

What Is A VMS? The Role of Vendor Management Systems In Contingent Workforce



TALENT LEADERSHIP

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EXECUTIVE SUMMARY

Vendor Management Systems (VMS) are an increasingly vital tool in the management of a contingent workforce, and many analysts believe their growth will continue as more and more companies turn to contracted talent to provide a competitive edge in a dynamic business environment.

What is a VMS? "A VMS is a system (typically employing software technology) that automates the requisition, solicitation, evaluation, engagement, and management of and payment for contingent workforce services."¹ Jai Shekhawat, CEO and Co-Founder of Fieldglass, states that a VMS "Is a platform for organizations to more efficiently engage with suppliers of human capital and other services such as offshore providers, consulting services, legal services, and so on."

The first VMS applications were developed in the early 1990's. Their development was spurred by changes in the labor market and the success of similar software applications in supply chain management. The original developers of VMS products realized that the costs associated with the use of contingent labor offered a great deal of opportunity for a product that could manage a contingent workforce and do so cost-effectively. Many of the first VMS applications were developed by employment or similar agencies and were targeted towards the specific business function they provided to their clients. However, by 2002 there were over fifty companies providing increasingly sophisticated VMS solutions.

COMPONENTS OF A VMS

One of the key advantages of a VMS is that it allows

the client organization to efficiently distribute their job requirements to multiple suppliers. In addition to organizing job requisitions, Jai Shekhawat believes that a robust VMS should provide, at the very least, the following:

- o Effective processes for suppliers to respond to requisitions
- o An efficient workflow and approval engine
- o The ability to handle work orders and payroll
- o Reporting and analytical capabilities.

However, as the VMS market space matures, many additional features have been added to support the management of contingent workers - particularly in the areas related to compliance tracking. According to Thomas Tisdale, Senior VP of Strategic Initiatives at Peopleclick, a VMS should also have the following features:

- o Job requirement tracking and maintenance
- o Approval and notification systems
- o Candidate match ratings
- o Employment logistics (e.g. on-boarding, workspace assignment)
- o Ease of use and administration
- o Rates and billing tracking and maintenance
- o Assignment evaluations
- o Reporting and analytics
- o Localization features (local usage versus global implementation)
- o Project hierarchy tracking
- o Supplier management
- o Timesheets and expense management
- o System integration

As this list shows, there are a great deal of services that a VMS solution can offer a client and other stakeholders. Because of this, the business case for

using a VMS can be quite compelling.

THE BUSINESS CASE FOR USING A VMS

Tisdale believes that current drivers of the development and use of VMS solutions are the rapidly increasing use of contingent workers and compliance related issues such as Sarbanes-Oxley, tax code changes, and new OFCCP regulations.² In the United States, organizations currently employ approximately 3 million temporary and contract workers. In addition to these temporary workers, organizations use approximately 11.1 million independent contractors. Conservative estimates (using a narrow definition for contingent workforce) show use of non-traditional talent at about 12 percent of the U.S. workforce. These figures only cover the use of contingent labor in the United States. Using a somewhat broader definition, the General Accounting Office (GAO) estimated that the contingent workforce made up 31% of the total U.S. workforce as recently as 2005.

