



The Kelly® Intelligence Report

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INSIDE

VMS: Software or Strategic Workforce Solution?

VMS: Software or Strategic Staffing Solution?

As vendor management software becomes more commonplace in enterprise workforce and service procurement categories, the solutions are often evaluated by the number of clicks it takes to generate a request, track cost savings, and ensure compliance. However, in the midst of such procurement-centered strategies, many organizations are losing sight of their primary objective—securing the right talent, at the right time, for the right price.

As the available labor pool shrinks and companies adjust to changing market demands, staffing mixes are including increasing numbers of contingent workers. This is true globally, as various countries (particularly the United States, United Kingdom, Russia, and Australia) are experiencing the effects of an aging workforce.¹ Corporations are increasing their reliance on a variety of non-traditional work arrangements to develop a more flexible, agile, competitive, and cost-effective workforce.

The Contingent Workforce: Threat or Means to Thrive

The U.S. Bureau of Labor Statistics (BLS) defines contingent workers as “those who do not have an explicit or implicit contract for long-term employment.”² Under that umbrella are consultants, independent contractors, freelancers, on-call workers, fixed-duration employees, and workers provided by contract firms. The latest Kelly study on trends in contingent workforce usage shows that one-fourth³ of all workers (approximately 31 million people) do not work in traditional employment roles. If this trend continues at its present rate, 41 percent of the workforce will be comprised of contingent workers in the next decade.

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Companies are beginning to acknowledge these workforce shifts and responding in ways that leverage these resources. “Thousands of products and services today are created not through permanent rosters of talent but by quick, one-time assemblies of the right people for a particular task,” says Dan Pink, author of *Free Agent Nation*.⁴

This trend isn’t arising solely from hiring industries, but also from the workers themselves. Pink notes, “People will fashion the work style that’s best for them. So in some cases it could be the serial employment of six months here ... 18 months there, while other people have more of a portfolio. The beautiful thing is that it is not a one-size-fits-all form of work as existed in most of this country for much of the 20th century.”⁵

While this new workforce paradigm definitely is appealing to contingent workers, it can be devastating to companies that do not take steps to adapt to the changes. A common thread among many 10-K reports is the threat of a company's inability to identify, attract, and retain top talent. As corporate strategies are drafted to address this threat, two common gaps identified are the omission of the contingent workforce in the strategy and the omission of labor suppliers in those threats associated with the supply chain.

Bypassing the contingent workforce in one's strategy could have serious implications. Optimizing a workforce to meet corporate ebbs and flows is an ongoing challenge—and a costly one. Labor expenses can represent up to 80 percent of a company's operating costs.⁶ Clearly, much is at stake—and companies need answers to overcome this threat.

John Healy, Vice President of Enterprise Workforce Solutions at Kelly Services, Inc., notes, "With the available labor pool being tighter than ever, the companies that will succeed in acquiring and retaining the best talent need to make sure that their process and strategy not only meet their desire for cost savings and compliance, but that they also drive access to and retention of that talent."

In a recent survey by The Jordan Group⁷, the top four reasons cited for purchasing vendor management software related directly or indirectly to cost containment. By automating the process for procuring contingent staff, companies hope to reduce costs, increase administrative efficiency, improve reporting, and gain better control of spend.

These are important reasons for seeking automation as part of a solution. But cost containment alone can lead to substandard talent acquisition.

A good vendor management system should—and must—do more than track and manage spend.

Where Some Companies Stop: The Heart of the Matter

The most important question to ask yourself—a question many companies stop short of—is how you want your workforce strategy to improve your company. In the process of acquiring vendor management software, very few companies make the leap from saving money and knowing which suppliers performed well, to analyzing how their utilization strategy positions them more effectively in the marketplace.

This issue reaches beyond the realm of acquiring talent and supplier performance. How do you measure the *effectiveness* of those workers, and the positive results that those decisions have on the company? For example, "Why did I use a temporary employee instead of a full-time employee? Is there a correlation between overtime and the workers' compensation rate? How has our attrition rate impacted the time to market for our product offerings? Have we been able to develop new revenue opportunities as a result of our workforce strategy?"

"When you are able to assess workforce effectiveness and its impact on your company, you will be well-positioned to grow your business," Healy explains. "There are only a select few Vendor Management System (VMS) software companies who fully recognize the opportunities available and who have committed the R&D resources needed to evolve their product roadmaps to address these opportunities."

