWM effort.

On one side of the managed processes are the business and labor requirements; on the other side are the vendors that might meet them. In between is the purview of an MSP that "manages the swim lanes," as Dennis Kanegaye, President of Guidant

Figure 2
Group, puts it. Requirements and possible suppliers are the big picture items that an MSP deals with; the transactional items - complete management services and technology services - work in support of the overall management process.

As an organization goes through the selection process for an MSP partner, "one of the true differentiators is the amount of documented methodology, tools, experience and knowledge that the MSP will use to design, build and operate your customized solution," continues Kanegaye.

The managed processes are familiar - most are part of the talent (aka employee) lifecycle. Figure 2 shows the full range of services required of an MSP to manage the eight processes listed above.

Clearly, a great deal of support services are necessary to successfully manage a large contingent workforce and achieve the quality, cost, service, and compliance benefits companies require. In today's highly competitive business environment, where the competition includes finding the best talent, an MSP can give a company that depends on a contingent workforce an edge.

BUSINESS CASE FOR AN MSP AND HOW IT WORKS

"MSPs are an efficient and effective way to engage the supply chain," notes Lash. Clients and suppliers both benefit from an MSP. For clients, the benefits include consistency and control, cost and visibility, productivity and performance. An MSP is an excellent way to curtail or eliminate "maverick spend," or "those people who are working outside of a controlled process," explains John Healy of Kelly Services. He adds that this is where the greatest compliance risks occur, too. Perhaps the most persuasive argument for using an MSP is that by managing the entire spectrum of the contingent workforce lifecycle, the organization is free to focus on strategic talent issues - or, as Healy puts it, "obtain access to the top talent in a tightening labor market."

CONSISTENCY AND CONTROL

- Access best practices of procurement process
- Centralized control for consistency and compliance
- Risk mitigation
- Better asset management

COST AND VISIBILITY

- Maximize and leverage enterprise spend
- Better visibility to spend
- Improved the efficiency of competitive sourcing
- Streamline processes and achieves indirect cost efficiencies

PRODUCTIVITY AND PERFORMANCE

- Enhanced recruitment reach and efficiency
- Increased access to vetted supplier network
- Better hiring manager productivity
- Increased quality of contingent workforce
- Workflow process reduces the time to productivity for the workers, from the moment the requisition is issued to the moment the work starts
- Performance measurement and management
BENEFITS TO THE SUPPLIERS

Benefits to the suppliers include:

- Efficient access to job requirements
- Reduced cost of sales for vendors
- Improved time approval, invoice, and payment tracking
- Better performance should provide enhanced opportunities
- Level playing field for suppliers of different sizes

Suppliers may question whether working through an MSP really will benefit them. "This may be one of the most controversial or contentious issues when an MSP is deployed," notes Lash. Many vendors feel threatened that they will lose their competitive advantage or "favored" status with their current clients. Because MSPs strive to consolidate or optimize the supply chain, "Suppliers are afraid of losing their relationships with end users," says Healy. Yet, once in the system, suppliers will have quick access to requisitions, including those to which they've never been exposed. As they gain access to other MSPs, vendors may find that they can scale back or eliminate their sales force. "I think as more suppliers become familiar with MSPs they've become more comfortable with the concept." For small, niche suppliers the opportunity to partner with an MSP offers clear advantages - they enjoy the same access to requisitions larger vendors do and also increase their visibility in the marketplace.

The business case for using an MSP is fairly straightforward. The key question for individual organizations is, How do we know if we need an MSP?

DIGGING DEEPER

DO WE NEED AN MSP?

Determining the need for an MSP is directly linked to the importance of a contingent workforce to a particular company. Dave McGonegal, Senior Director for MSP operations at COMSYS, says several questions to ask are:

- What percentage of the total workforce is contingent and how does this vary over the course of a year or product cycle?
- How important is the contingent workforce to our strategic business goals?
- What internal resources do we have or can devote to the eight processes (requisition, recruit, screen, engage, onboard, manage, invoice, and offboard) that are part of managing a contingent workforce?
- Do we already use many providers? Are we getting similar services from them at different price points?
- Are we having trouble reconciling our spend?
- Do we have appropriate visibility of this workforce and are we sure the usage is in compliance to policies, regulations and best practices?

Organizations that consistently rely on a contingent workforce will benefit from an MSP. And since the complexity of finding and managing a contingent workforce has increased, due in part to compliance
regulations and competition for talent, most companies should resist the temptation to use in-house resources to do the job. "This is a big job and requires specific skills," cautions Joanne Bocci, Chief Operating Officer at nextSource. "It's no longer a do-it-yourself enterprise."

