

# **Contingent Labor Management**

Best-in-Class Contingent Workforce Strategies for 2010...and Beyond

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## Executive Summary

Contingent labor has been utilized recently as a means of conducting business in challenging economic times. With economic recovery just around the corner, however, enterprises must manage this complex category of spend to not only achieve business goals, but to also strategize for the oncoming storm of demand for their products and services in 2010. This report, while benchmarking the strategies and performance of nearly 200 enterprises, finds that the adherent risks of leveraging contingent labor, especially independent contractors, must be mitigated while balancing a program that is under pressure to deliver performance across the areas of cost, time, and labor policy compliance.

### Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations

### Best-in-Class Performance

Aberdeen used the following three key performance metrics to distinguish the Best-in-Class from Industry Average and Laggard organizations: compliance to internal, federal and regulatory policies, time to fill an open requisition and percentage of cost savings. These top-performers have achieved:

- An **88% higher rate of compliance** to federal, regulatory and state labor policies than Laggard organizations
- A **1.3-times faster time-to-fill rate**
- **16-times higher rate of cost savings** on contingent labor spend

"There's an even greater focus on the flexibility that a variable workforce provides. This category of spend will no longer be looked at in isolation, but instead in conjunction with total labor spend to maximize opportunity for total spend."

~ Alisandro Rizzolo, Large North American Enterprise

### Competitive Maturity Assessment

Survey results show that the firms enjoying Best-in-Class performance shared several common characteristics. These top-performing organizations are:

- **Nearly 80% more likely** to outsource management of contingent labor to an outside solution / program than Laggard enterprises
- **76% more likely** to standardize contingent labor processes
- **42% more likely** to have an internal review process for labor policy compliance

### Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Effectively classify all worker types to mitigate policy risks
- Reevaluate current contingent labor programs to strategize for 2010 planning
- Develop an internal review process for contingent labor compliance

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## Chapter One: Benchmarking the Best-in-Class

The past two years have presented global businesses with an array of new challenges to manage: a difficult economy and volatile market conditions in conjunction with the everyday business pressures to drive performance while maintaining bottom-line growth. Contingent labor has long been a viable workforce strategy for enterprises looking to achieve project-based and everyday goals by leveraging temporary labor and independent contractors. However, this complex category of spending has historically erupted into a quagmire of limited visibility and enormous enterprise risk.

This research study benchmarks the contingent labor performance, strategies and solutions of nearly 200 enterprises to unearth how Best-in-Class enterprises not only effectively manage this category, but also drive cost savings and compliance to transform their temporary workforce into a value-added presence.

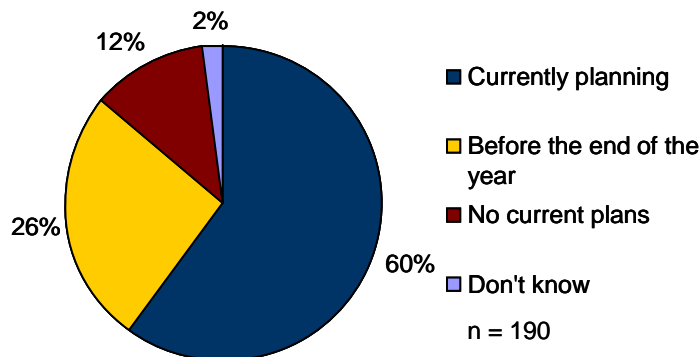
### Fast Facts

- ✓ 60% of enterprises are currently planning for their 2010 contingent workforce program
- ✓ Best-in-Class organizations have driven an 88% higher rate of compliance to federal, regulatory and state labor policies than Laggard enterprises

### Business Context

In the wake of challenging economic conditions, enterprises relied heavily upon contingent labor to drive their business operations. With economic recovery beginning to squeak into view, enterprises will be looking to meet customer demand for their products and services in 2010. Aberdeen research has discovered that 60% of organizations are currently engaging in contingent workforce planning for next year, with another 26% developing their 2010 program before the end of the year (Figure 1); a sure sign that enterprises must funnel a wealth of resources and managerial efficiencies to properly control this complex category of spend.

**Figure 1: 2010 Contingent Workforce Planning**



Source: Aberdeen Group, October 2009

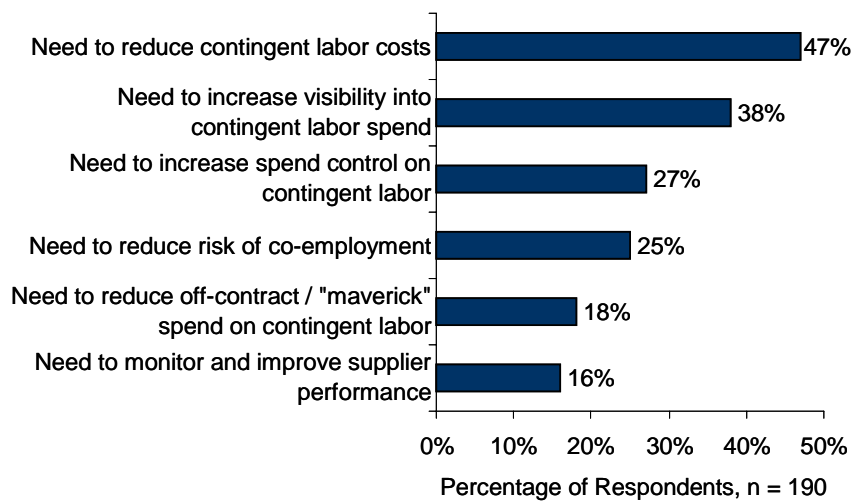
For most enterprises, a settled and recovered economy translates into increased demand for their products and services. By planning now for their 2010 contingent workforce needs, enterprises are lining up the necessary

programs and solutions to ensure that they are well-equipped to fulfill customer demand.