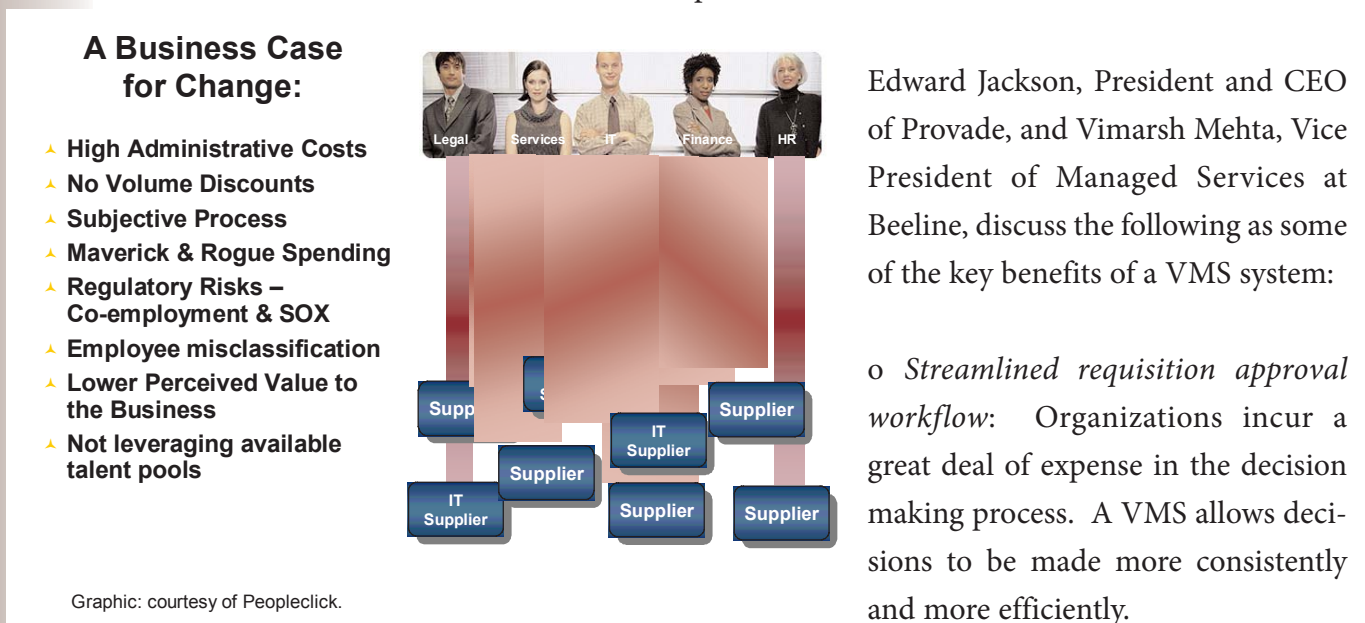
As organizations become more global, the need for

a tool that helps automate the hiring of contract talent and the maintenance of their records has become rather urgent. With a global presence in the marketplace, organizations face a myriad of labor laws, wage rates, and cultural differences that need to be addressed. A VMS solution can be an effective tool to help administer these complex demands. Figure 1 illustrates some of the challenges organizations face when they try to manage contingent talent without a VMS.

There are five potential areas where a VMS can have a great deal of impact: procurement, finance, human resources, hiring managers, and IT. In procurement, for example, benefits include cost reduction (standardized processes and rates), the ability to leverage total spend, and the management of vendor relationships. In finance, benefits include improved financial control and efficiency.

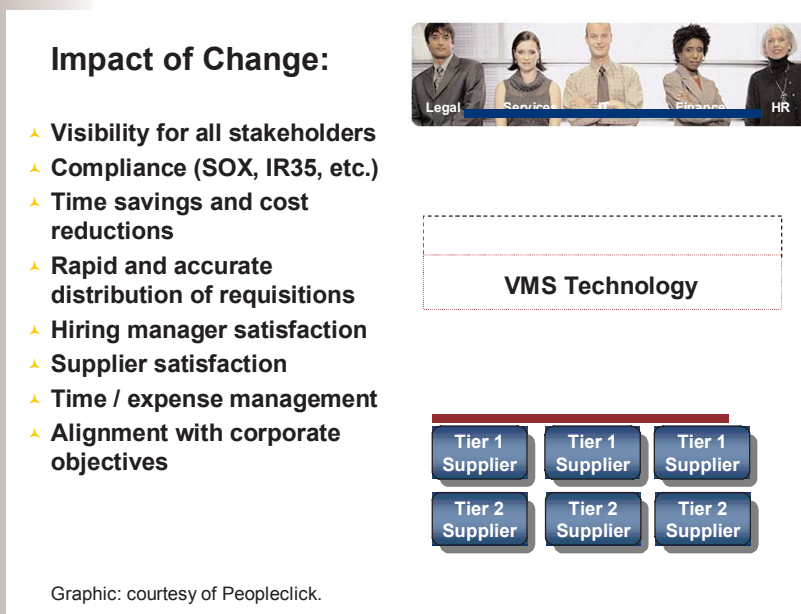
One very visible benefit of a VMS solution is that it creates a contractor talent pool. Human resource professionals, in particular, will be looking at ways to effectively utilize VMS solutions in a workforce environment that is becoming increasingly competitive.

Figure 1



Graphic: courtesy of Peopleclick.