SELECTING AN MSP

Selecting an MSP is the next step once it has been determined that an MSP solution is necessary. Again, a number of questions should be asked at this point:

- Does the MSP have experience in our industry?
- What is the MSP's resume?
- Does it have the people and the resources to handle the size workforce we have/need?
- Can it provide references and a proven track record of success?
- Can it provide on-site and off-site management?

The answers are crucial. An MSP that is unfamiliar with your business will also have difficulty finding the talent specific to your business. An MSP that can manage several hundred contingent workers in several organizations at once might not necessarily be able to scale up to another big project. "Look at the MSP's resources and their workload," says Bocci. "You want them to be able to handle your needs easily." And although the advent of specialized MSPs is relatively recent, many of these companies themselves evolved from staffing, recruiting, or talent management organizations, and thus should be able to provide references and a track record.

THE QUESTION OF VENDOR NEUTRALITY

An MSP removes any conflicts of interest in the procurement selection, and has no preference beyond the client's preference. It does not recommend one vendor over another. Are there pros and cons for this adoption of a neutral stance? Dennis Kanegaye believes that vendor neutrality assures the best quality and removes any perceptions of a conflict of interest. "It eliminates the maverick spend factor by people who may disagree with the MSP's choice of a vendor." Neutrality provides a level playing field that allows companies to compete "... and when companies compete you get the best quality." Kanegaye also believes that vendor neutrality is beneficial to diverse vendors - such as women- or minority-owned companies - because it gives them the opportunity to compete on merit. "This has benefits to clients who want to increase their diversity profile." Neutrality ensures even-handed treatment of all vendors and the dispassionate assessment of their performance at the same time it removes the MSP from the role of playing referee or diplomat.

On the other hand, strict neutrality might actually hinder a client - MSPs work with many vendors and might know those who are a better "fit" with their client's needs, or those who consistently meet their deliverables (and those who don't).

EVALUATING PERFORMANCE

There are several ways to evaluate the performance of an MSP and choosing the right success metrics is crucial. Metrics should be based on the specific goals the organization expects its contingent workforce to accomplish. The goals may be tied to a spe-
specific project or product in which contingent talent is heavily involved, tied to other short- or medium-term business goals, and/or tied to the company’s strategic goals. For example, if the delivery of a new product depends on the contingent workforce and vendor management skills of an MSP, then timely and cost-effective rollout of the product would be a measure of success.

Other evaluative measures include asking if:

- Vendor contracts were signed in a timely fashion
- Other deadlines were met
- Service level agreements were fulfilled
- Cost savings and cost control objectives were met
- Invoicing and payments were handled expeditiously and according to contract
- Compliance requirements were met and compliance tracking accurately reported

There’s another important metric to consider - if the MSP-Vendor relationship is part of a pilot program in a specific business unit or division, how easily was it integrated into the unit’s or the division’s operations? Was the integration seamless enough to encourage widespread adoption throughout the company? If the integration was smooth, buy-in widespread, and all other metrics achieved, the likelihood of scaling up an MSP’s services to the rest of the company is much greater.

**WHO PAYS FOR THE MSP, VENDOR OR CLIENT?**

This question has several companions:

- When is it better for the vendor to fund the MSP fee?
- How do these funding options impact adoption rate of the program?
- Is the VMS software fee included in the MSP fee?
- Should an MSP provide a guaranteed rate card?

The answers are situational, and, as Jay Lash notes, evolving. "Many clients see the use of vendors as a commodity purchase. It’s only when the value of an MSP is quantified that they see the value of good management of the process." A very large vendor providing all the resources (contingent workers, the VMS software, etc.) may well choose to pay the MSP’s fee, much as a large contractor might pay a "clerk of the works" to manage a project. When several or more vendors are involved it is usually better for the client to pay the MSP’s fee, or work a combination of transactional fees. Adopting a program where the vendor foots the bill for the MSP may initially seem more attractive, since the cost isn’t obviously attributed to a company’s bottom line. Yet it’s in there somewhere, as the vendor must recoup the cost of engaging the MSP. Where a number of vendors are involved, the client benefits by paying the MSP’s fee. First, it eliminates the need to coordinate payment among several or more vendors. Second, is gives the client complete ownership of the cost cycle, including direct and indirect savings and other efficiencies.

Vendor management system (VMS) software is usually bundled in the MSP’s offering. However, McGonegal has seen a trend in the past 12 to 24 months where, "VMS software itself has become a commodity. The top producers of VMS software all have the same eight to ten modules. Buying your
own VMS software gives you some flexibility. But by and large the VMS is still part of an MSP’s package.”