## Pressures: Cost and Visibility

As with any other complex category of spend, contingent labor attracts two main business drivers: cost and visibility. The pressure to reduce costs associated with contingent labor (47%) reflects the need for enterprises to apply more control to this category by driving cost savings through better overall contingent labor management and introducing efficiencies in the sourcing and management of their temporary workers.

**Figure 2: Factors Driving Enterprises to Focus on Contingent Labor Management**



Source: Aberdeen Group, October 2009

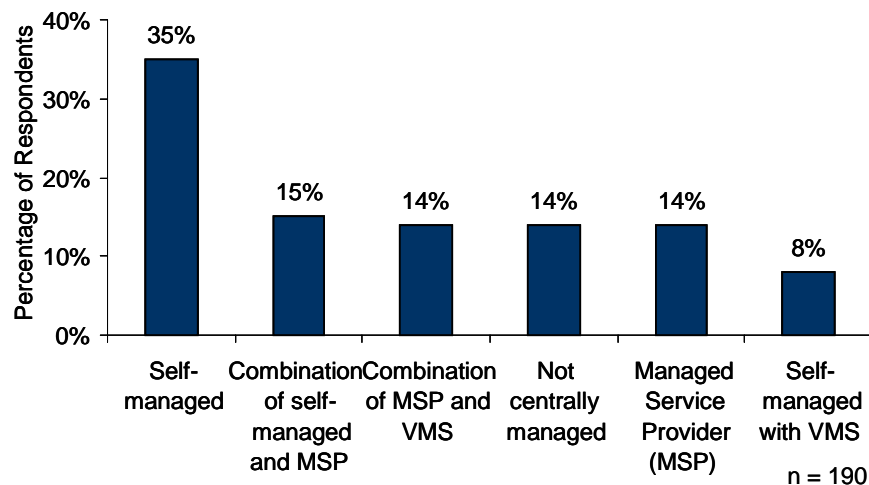
As evidenced in our last benchmark study in this space, (the January 2009 report, [Contract Labor Management: Superior Workforce Strategies for a Demanding Environment](#)) enterprises lack visibility into their spending on temporary labor (which includes contingent labor and independent contractors), which is a detriment to advancing cost control and driving compliance to federal, state and regulatory policies. Enterprises that are afforded visibility into their contingent labor spend are able to spot deficiencies in their program and adjust to an ever-flexing labor market that calls for a consistent plan of attack.

## Management of Contingent Labor

As found in Aberdeen's [Driving Contingent Labor Performance Through Managed Service Providers](#) Research Brief, there are a myriad of benefits to outsourcing management of contingent labor to a third-party solution, such as a Managed Service Provider (MSP). Self-managing a contingent labor program, as 35% of enterprises have done (Figure 3), can result in decentralized and non-standardized processes across the entire

organization, resulting in poor visibility and inflated costs due to sub-par contracts and negotiations.

**Figure 3: Management of Contingent Labor**

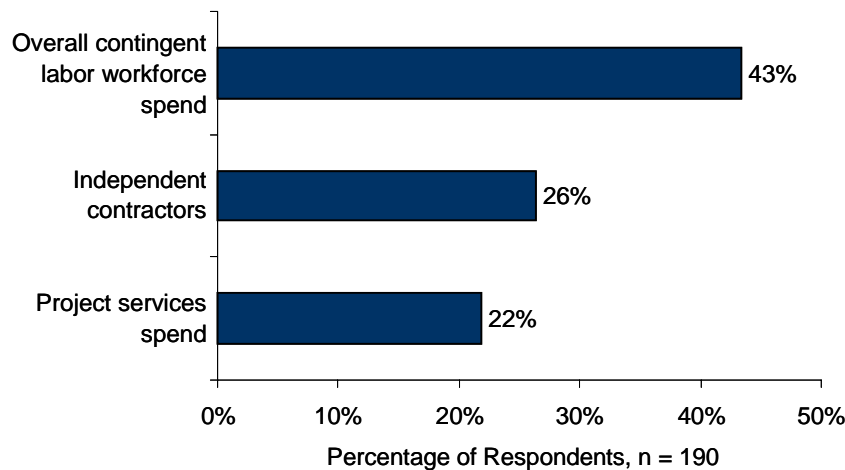


Source: Aberdeen Group, October 2009

Only 14% of enterprises are currently utilizing an MSP to manage their contingent labor workforce, while another 14% are leveraging an MSP and Vendor Management System (VMS) combination. We will detail these solutions and programs in full in the next chapter.

One of the disadvantages to self-management of contingent labor is the inability to properly track spending on this complex category. As detailed in Figure 4, less than half (43%) of the overall contingent labor workforce spend is currently tracked through the enterprise's current program, leaving enterprises with millions of dollars of uncontrolled spending.

**Figure 4: Contingent Labor Spend Tracked Through Current Program**



Source: Aberdeen Group, October 2009

"We use contract or temporary workers to cover spikes in our manufacturing demands. It has enabled us to maintain a stable core workforce and add the necessary talent when needed. It is also a method used to qualify an individual before hiring them as a permanent employee."