Think Beyond Technology

Another important tenet: a VMS solution is not a one-size-fits-all strategy. Many first-generation VMS users learned this the hard way. For example, an application worked fine for a limited scope, like hiring IT and administrative contingent workers, but it didn't mesh with the way legal and financial workers were sourced or with the way IT was hiring its project-based business.

A VMS should enable you to be more efficient and effective in buying services, regardless of whether you use one or multiple models for doing so. For example, a vendor-neutral strategy may be the right model for one category of labor, while a master vendor/primary supplier strategy may fit better for another.

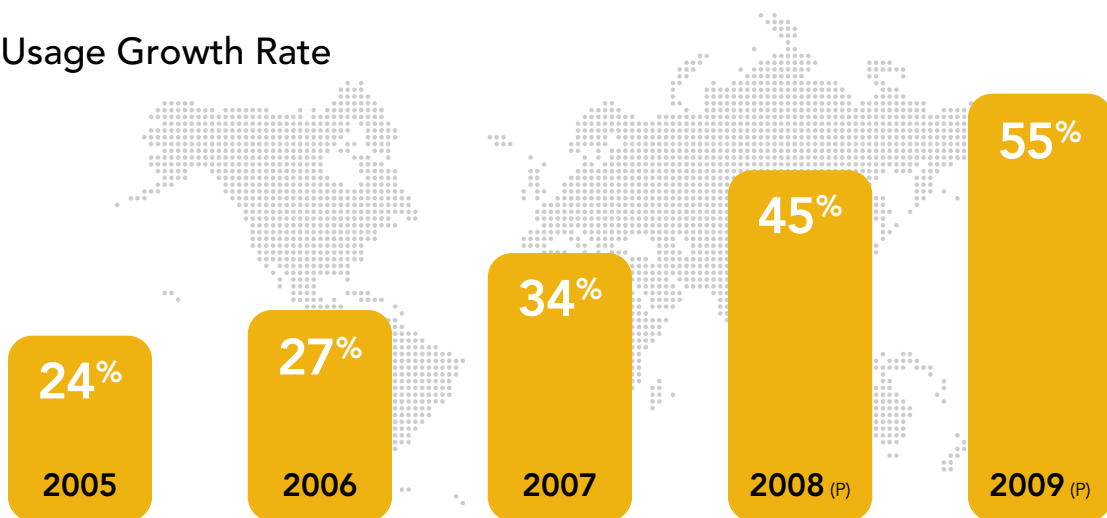
Similarly, you want a system that encourages vendor participation and offers advantages for those vendors. As Healy notes, "The right VMS software supports a strategy that combines technology and program management competencies to provide corporate advantage in attracting and retaining the best talent to help grow your company."

VMS: Much More than Software

Today, approximately 60 software applications for vendor management exist.⁸ New VMS purchases are expected to rise by 12 percent through 2008.⁹ An even more striking statistic is how fast actual usage of the software is growing (see chart below). Companies increasingly are tapping into VMS abilities—expecting more from it, and doing more with it. Usage is expected to increase to 55 percent by 2009.¹⁰

In its strictest sense, VMS refers only to the software platform used. But, according to Healy, "Program efficiency, change management, end-user adoption, supply chain optimization, leveraging the data gathered, program scope, and prioritization are all elements of a complete solution that impacts the selection of the right VMS software as part of an overall workforce solution." So what can meet all of these needs? The answer lies in your workforce strategy and matching that strategy with the best solution.

VMS Usage Growth Rate



Source: Staffing Industry Analysts, Inc. www.staffingindustry.com

Strategy Drives VMS Decision

Despite the VMS software's siren calls of process automation, efficiency, and cost analysis, technology is not a silver bullet. Buying software before you develop your workforce strategy puts the cart before the horse. "Business processes and desired outcomes must first be assessed to ensure that the right software is chosen," Healy counsels. First and foremost, a successful strategic workforce solution starts with corporate initiative for a well-defined, enterprise-wide workforce strategy.

Stakeholders Are Key

Development of a workforce strategy touches many departments and external resources that are directly and indirectly involved in hiring contingent staff. Beyond the executive suite, stakeholders from all affected areas need to be engaged, including:

- Procurement
- Human Resources
- Information Technology
- Business Operations
- Finance
- Legal
- Suppliers
- Contractors/Workers

It is important to include all of these stakeholders in establishing a business case for change. Each area has different needs and concerns, as well as their idea of what is most important in managing contingent workers. To fully understand the process, you must understand the unique priorities of your stakeholders. Human Resources may focus on regulatory and policy compliance, and resource utilization. Procurement will likely focus on issues of supplier performance and contracts. Suppliers may want assurances of timely placements and payments. Finance will scrutinize budgets, spend, and return on investment. Hiring managers may want project accountability, access to qualified talent, and projects completed on time and within budget.