THE FUTURE OF MANAGED SERVICE PROVIDERS

The need for a large contingent talent labor pool is expected to grow in the short- to medium-term. Even very large organizations are learning to run lean, which means that they can’t afford to develop the in-house talent or devote other resources to managing a contingent workforce on their own or coordinating the efforts of multiple vendors. Thus, the need for MSPs is also expected to grow. However, MSPs will continue to evolve to the Phase V model described at the beginning of the paper - that of a true enterprise-wide solution provider. As this evolution proceeds, organizations can look forward to increasingly customized solutions, a greater emphasis on talent acquisition and talent management, greater control of costs, and more value-added services.

1 According to the General Accounting Office (GAO), contingent workers made up an estimated 31% of the U.S. workforce in 2005.

Based on the Human Capital Institute webcast, What is an MSP? September 13, 2007

EXPERT PANELISTS

Joanne Bocci
Chief Operating Officer
Nextsource

Joanne has over 24 years experience in the technology services, human capital solutions and staffing space. In her current capacity as Chief Operating Officer for nextSource, she is responsible for the Company’s operating activities, business development and customer relationship management through all nextSource lines of business. nextSource, Inc. is an innovative provider of workforce management solutions which address the enterprise-wide needs associated with the sourcing and management of contingent labor, agency-based hiring and deliverable-based project work. nextSource solutions combine proprietary technologies with industry best practices to allow clients to drive efficiencies, implement proper controls and reporting, leverage spend and improve quality while mitigating the potential risks associated with the use of contingent labor. The latest addition to the nextSource suite of workforce management solutions is The People Ticker, the industry’s only real-time contingent rates and salary benchmarking tool.

John Healy
Enterprise Workforce Solutions
Kelly Services, Inc.

John Healy currently serves as Vice President, Enterprise Workforce Solutions at Kelly Services, Inc. In this role, he has been responsible for the formal evaluation and selection of the technology channel partners with whom Kelly partners to deliver Human Resources solutions; he spends a majority of his time consulting with Kelly clients in the design of “next generation” solutions.

Previously, as National Director of Business Development for Kelly Services’ Technical Services Group, he served as part of the five-member Strategic Team responsible for establishing and implementing the strategic vision, values and performance of the Technical Services Group. That group consists of specialty staffing units focused on
the Information Technology, Engineering and Automotive Services disciplines.

Mr. Healy is a charter member of the North Carolina Electronics & Technology Association (NCTA) where he serves on the Advisory Board following previous roles on the Executive Committee and as Chairman of the Education and Workforce Development Committee. He has served on the ITAA (Information Technology Association of America) Workforce Committee and is a past President of the Carolinas chapter of NTSA (National Technical Services Association), he also served on the Board of Directors of the North Carolina Business Committee for Education (NCBCE) and was appointed to the Business Education Technology Alliance (BETA- Session Law 2002-126) by Lieutenant Governor Beverly Purdue.

Dennis Kanegaye
President
Guidant Systems

Dennis Kanegaye is the President of Guidant Group, Inc. (formerly Comensura Inc.). Guidant Group is a workforce acquisition and supplier management solution provider, serving Fortune 1000 clients across the US. They provide vendor neutral managed services and consulting services for externally sourced employees and contingent labor, in the areas of: cost containment, workforce process efficiencies, supplier management, technology optimization, risk mitigation, and business intelligence.

Jay Lash
Product Development Director
Allegis Group Services

Jay, a leader on the Allegis Group Services Human Capital Solutions team, is responsible for the development of customer specific solutions and new product offerings. Allegis Group Services offers clients a wide range of service solutions that enable them to optimize their use of human capital. As part of the Allegis Group family of companies, Allegis Group Services provides Workforce Management Solutions, Recruitment Process Outsourcing and consulting engagements that build staffing supply chains, guide VMS technology selection and implement MSP programs. Jay has been with Allegis Group Services in this capacity for over three years.

Prior to Allegis, Jay has over 10 years of experience in the Workforce Management Solutions industry. He started this portion of his career with Manpower Professional where he was responsible for the design and operations of their large Managed Services Programs like Honeywell and Raytheon. He also worked with TAC Worldwide as the Vice President of Program Management and managed complex MSP’s like EMC and Compaq. He has also partnered and consulted with numerous VMS technology providers to design and enhance their MSP products and services.

Jay began his career as an Executive Search consultant in the Boston area in the early 1980’s where he performed retained searches for technology com-
panies like Digital Equipment, Wang, Lotus Development Corp. and other technology firms. He has been a Contract Recruiter and a Director of Human Resources for a multi-property, hospitality organization. Jay is a graduate of the University of Massachusetts and currently resides in Park City, Utah.