~ CEO, European Manufacturer

Contingent labor is often considered a category with many complex moving parts; not only does proper procurement involve educated decisions on pay-rates and mark-ups, there are a wealth of legal risks that must be mitigated to ensure the enterprise is not open to lawsuits and federal scrutiny. Failure to effectively capture the vast majority of this spend can leave the enterprise with a program that cannot support the weight of a crucial human capital component that affects many facets and divisions of the greater organization.

Enterprises are ignoring a critical area of spend within contingent labor management: independent contractors. Independent contractors have historically escaped the strict eye of contingent labor program managers, opening the door for a variety of legal, tax, healthcare and financial risks. Only 26% of Independent Contractor (IC) spend is currently tracked through the average enterprise's contingent labor management program. Enterprises that do not properly capture this inner-area of spend cannot drive compliance to federal, regulatory and state policies concerning independent contractors due to a lack of appropriate classifications.

### The Maturity Class Framework

Aberdeen used the following three key performance metrics to distinguish the Best-in-Class from Industry Average and Laggard organizations: compliance to internal, federal and regulatory policies concerning contingent labor; time to fill an open requisition; and percentage of cost savings (achieved through better pricing, less expensive mark-ups, or introduction of efficiencies for the same amount and type of contract workers).

**Table 1: Top Performers Earn Best-in-Class Status**

Definition of Maturity Class	Mean Class Performance
<b>Best-in-Class:</b> Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> <li>▪ 92% compliance to contingent labor policies (federal, state and internal)</li> <li>▪ 7.2 days to fill an open requisition</li> <li>▪ 16% cost savings on contingent labor spend</li> </ul>
<b>Industry Average:</b> Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> <li>▪ 68% compliance to contingent labor policies (federal, state and internal)</li> <li>▪ 12 days to fill an open requisition</li> <li>▪ 5% cost savings on contingent labor spend</li> </ul>
<b>Laggard:</b> Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> <li>▪ 11% compliance to contingent labor policies (federal, state and internal)</li> <li>▪ 16.2 days to fill an open requisition</li> <li>▪ 0% cost savings on contingent labor spend</li> </ul>

Source: Aberdeen Group, October 2009

Best-in-Class enterprises have driven significant advancements in the area of contingent labor management performance across perhaps the three most

important performance metrics within this category of spend: compliance, time-to-fill rate, and cost savings. These top-performers have achieved:

- An 88% higher rate of compliance to federal, regulatory and state labor policies than Laggard organizations
- A 1.3-times faster time-to-fill rate
- 16-times higher rate of cost savings on contingent labor spend

Superior performance across the above metrics has proven that Best-in-Class enterprises have the ability to develop, run and manage an efficient contingent labor management program. They have not only effectively reduced the time it takes to fill an open job requisition, they have also driven a greater rate of compliance to labor policies while driving a significant level of cost savings on the category.

### The Best-in-Class PACE Model

In order to alleviate the key challenges and pressures within contingent labor management, enterprises will utilize a series of actions, capabilities and technology enablers, as detailed in the PACE Framework (Table 2).

**Table 2: The Best-in-Class PACE Framework**

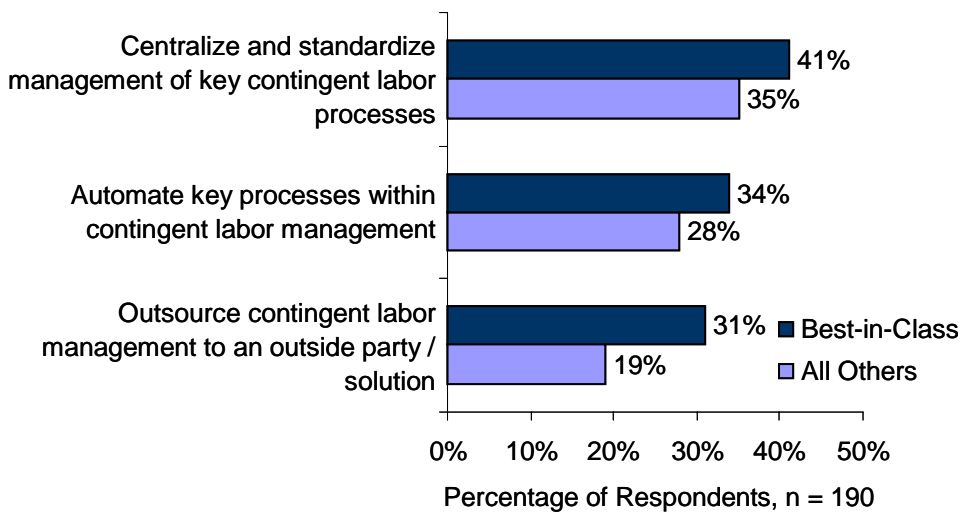
Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> <li>▪ Need to increase visibility into contingent labor spend</li> </ul>	<ul style="list-style-type: none"> <li>▪ Outsource contingent labor management to an outside party (or solution)</li> <li>▪ Automate key contingent labor processes</li> </ul>	<ul style="list-style-type: none"> <li>▪ Clearly-defined classifications of worker types</li> <li>▪ Staffing supplier performance management</li> <li>▪ Standardized contingent labor management processes</li> <li>▪ Internal review process for compliance to labor laws and policies</li> <li>▪ Collaboration between key internal units</li> </ul>	<ul style="list-style-type: none"> <li>▪ Managed Service Provider (MSP)</li> <li>▪ Vendor Management System (VMS)</li> <li>▪ Independent Contractor Engagement Specialist (ICES)</li> <li>▪ E-Procurement solution</li> <li>▪ Contract Lifecycle Management (CLM) tool</li> <li>▪ Online dashboard to track key contingent labor performance metrics</li> <li>▪ Talent Management System (TMS)</li> <li>▪ Applicant Tracking System (ATS)</li> </ul>

Source: Aberdeen Group, October 2009

### Best-in-Class Strategies

Within the contingent labor category, there are a series of strategic actions that top-performing enterprises are undertaking to enhance their existing programs and drive superior results. Figure 5 details the strategies leveraged by Best-in-Class organizations to effectively manage their contingent labor programs.