Collaboration among those who define the strategy, craft the solution, procure the partner(s), actively participate in the solution, and manage the outcome has proven to be a challenge for most organizations. But when stakeholders agree on the mechanics of a corporate workforce strategy, they will be more open to how the strategy is managed and will embrace the automated tool(s) selected for use in procuring talent. This is where the seamless integration of VMS can shine.

The goal is to create both an environment and a process that end users and management want to use, suppliers want to participate in, and executives value for its feedback.

How to Craft a Plan to Automate Your Workforce Strategy

How can you identify the right approach to your workforce strategy?

Start with remembering your fundamental goal: to hire and retain outstanding talent. Second, identify the intended scope of the solution both for the short term and potential long term. And third, fully understand your corporate culture, management style, and hiring needs.

When assessing your culture, review past processes. How did you procure contingent staff previously? How has that approach changed over time? Did the results you achieved meet your goals, and why? What, if anything, are you doing differently today to procure staff? How is that working for you? Is it efficient? When you have a need, what is your decision tree? How do you determine whether a temporary worker is a better solution than a full-time employee? When looking to automate the process, also look at lessons learned from the automation of other processes (e.g., office supplies, travel, etc.).

Then ask yourself where you want to go. What are your company's current and future labor requirements? This assessment requires insight into the company's business plan; but, moreover, it requires thorough knowledge of all your product categories, your business relationships with suppliers, and the types of workers you will need.

Where Are You Today?

Perhaps your position today could be categorized as "first-generation VMS." A hallmark of this concept is a departmental approach to vendor management. For example, you may hire contingent IT staff using some form of automated solution managed by the Procurement team, with full-time employee hiring managed through Human Resources, and fixed-price work contracted directly by the IT department. This decentralized approach can be limiting in many ways, and cause problems in assessing true cost savings, if any. For example, budgets and the fees

paid for contingent staff may be evident, but the administrative or management costs associated with those staff are not accounted for.¹⁰ This lack of visibility is like squeezing a balloon—cost savings in one area could be more than offset by spend that simply moves to another area not being managed.

You may be entering into "second-generation VMS," characterized by branching out into more areas, where the procurement of several categories of workers is handled in a centralized way. And everyone wants a glimpse into "third-generation VMS"—which is a projection of where you want to be through the next planning (or contract) cycle.

Regardless of where you are on this continuum, the starting point is the strength of your workforce strategy and your vision of the future.

Prioritizing Your Needs

Strategies are implemented over time and needs may change; similarly, no one is ready to have every conceivable VMS feature work for the good of the corporation all at once. The system needs to be scalable—in other words; it needs to grow with you.

Inherent to your strategy is prioritization: what do you want a VMS to do first, second, and third for you? Which features do you want to implement first? How do you scale it so it gets you where you want to go when you expand?

“Many automated workforce solutions that exist today are based on a category-driven approach,” Healy says. “The VMS software available today has evolved significantly. An organization’s long-term enterprise workforce strategy is easily achieved by the latest VMS software, which allows companies to develop solutions that deliver the results necessary for today—and then evolve into second- and third-generation solutions in the future. Making the right choices today will pay significant dividends tomorrow.”

Healy notes that, based on the corporations he has interviewed, the consistent expectation for a strategic workforce solution addresses four (two constants and two variables) realities:

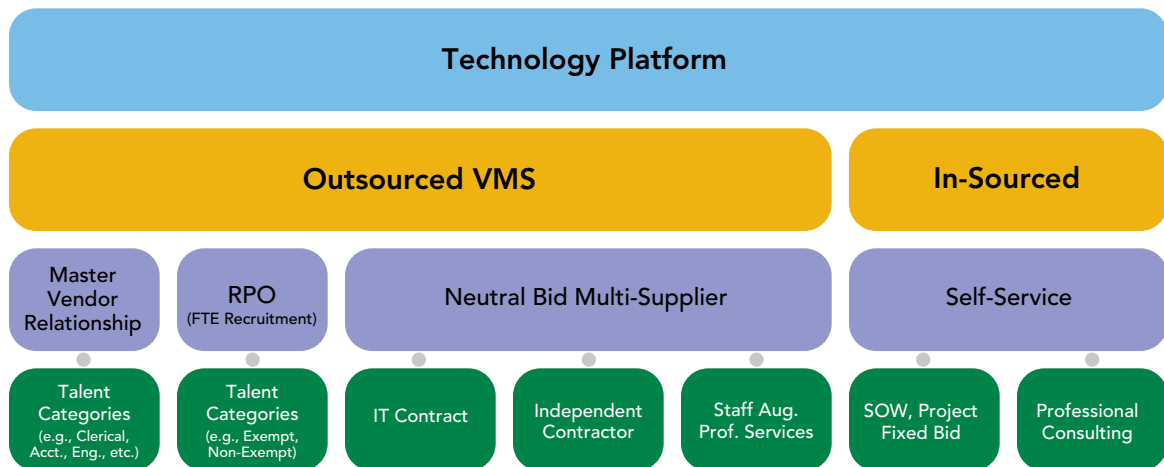
- A portal for acquiring talent should be a constant.
- The types of workers you have in your company are relatively consistent.
- The choice of whether to insource or outsource program management will change over time.
- Your supplier management strategy within each individual labor category will also vary over time.