Dave McGonegal  
Senior Director, MSP Operations  
Comsys

Since joining COMSYS in 2004, Mr. McGonegal has served as Senior Director, MSP Operations. In this role, Mr. McGonegal is responsible for the successful delivery and operations of COMSYS’ managed service provider programs. His experience encompasses the strategic direction, business planning, marketing, sales, contract negotiation, process assessment, design, development, implementation, training, and support of these programs.

Prior to joining COMSYS, Mr. McGonegal spent 9 years with Spherion in a variety of roles. In 2000, Mr. McGonegal was a founding employee of Enthusian Corporation, a joint venture between Spherion and Accenture that was one of the first VMS Technology providers. Additional positions held at Spherion include National Practice Manager, VMS, Implementation Manager, Regional Marketing Manager and Operations Manager for Spherion Technology’s Business Solutions group in the Mid-Atlantic Region.

Before joining Spherion, Mr. McGonegal spent five years as a Project Manager and Business Analyst for market research and consulting firm Harlan Brown & Company. Responsibilities included project planning, management and delivery of proprietary market analysis projects ranging from acquisition and new market entry to competitive and customer analysis for Fortune 1000 firms.

Mr. McGonegal holds a Masters in Business Administration from The George Washington University, and holds both a Batchelor of Arts in History and a Batchelor of Arts in Foreign Affairs from the University of Virginia.

MODERATOR

Bill Craib  
Vice President, Communities  
The Human Capital Institute

Prior to joining the Human Capital Institute, Bill was the Founding Director of AIRS Human Capital Solutions, and served as Director of Training and Curriculum Development from 1997 to 2003. An early Internet adopter and advocate of its far-reaching potential, Bill developed his practical experience by establishing an Internet-centric executive search practice focused on telecommunications. This endeavor helped lay the groundwork for the significant contributions he has made to the core curriculum of AIRS. Bill earned a BS Degree from the Newhouse School of Public Communications at Syracuse University and spent 10 years as a journalist working for several media organizations, including ESPN and the Rocky Mountain News, before entering the recruiting industry.

ACKNOWLEDGEMENTS

This White Paper is made possible by MyBizOffice, sponsors of HCI’s Contingent Workforce Management Track.
ABOUT MYBIZOFFICE

MyBizOffice (www.mybizoffice.com), makes it easy for self-employed professionals and their clients to work together safely and conveniently. Founded in 1986, MyBizOffice is the preferred provider of consolidated contractor engagement, employment, and compliance solutions for the world’s largest organizations and is the leading alternative to self-incorporation for professionals pursuing independent careers.

ABOUT THE HUMAN CAPITAL INSTITUTE

The Human Capital Institute is a catalyst for innovative new thinking in talent acquisition, development and deployment. Through research and collaboration, our programs collect original, creative ideas from a field of top executives and the brightest thought leaders in strategic HR and talent management. Those ideas are then transformed into measurable, real-world strategies that help our members attract and retain the best talent, build a diverse, inclusive workplace, and leverage individual and team performance throughout the enterprise.

The Human Capital Institute gratefully acknowledges the financial and volunteer contributions of our global sponsors and underwriters. They include:

- Adecco
- ADP Major Accounts Services
- AIRS
- Allegis
- Authoria
- Axiom
- Axsium
- Bernard Hodes Group
- Broadlook Technologies
- Buck Consultants
- Center for Talent Retention
- ClearPicture Corporation
- Cornerstone on Demand
- CustomInsight
- DBM
- DDI World
- Dice
- DNL Global, Inc.
- EmployeeContinuum
- Enwisen
- Fidelity Employer Services
- First Advantage
- Halogen Software
- Hay Group
- Hewitt
- Hiredesk
- IBM
- Illuma
- Infor (Workbrain)
- Infohrm
- Insala
- JWT Employment Communications
- Kelly Services
- Kronos
- The Ladders
- Menttium Corporation
- MHS
- Monster Canada
- Monster.com
- MonsterTRAK
- Multi-Health Systems
- MyBizoffice, Inc
- NAS Recruitment Communications
- The Newman Group, a FutureStep Company
- Oracle
- Padgett Performance Group
- Peopleclick
- Peoplefilter
- Plateau
- PreVisor
- The RightThing
- RPO Worldwide
- Saba
- SelectMinds
- Sequent
- SilkRoad
- SkillSurvey, Inc.
- StepStone Solutions
- SuccessFactors.com
- Taleo Corporation
- TowersPerrin
- TMP Worldwide
- Trovix
- Vangent
- Veritude
- Vemo
- Vurv Technology
- Workstream
- Yahoo! Hot Jobs
- Zerorisk HR