**Figure 5: Best-in-Class Contingent Labor Strategies**



Source: Aberdeen Group, October 2009

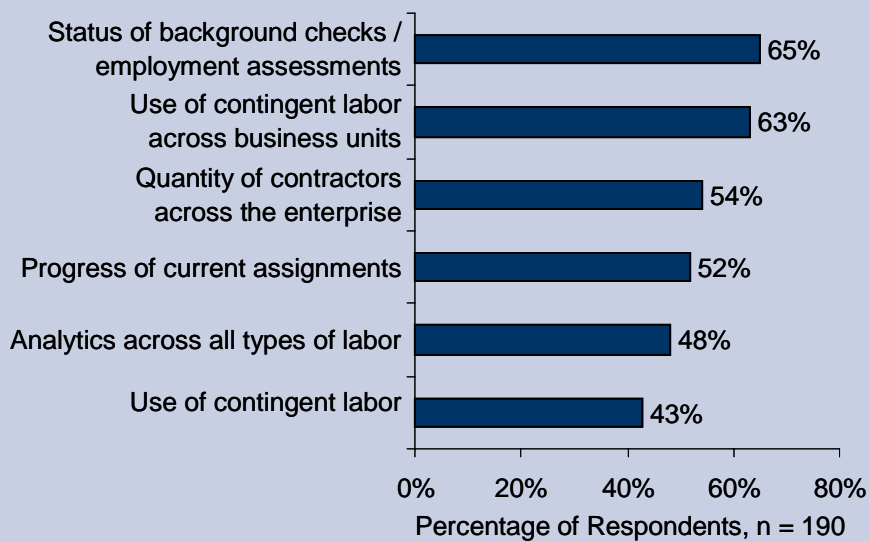
Forty-one percent (41%) of Best-in-Class enterprises have centralized and standardized the management of key contingent labor processes, such as the creation, posting and tracking of job requisitions, worker on-boarding, and application of proper pay-rates and mark-ups. By standardizing and centralizing these key processes, top-performers ensure that all business units, hiring managers, and other stakeholders are utilizing the same methods and processes for sourcing, managing and maintaining contingent labor, which increases visibility into this spend category and allows the greater organization more control.

Best-in-Class enterprises have also automated (34%) and outsourced (31%) management of contingent labor. By automating the processes within the contingent labor cycle, top-performers are afforded greater visibility into contingent labor spend and are able to effectively track, monitor and manage the wealth of staffing suppliers. While automation (through a solution such as a VMS) remains crucial to Best-in-Class success (as we will discuss in the next chapter), outsourcing remains a viable option for contingent labor; the category is unique and complex, and by outsourcing the program to an outside provider (such as an MSP program), enterprises can let proven experts take the reigns of their contingent workforce, managing all aspects of the program, from requisition creation to sourcing and onboarding.

**Aberdeen Insights —  
Strategy: Data-Driven Contingent Labor Management**

Business intelligence is often leveraged to enhance existing enterprise programs as a means of educating stakeholders to action. Within the category of contingent labor, there are a myriad of aspects in which to track data and apply that knowledge to current strategies for optimal performance. Figure 6 details the various data aspects enterprises are currently tracking to enhance their contingent labor programs.

**Figure 6: Data Aspects Tracked to Enhance Contingent Labor Programs**



Source: Aberdeen Group, October 2009

By accurately tracking the status of background checks (65%), enterprises can accurately forecast when a new temporary worker will start and apply that knowledge to a planned project that will rely on this contingent help. Enterprises can leverage the data from contingent labor use across business units (63%) to target high areas of spending within this category as a means of assessing the positions (IT, finance, administrative, etc.) that are in need of corporate attention for superior planning.

## Chapter Two: Benchmarking Requirements for Success

The complex spend category of contingent labor requires more than a centralized program to efficiently manage the influx of temporary workers and independent contractors. Enterprises must approach contingent labor management with an educated eye in an attempt to balance the delicate nature of "people procurement" with a hard-line strategy that can effectively mitigate co-employment risks while achieving superior performance. With over 15% of the average enterprise's workforce consisting of contingent labor, this is an area of spend that should draw the utmost scrutiny, caution and attention.

### Fast Facts

- √ **76%** of Best-in-Class enterprises currently have an internal review process in place for labor policy compliance
- √ **86%** of top-performing organizations have clearly defined classifications of all employee types

### Case Study — Savings and Quality Achieved Through Outsourcing

Nearly eight years ago, a large North American healthcare company identified contingent labor as a major area of spending for evaluation by their strategic sourcing team. "There was strong sponsorship behind targeting it for better management," said the category director. "It was pretty scattered at that time; there were too many firms supplying candidates and it was hard to gather data within the category."

Last year, the enterprise turned to a Managed Service Provider (MSP) after spending years with a primary / master vendor for their contingent workforce needs. Already, the benefits of outsourcing are apparent to the enterprise. "It's a much more efficient system," the category director said. "There's been nothing but positive feedback from our hiring directors, and we're gaining visibility over all of our contingent labor budgets."