Please reference the graphic below for a macro view of an enterprise workforce solution for a progressive global company.

When you choose a technology, you shouldn’t have to change it as your needs change.

How you implement a workforce strategy is a multi-faceted undertaking unique to your organization. Successful implementation of the strategy combines internal processes, software, people, and management to work with the best vendors in obtaining high-quality, productive people, in a timely fashion, at competitive market rates. And if that solution is a multi-phased approach that involves in-house management today and outsourced management down the road, your software technology should be adaptable as such.

Enterprise Workforce Solution Model



What to Expect From VMS Software in the Future

Healy describes today's VMS software market as "dominated by a series of best-of-breed vendors who are generally separated by their product focus on either services procurement or total workforce management space." He continues, "Most companies would prefer a solution that is part of their centralized Enterprise Resource Planning (ERP) platform, but the ERP vendors simply do not have the scope of functionality available in the market today."

Second-phase analysis went to a significantly deeper level, where significant differences could be found. As a result of this "deeper dive," Kelly knows how the following can affect each customer:

- The architectural infrastructure and data model are the engines that run these tools; flaws here make a significant difference in their ability to enhance functionality related to integration and localization.
- Organizational awareness of, and roadmap influence from, all stakeholders within the supply chain have a significant impact on efficiencies tied to Sarbanes-Oxley compliance issues, integration of related services into the programs, and both the supplier and end-user adoption rates.
- Recognizing the uniquely different competencies between software development, program management, and staffing can help companies avoid the limitations of proprietary offerings when one competency is not meeting market demands.
- Localizing software within global markets expands far beyond language and currency. The approach and resource commitment to localization varies significantly among VMS software companies ... which also impacts the service approach of those who also provide program management services.

Looking forward, software tools will be challenged to meet the collaborative, regulatory compliance, and analytical demands of the business processes they are designed to support. Take the time to imagine the future of your company, the workforce that performs on your behalf, and the services that you utilize. With that information in mind, you can objectively assess future advances in services-oriented architecture (SOA) business intelligence (BI) technology.

Advances in related software technologies will allow for human factors, workforce planning, talent identification, and integration strategies to improve efficiencies throughout the supply chain. All these abilities will quickly become part of the expected solution offerings, even when the software capability exceeds the available data in the market.

The outcome will yield a continued evolution of software providers, the enhanced expectations and complexity of program management strategies, and a series of best-in-class solutions to help companies better develop and implement global workforce strategies.

Conclusion

There are significant opportunities to enhance the development and implementation of a corporate workforce strategy through automation. Those opportunities and the resulting gains will be exponentially greater for those who take the time to assess both the short- and long-term possibilities of such a solution. Implementing the right solution now will significantly reduce the total cost of ownership over time. The right solution will deliver the outcome you intended when justifying the change: the right talent, at the right time, for the right price.

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Resources

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For Further Information

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About Kelly

A People Company, Staffing the World

Kelly founded the temporary staffing industry in 1946, and has maintained a leadership position through the years based on a valuable premise: we invest in people. Today that focus benefits our customers wherever they operate around the globe - in a growing number of specialized fields. And we'll continue to meet the evolving challenges of workforce flexibility with staffing solutions tailored to your precise business needs, both locally and worldwide.

Kelly Services, Inc. (NASDAQ: KELYA, KELYB) is a *Fortune* 500® company headquartered in Troy, Mich., offering staffing solutions that include temporary staffing services, outsourcing, vendor on-site and full-time placement. Kelly operates in 33 countries and territories. Kelly provides employment to more than 750,000 employees annually, with skills including office services, accounting, engineering, information technology, law, science, marketing, creative services, light industrial, education, and health care.

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