Figure 2



o *Reduced time-to-fill cycle times:* In some cases, VMS systems allow for advanced notices of job requisitions to be sent out to targeted suppliers further reducing the time-to-fill cycle.

o *Bill rate standardization/management:* In many cases, the client is a non-professional buyer. In these cases, the VMS system can create common rate sheets that make it easier for the buyer to hit established target rates.

o *Optimization of supplier base:* A VMS system can help target only the top tier suppliers rather than utilizing too many suppliers that can actually increase costs and decrease process efficiencies.

o *Improved security and asset management:* A VMS can help the client track what tangible assets are connected to the contingent workforce (e.g. phones, laptops) while also tracking the competencies of the temporary or contract employees.

o *Availability of vendor performance metrics:* A VMS provides the client with several performance metrics that allow it to determine which vendors are most effective.

o *Visibility and cost control over maverick spend:* With bill standardization and the tracking capabil-

ities of the VMS solution, much of the costs associated with temporary staffing can be reduced.

o *Reduction in contingent labor spend:* With a structured system, clients are better able to hire only when necessary, which will also reduce labor costs.

Mehta highlights a couple of other items as particular benefits - consolidated invoicing and (related to improved security) the ability to know, "Who's on your site, who's working for you, who comes in through your doors

as a contractor." Consolidated invoicing means that, "Different labor activities can be managed appropriately using the same system."

The potential cost savings and efficiencies that a VMS solution can offer an organization are evident in this list provided by Jackson and Mehta, especially in the broader arena of cost control. Tisdale recounts a recent business case where a consumer products company believed that it utilized approximately ten staffing vendors at a cost of about \$9 million annually. After tracking the actual figures, Tisdale's company was able to show the organization that they actually were using the services of over 70 vendors at a cost of \$18 million. In about three months, a VMS solution was able to save the organization about \$3 million.

VMS SELECTION AND EVALUATION

According to Jai Shekhawat, VMS solutions are typically most often used by large global organizations who have between five and ten percent of their workforce defined as contingent labor. In some cases, businesses have up to 30% or 40% of their

labor costs dedicated to contingent workers. In these cases, the business case for purchasing a VMS solution is tremendously easy to make. But, once the decision is made to purchase a VMS solution, clients must be prepared to make a number of additional decisions with respect to what features they will require and how the VMS system will be managed.

One of the first decisions is where to source a VMS. One option is to develop a VMS in-house, something only a handful of companies have the resources or expertise to do. The most popular solution by far is to purchase or license from a company that specializes in the design and implementation of a VMS.

After determining the source of the VMS, buyers must consider what features are most critical to their business success and what pricing constraints are in place. Tisdale recommends that buyers also consider the non-technological aspects of the VMS vendor. A top-notch VMS provider should have many of the following characteristics:

- o Thought leadership in the industry
- o A reputation for customer/technical support
- o Financial stability
- o Global business support
- o Partners and alliances
- o Training and education
- o Reference customers

Finally, pricing must be a consideration. There are typically four different pricing models available to clients and a good VMS supplier should allow the client to choose which option is most appropriate for their business needs. The types of pricing models include:

1. Percent of spend: A percentage of the total spend that covers licensing requirements to access the system is negotiated between the vendor and client. This percentage can be adjusted based on either an increase or decrease in annual expenditures, and it can be either supplier-funded or buyer-funded.
2. Fixed annual fee: The vendor and client negotiate a mutually favorable annual fee that covers licensing requirements and system access.
3. Per engaged contractor: The costs are based on a fixed rate that is charged per contractor that is hired using the VMS application. This is typically determined on a full-time equivalent basis over a previously specified length of time.
4. Per requirement: A fixed rate per requirement submitted is negotiated. This particular option can be less cost effective when the organization is experiencing high turnover rates.

Shekhawat recommends that when a buyer is considering what type of VMS to select and what features are needed that they keep in mind their own business model. For example, will internal or external maintenance be most effective? Buyers must also understand the scope of the deployment to ensure that the technology selected can support the business.

Research in the VMS field indicates that there are some best practices that buyers can consider when considering a VMS solution. These best practices include: considering the needs of all stakeholders in the selection process; selecting an appropriate number of preferred vendors to work with; establishing clear communication guidelines and requirements; determine the appropriate resume submittal rates and candidate quality requirements; establishing a limit on the number of resumes submitted on each job order per vendor; creating clear

job requirements for all open positions; having adequately skilled resume reviewers; establishing prompt and effective resume and interview feedback with vendors; considering price versus quality preferences; and establishing regular performance evaluation opportunities.