The company has already experienced nearly \$5.1 million in cost savings on the contingent labor category, as well as receiving a consistent influx of quality candidates through the MSP.

### Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (the approaches they take to execute contingent labor operations); (2) **organization** (corporate focus and collaboration among stakeholders); (3) **knowledge management** (contextualizing contingent labor data and exposing it to key stakeholders); (4) **technology** (the selection of the appropriate contingent labor tools and the effective deployment of those tools); and (5) **performance management** (the ability of the organization to measure its contingent labor results to improve its business). These characteristics (identified in Table 3) serve as a guideline for best practices,

and correlate directly with Best-in-Class performance across the key metrics.

**Table 3: The Competitive Framework**

	Best-in-Class	Average	Laggards
<b>Process</b>	Standardized contingent labor management processes		
	83%	44%	20%
	Internal review process for compliance (regulatory, federal and state policies)		
<b>Organization</b>	76%	56%	44%
	Collaboration between key internal units for contingent labor management		
	64%	43%	33%
<b>Knowledge</b>	Contractor issue management and resolution		
	62%	46%	31%
	Clearly defined classifications of all worker types		
<b>Technology</b>	86%	67%	63%
	Contingent labor technology currently in use:		
	<ul style="list-style-type: none"> <li>▪ 66% Managed Service Provider (MSP)</li> <li>▪ 65% Applicant Tracking System (ATS)</li> <li>▪ 54% Vendor Management System (VMS)</li> <li>▪ 23% Independent Contractor Engagement Specialist (ICES)</li> </ul>	<ul style="list-style-type: none"> <li>▪ 38% Managed Service Provider (MSP)</li> <li>▪ 38% Applicant Tracking System (ATS)</li> <li>▪ 40% Vendor Management System (VMS)</li> <li>▪ 15% Independent Contractor Engagement Specialist (ICES)</li> </ul>	<ul style="list-style-type: none"> <li>▪ 27% Managed Service Provider (MSP)</li> <li>▪ 30% Applicant Tracking System (ATS)</li> <li>▪ 13% Vendor Management System (VMS)</li> <li>▪ 0% Independent Contractor Engagement Specialist (ICES)</li> </ul>
<b>Performance</b>	Performance-tracking capabilities:		
	<ul style="list-style-type: none"> <li>▪ 76% staffing supplier performance management</li> </ul>	<ul style="list-style-type: none"> <li>▪ 43% staffing supplier performance management</li> </ul>	<ul style="list-style-type: none"> <li>▪ 38% staffing supplier performance management</li> </ul>

Source: Aberdeen Group, October 2009

## Capabilities and Enablers

In order to mitigate the risks associated with contingent labor and independent contractors, and spur desirable performance within the category, enterprises must leverage a core set of key capabilities and technology enablers.

## **Process**

Standardization is often a foundation for a well-oiled contingent labor program. Best-in-Class enterprises (83%) have been able to standardize their contingent labor processes companywide, allowing them to leverage a singular set of methods and procedures to avoid mismatched mark-up and pay rates and the use of preferred vendors.

By instituting an internal review process for policy compliance, top-performing organizations (76%) are ensuring that their independent contractor workforce meets all of the regulations set in place by federal, regulatory and state laws and policies, therefore reducing the overarching risks of co-employment, federal audits of independent contractors, and lawsuits.

"Going through a third party program has helped quite a bit in reducing co-employment and independent contractor risks as they vet out all of the concerns prior to onboarding."

~ Procurement Director, Large North American Enterprise

## **Organization**

Collaboration, in recent years, has been a rising strategy to combat limited visibility into corporate category management processes. By developing a cross-functional team to manage the contingent labor process, Best-in-Class enterprises (64%) have established an open environment where business units can share key information regarding contingent labor. This collaborative team can share pay rate data and leverage a singular set of guidelines for hiring temporary help, helping to avoid mishaps in contractor classification.

## **Knowledge Management**

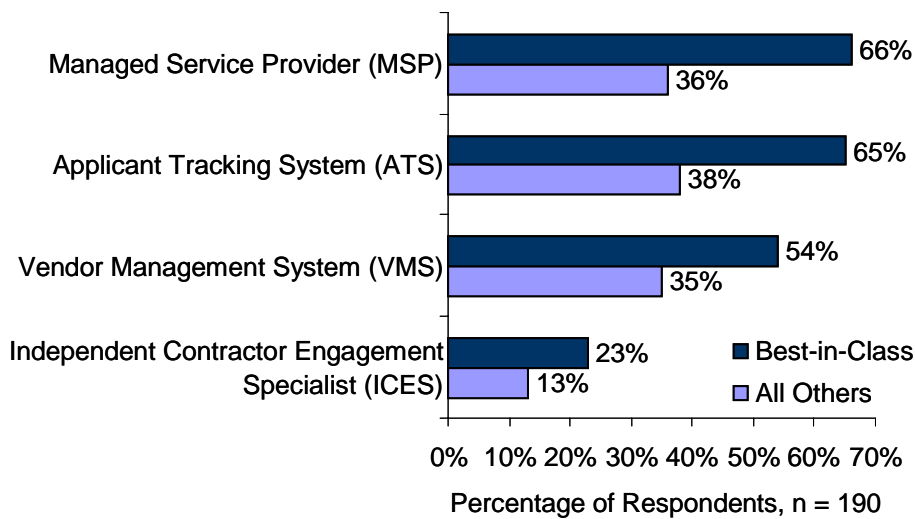
Contingent labor management is not always about driving savings or quickly-filling open positions; in recent years, co-employment has risen as a top risk in leveraging a temporary workforce. Federal audits and contractor lawsuits have become a reality in a world where enterprises are more apt to rely on independent contracts for project-based needs.

Best-in-Class enterprises (86%) are more likely than other organizations to have clearly-defined classifications of their worker types; this allows these top performers to avoid the rush of federal and state audits and mitigates the risk of lawsuits that could hold them liable for tax, health care, and financial benefits.

## **Technology**

One of the most harrowing questions an enterprise asks is whether or not to outsource and automate their contingent labor program and its associated processes. Because of the sensitive nature of "people procurement" and a desire to source quality candidates, some organizations are hesitant to look outside of their own in-house programs for expertise and assistance in managing contingent labor. However, as evidenced in Figure 7, enterprises should follow the lead of top-performers. Best-in-Class enterprises are heavily leveraging technology solutions to enhance their contingent labor management programs.

**Figure 7: Best-in-Class Technology / Solution Utilization**



"Our MSP has helped us to gain visibility and control of spend, while ensuring that contracts are in force with all suppliers managed through the program. Without an MSP, it's just impossible to manage internally. As the program grows, more maverick suppliers will be included in the program. It's also assisted in standardizing processes within the company."

~ Procurement Director, Large Insurance Firm

Source: Aberdeen Group, October 2009

Best-in-Class enterprises have leveraged their contingent labor technology tools and solutions to drive significant gains and achieve superior performance:

- By leveraging MSPs, top-performers (66%) are readily outsourcing the day-to-day contingent labor operations to third-parties that not only hold expertise in the field, but also handle all the processes within the contingent labor cycle, including sourcing, administration, compliance-tracking, vendor performance, and on-boarding / off-boarding. In addition, MSPs assist enterprises in controlling the volatile nature of contingent labor costs; in fact, enterprises leveraging MSPs to manage their contingent labor programs have achieved cost savings that are nearly 40% higher than enterprises that do not have an MSP in place.
- Vendor Management Systems (VMSs), utilized by 54% of Best-in-Class enterprises, automate and streamline the entire supplier chain process for contingent labor. Enterprises are afforded higher visibility into their contingent labor spending and can leverage preferred vendor relationships to source higher-quality candidates through the use of VMS solutions, also reducing off-program spending and speeding up the contingent labor acquisition process. Aberdeen research has discovered that VMS users have reduced their time-to-fill rates by 34%, while achieving 37% higher cost savings than non-VMS users.
- By utilizing Independent Contractor Engagement Specialists (ICES) more so than all other enterprises, Best-in-Class organizations (23%) are enhancing their current contingent labor programs to add an extra layer of "protection" from the legal, tax, health care and financial risks in managing independent contractors. ICESs offer an

automated system for classifying ICs, while leveraging their in-field expertise to determine the status of ICs that aren't easily classified by the system. Enterprises that are currently utilizing ICESs have seen compliance rates that are over 40% higher than that of enterprises that aren't using an ICES for independent contractor management.

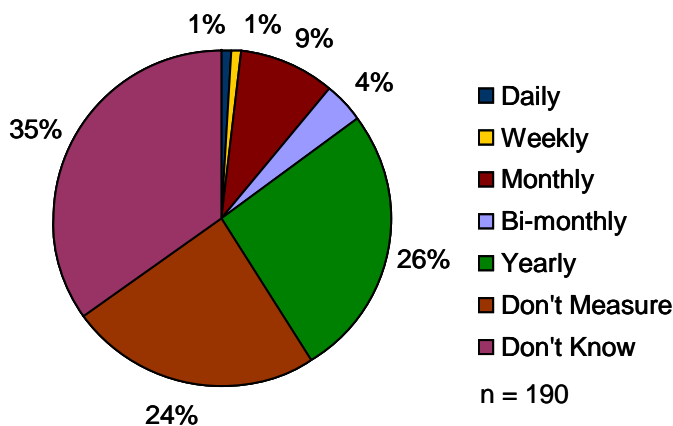
### Performance Management

Supplier performance management is just as crucial a program in the contingent labor world as it is in other strict procurement categories. However, extra attention is typically applied to staffing vendors as there is a more scrutinized level of quality in hand in dealing with people. Seventy-six percent (76%) of Best-in-Class enterprises are actively tracking and measuring the performance of their staffing suppliers, an aspect which assists them in making educated future decisions of where to source candidates, as well as cultivates a preferred-vendor environment that can be leveraged to hire higher-quality workers.

### Independent Contractor Management

The overarching legal risks associated with independent contractors has reached an all-time high; enterprises tread a hazardous field when managing ICs, yet, leveraging this type of specialized contract talent is essential to achieving many business and project goals. The effective mitigation of independent contractor compliance risk can help enterprises to continue to utilize this growing segment of the workforce. However, organizations in our benchmark study are failing to audit their ICs for compliance frequently, leading to increased risks (Figure 8).

**Figure 8: Frequency of Independent Contractor Compliance Audits**



"We always ensure we consider the risks; we've covered ourselves by ensuring we obtained quality advice in establishing the [sourcing] process. The risks are mitigated by screening contractors operating in areas of identified risk."

~ HR Director, European Financial Services Firm

Source: Aberdeen Group, October 2009

Thirty-five percent (35%) of enterprises are unsure of their frequency of IC compliance audits, while 24% don't even measure this crucial metric. Worse

yet, only 9% of enterprises are currently auditing their ICs on a monthly basis; monthly auditing is often the most appropriate frequency of auditing, since it allows an enterprise to cull an accurate gauge of compliance. A low frequency of IC compliance audits can leave the enterprise at risk for a number of issues, including lawsuits, federal inquiries / audits, and liability for tax and health care benefits.