Who actually pays for the VMS once one is chosen depends in part on a company's culture. Because VMS solutions have their roots in companies that sourced and provided contract talent, the procurement department of HR typically picked up the cost. Tisdale sees HR itself providing the funds for a VMS as contractors and other types of contingent talent assume more strategic functions within a company, just as HR is doing. Yet he also sees all areas in an organization "chipping in" as the contingent workforce continues to impact all aspects of a company's business. In fact, Jackson believes that, "There is a greater possibility of success with [a VMS implementation] if costs are shared enterprise-wide."

EVALUATING THE PERFORMANCE OF A VMS

When evaluating the performance of the VMS provider, Vimarsh Mehta of Beeline suggests that the client consider the following questions:

- Is the technology performing at the desired level?
- Is the VMS supporting the business goals?
- Is the client satisfied with the service and technological aspects of the application?
- How is the change component of the program introduction being managed?

Specifically, he observes that, "The gut reaction of most people is to look at the SLA (Service Level

Agreement) to see if the technical performance [of the VMS] is at an acceptable level. But the achievement of organizational goals as they relate to separate elements of performance related to service is a better metric. For example, one can ask if the change component is managed well."

Effective change management is considered by the experts quoted here as perhaps the most important component of a VMS, as both a feature and a way of measuring the success of a VMS implementation.

THE FUTURE OF VMS

In a recent study by the Aberdeen Group, 14% of the respondents indicated that they would be increasing their contingent workforce by over 10% over the next year. It is also expected that the majority of these new temporary employees will require technical skills. The five fastest-growing professions in the contingent workforce area are in the IT sector. Accounting and finance, health care and legal professions are also areas experiencing a high growth in contingent workers.

The demands that these changes in the demographics will make on both the buyers and the suppliers are considerable. Edward Jackson of Provade predicts that the current number of VMS solution providers will decrease as the market space becomes more mature even as their solutions increase. Most experts in the field agree that VMS providers will become increasingly aware of the need to provide enterprise-wide capabilities that can be international in scope. As the marketplace changes, more and more organizations will be seeking solutions to help manage the processes related to contingent workforce management and VMS

providers will be exploring more and more ways to help organizations effectively manage this talented and expensive resource. "There has been a dramatic improvement for this business in the past couple of years," Shekhawat notes. "I see a trend toward more enterprise-wide deployment of these systems as they become more international." Mehta agrees. "There will indeed be more enterprise-wide use, a more global perspective.

CONCLUSION

There is no question that VMS solutions can offer organizations with a significant contingent workforce component an effective way to manage their contract talent. Recently American Standard, with more than one thousand temporary employees, began using a VMS to help centralize performance management, billing, reporting and drug screening for their contingent population. After the introduction of a VMS application, the organization experienced a \$6.9 million savings and a 20% reduction in pre-placement screening costs.

As workforce demographics continue to change and more and more organizations seek a global presence in the marketplace, VMS solutions may well become an essential tool for those who seek to manage talent, time, and money.

1 MSP/VMS Standards & Best Practices, 2007; MSP/VMS Standards Board

2 Office of Federal Contract Compliance Regulations

Based on the Human Capital Institute webcast, *What is a VMS? The Role of Vendor Management Systems in Contingent Workforce*, June 26, 2007

PRESENTERS & PANELISTS

Jai Shekhawat

CEO and Co-Founder

Fieldglass

Jai Shekhawat has more than 18 years of experience with software development, information technology and management consulting. He is presently the CEO of Fieldglass, a leading provider of software solutions to help large firms manage their spend on a variety of business services such as contingent labor and outsourced projects.

Edward Jackson

President and CEO

Provade

EJ brings over 15 years of executive management, technology and entrepreneurship experience to Provade. Prior to founding Provade in 2004, Edward served as Director of Supplier Relationship Management (SRM) Product Strategy for PeopleSoft. He joined the PeopleSoft SRM team when SkillsVillage, a company he co-founded, was acquired by PeopleSoft for \$32 million in June 2001. He served as CTO at SkillsVillage.

Thomas Tisdale

Senior Vice President of Strategic Initiatives

Peopleclick

Thomas Tisdale has over 20 years of sales and business development experience in the technology arena. As SVP of Strategic Initiatives, Tom is responsible for international expansion strategy and activities. One of the first employees with the company, Tom was instrumental in growing Peopleclick from one customer to 2,300 and helped develop international business channels.

Vimarsh Mehta

Vice President of Managed Services

Beeline

Vimarsh has been in this role with Beeline since 2002 and has over ten years experience implementing contingent workforce solutions. Beeline is a provider of workforce acquisition, management, e-learning and analytical products and services.

MODERATOR

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Vice President - HCI 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.

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