ICES can assist an enterprise by auditing its existing base of independent contractors for federal compliance, payroll these workers if they don't pass requirements, and assist in engaging and managing the enterprise's independent contractor workforce. MSPs can also assist in the sourcing and management of independent contractors by including them in their program's overall directives.

**Aberdeen Insights — Savings and MSP Maturity**

Like most solutions in the procurement world, a new technology tool often has a "crash diet" effect on driving savings; enterprises reap a high level of savings in the first year of implementation, but fail to sustain that rate in the following years. Such is not the case with MSPs. Aberdeen research has found that as enterprises' MSP programs mature, they drive consistently higher cost savings on their contingent labor spending.

**Table 4: MSP Savings Performance Through Maturity**

<b>Maturity of MSP</b>	<b>Savings Achieved</b>
First year of implementation	<b>8%</b>
MSP in place for two years	<b>9%</b>
MSP in place for three years	<b>9%</b>
MSP in place for four years	<b>10%</b>
MSP in place for more than four years	<b>11%</b>

Source: Aberdeen Group, October 2009

By outsourcing contingent labor management to MSPs, enterprises have not only seen an immediate impact on savings, they've also been able to sustain and develop those savings as the program matured. MSPs can streamline contingent labor processes and introduce efficiencies that positively affect pay-rates, mark-ups and other negotiations that are sustainable over time.

## Chapter Three: Required Actions

Contingent labor is a complex category with multiple moving parts; enterprises must effectively balance quality, performance, and strategic planning to squeeze value out of this crucial human capital component of everyday business. The following required actions will help underachieving enterprises retool and revamp their current contingent labor programs while driving performance across savings, time and compliance.

### Laggard Steps to Success

- **Standardize all contingent labor management processes across the entire enterprise.** Effective management of contingent labor begins with a centralized program and standardized processes, which only 20% of Laggard enterprises have in place (as opposed to 83% of Best-in-Class organizations). A singular set of guidelines for this area of spend ensures that all enterprise business units are utilizing a core set of processes to avoid inflated pay-rates, higher mark-ups, poor visibility into contingent labor spending, and low rates of compliance to independent contractor policies.
- **Encourage contingent labor stakeholders to properly classify all contingent labor worker types.** Classification status is the core of the compliance problem facing many organizations; co-employment has fast become a top enterprise risk in leveraging contingent labor. Enterprises must delicately manage their independent contractors to ensure that they are cultivating the proper relationships in the eyes of the government. Best-in-Class enterprises are nearly 30% more likely than Laggard organizations to effectively classify their worker types to avoid federal audits and being liable for contractor benefits.
- **Institute a collaborative environment for management of the contingent labor workforce.** By establishing a cross-functional team consisting of the key stakeholders typically involved in the contingent labor process (human resources, finance, procurement and business unit hiring managers), Laggard enterprises (33%) can foster a cross-functional environment for managing this category, ensuring elevated visibility and superior adherence to labor compliance policies.

### Industry Average Steps to Success

- **Utilize outside expertise, solutions and programs to enhance the existing contingent labor program.** Industry Average organizations have failed to leverage managed service providers (38%) and vendor management systems (40%) in lieu of self-managed programs to drive their contingent workforce. By utilizing these two solutions (or a combination of the two), Industry

#### Fast Facts

- √ 83% of Best-in-Class enterprises have standardized their contingent labor management processes
- √ Best-in-Class enterprises are nearly 30% more likely than Laggard organizations to effectively classify their worker types as a means of mitigating co-employment risks

"By outsourcing our contingent labor program, we've seen a reduction in co-employment and misclassification risks. There's been an ease of obtaining a contingent worker for hiring managers, and it's reduced turnaround time for filling open requisitions."

~ Purchasing Manager, Large North American Enterprise

Average enterprises can outsource the day-to-day management of contingent labor operations and source higher-quality candidates while effectively reducing the risk of co-employment.

- **Develop an internal review process for contingent labor compliance.** As highlighted earlier in the report, co-employment and federal audits are among some of the most significant threats in dealing with an independent contractor base. Only 44% of Industry Average enterprises have developed an internal review process for policy compliance, leaving them open for lawsuits, audits and co-employment. Industry Average enterprises should follow the cue of Best-in-Class organizations (76%) and develop this capability to boost policy compliance and avoid the many risks within this area of contingent labor.
- **Actively gauge the performance of staffing suppliers.** Less than half (43%) of Industry Average organizations have engaged in a staffing supplier performance management program; *quality* is often the center of "people procurement," and building a preferred vendor list after accurately tracking supplier performance can help Industry Average enterprises source higher quality contingent labor candidates.

### **Best-in-Class Steps to Success**

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- **Leverage an ICES to boost compliance to federal, regulatory and state policies.** Although top-performers have a significant advantage over their peers in the compliance arena, there is still room for improvement. Proper classifications of worker types is the first step to increase compliance, with outsourcing independent contractor management to an ICES as the solid next step. Less than a quarter (23%) of Best-in-Class organizations are currently leveraging this solution, which can manage the flux of ICs while instituting frequent auditing to avoid the risks of federal inquiries and co-employment lawsuits.
- **Reevaluate the current contingent labor program as a means of strategizing for 2010 workforce planning.** Although 65% of Best-in-Class enterprises are currently planning now for 2010, only 14% of these top-performers are reevaluating their current programs to effectively strategize for next year's plan. Best-in-Class enterprises should pinpoint weak areas in their 2009 programs and ensure that they adapt their 2010 strategies to reflect a more focused attack.

### Aberdeen Insights — Summary

Contingent labor has been heavily relied upon in recent years as a means of conducting corporate business in challenging economic times. However, as usage of this temporary help increases, so do the risks; co-employment and federal audits, as well as continuous pressure to drive savings and performance, have elevated attention on this category and forced enterprises to strategize with utmost caution and balance.

While standardization and centralization of key contingent labor processes (requisition creating and tracking, onboarding / offboarding, background checks, etc.) are crucial to program success, enterprises must look for outside help in managing their contingent workforce.

Outsourced options, such as Managed Service Providers (MSP), Vendor Management Systems (VMS) and Independent Contractor Engagement Specialists (ICES), will spark immediate impact in the cost, time and compliance arenas through their valued expertise and ability to manage all day-to-day contingent labor operations. Enterprises that are currently underperforming must first evaluate their current programs and identify areas of need before looking for outside solutions.

In regards to appraising performance within the contingent labor program, enterprises should balance the need to drive savings with increasing labor policy compliance. Both are important areas in a recovering economic climate; boosting compliance will effectively mitigate the risk of federal audits (therefore reducing the implications of an independent contractor lawsuit), while driving cost savings will add tremendous value to the greater enterprise while continuing to achieve business goals with the support of temporary labor.

## Appendix A: Research Methodology

Between September and October 2009, Aberdeen examined the use, the experiences, and the intentions of nearly 200 enterprises utilizing contingent labor in a diverse set of enterprises.

Aberdeen supplemented this online survey effort with interviews with select survey respondents, gathering additional information on contingent labor management strategies, experiences, and results.

Responding enterprises included the following:

- *Job title:* The research sample included respondents with the following job titles: Manager (46%); Director (27%); C-Level / Executive (10%) and others.
- *Department / function:* The research sample included respondents from the following departments or functions: procurement, supply chain, or logistics manager (29%); operations manager (27%); IT manager or staff (24%); sales and marketing staff (13%); and senior management (7%).
- *Industry:* The research sample included respondents from the following industries: manufacturing (17%); financial services (14%); health / medical devices and services (7%); aerospace and defense (5%); software (5%); and 25 others.
- *Geography:* The majority of respondents (70%) were from North America. Remaining respondents were from the Asia-Pacific region (15%), EMEA (13%), and South America (2%).
- *Company size:* Forty-nine percent (49%) of respondents were from large enterprises (annual revenues above US \$1 billion); 25% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 26% of respondents were from small businesses (annual revenues of \$50 million or less).
- *Headcount:* Fifty-nine percent (59%) of respondents were from large enterprises (headcount greater than 1,000 employees); 25% were from midsize enterprises (headcount between 100 and 999 employees); and 16% of respondents were from small businesses (headcount between 1 and 99 employees).

### Study Focus

Responding executives completed an online survey that included questions designed to determine the following:

- √ The degree to which contingent labor is leveraged in their operations and the implications of the program
- √ The structure and effectiveness of existing contingent labor implementations
- √ Current and planned use of contingent labor to aid operational and promotional activities
- √ The benefits, if any, that have been derived from contingent labor initiatives

The study aimed to identify emerging best practices for contingent labor management and to provide a framework by which readers could assess their own management capabilities.

**Table 5: The PACE Framework Key**

Overview
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p><b>Pressures</b> — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p><b>Actions</b> — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p><b>Capabilities</b> — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)</p> <p><b>Enablers</b> — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, October 2009

**Table 6: The Competitive Framework Key**

Overview	
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</p> <p><b>Best-in-Class (20%)</b> — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</p> <p><b>Industry Average (50%)</b> — Practices that represent the average or norm, and result in average industry performance.</p> <p><b>Laggards (30%)</b> — Practices that are significantly behind the average of the industry, and result in below average performance.</p>	<p>In the following categories:</p> <p><b>Process</b> — What is the scope of process standardization? What is the efficiency and effectiveness of this process?</p> <p><b>Organization</b> — How is your company currently organized to manage and optimize this particular process?</p> <p><b>Knowledge</b> — What visibility do you have into key data and intelligence required to manage this process?</p> <p><b>Technology</b> — What level of automation have you used to support this process? How is this automation integrated and aligned?</p> <p><b>Performance</b> — What do you measure? How frequently? What’s your actual performance?</p>

Source: Aberdeen Group, October 2009

**Table 7: The Relationship Between PACE and the Competitive Framework**

PACE and the Competitive Framework – How They Interact
<p>Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</p>

Source: Aberdeen Group, October 2009

## Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- [Driving Contingent Labor Performance Through Managed Service Providers](#); September 2009
- [VMS: Vendor Management Success](#); April 2009
- [The CPO's Agenda 2009: Smart Strategies for Tough Times](#); April 2009
- [Contract Labor Management: Superior Workforce Strategies for a Demanding Environment](#); January 2009
- [Technology: The Pathway to Contract Labor Savings](#); November 2008
- [CPO Rising: The CPO's Agenda for 2008](#); February 2008
- [Contract Labor Management: Permanent Solutions for Temporary Workers](#); January 2008
- [Contract Labor and Professional Services](#); April 2007
- [The Contract Labor Benchmark Report](#); August 2006
- [The Category Spend Management Report Series 2004: Report No. 1: Contract Labor](#); March 2004

Information on these and any other Aberdeen publications can be found at [www.aberdeen.com](http://www.aberdeen.com).

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