
A PERMANENT FIX FOR
TEMPORARY LABOR

*Extending E-Procurement
To Services Acquisition
And Management*

People once feared that computers would replace humans in the workplace; today that fear has been replaced with a new one—that there won't be enough humans to run the computers. After all, owning the most advanced IT systems means nothing if the human capital is not there to deploy and maintain it. Indeed, the booming economy of the past few years has given the well-worn acronym WWW a somewhat dubious new meaning: Workplaces Without Workers. Record low unemployment levels have left companies scrambling to fill positions at all levels. As a result, attracting the best and the brightest has become one of the biggest challenges in today's digital economy.

Among the beneficiaries of this scramble is the temporary labor market. Over the past five years, the temporary labor and independent contractor markets have grown dramatically. Five years ago total projected revenues stood at US\$148 billion, in 2001 this number will be closer to US\$250 billion.

Even if the economy cools, this upward swing will likely continue. The tight job market is forcing companies to fill positions any way they can, and highly sought after workers—particularly in the areas of information technology and professional services—are demanding the increased flexibility that a temporary labor model provides.

Companies are also discovering that they gain strategic advantages when they can both increase staff quickly and shed staff cheaply. Suddenly labor looks a lot more like a variable than a fixed cost, and companies can be far more agile in developing new competencies and targeting new sectors.

Despite the advantages of a contingent workforce, navigating the highly fragmented temporary labor industry can be an exercise in frustration. In the United States, for example, the largest eight

companies by revenue have only 28 percent of the market share. Furthermore, the industry is marred by costly inefficiencies for both buyers and suppliers, and expanded lead times can cause critical delays in project delivery.

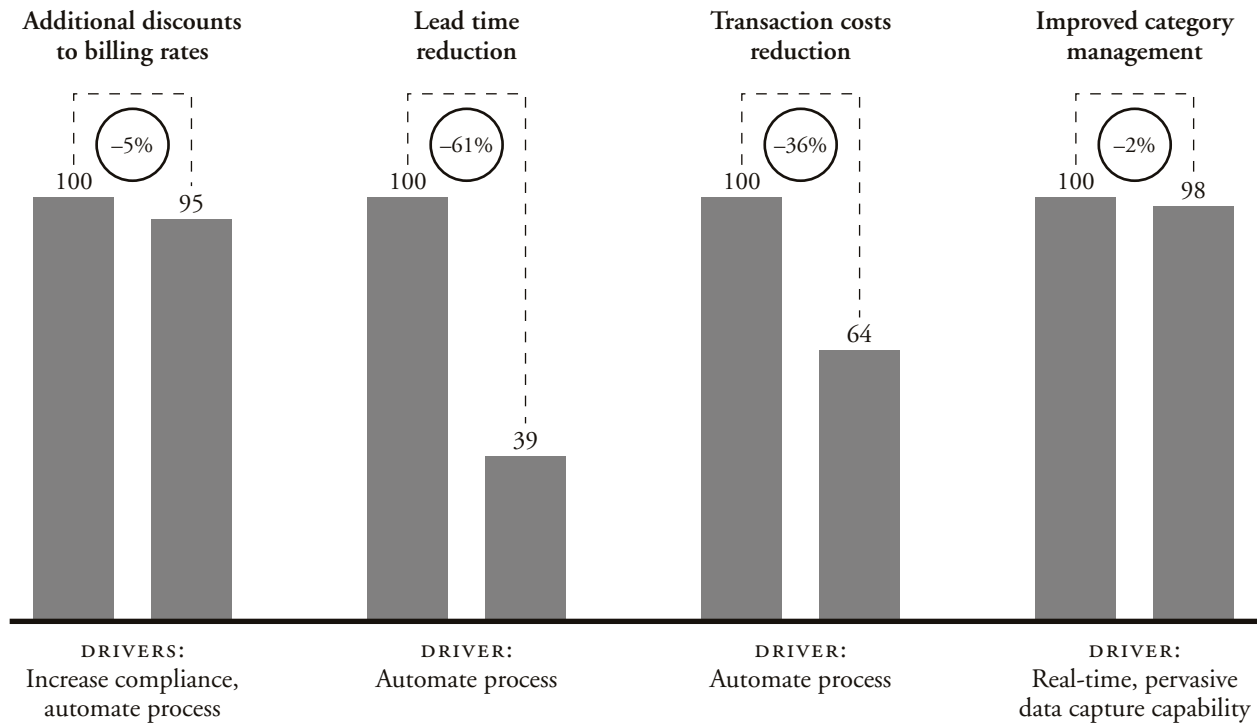
Fortunately, the news for short-staffed corporations and staffing firms alike is promising. Just as the Web has transformed the workplace, it is beginning to transform the way people are brought to the workplace. At the center of this new wave are web-enabled, automated solutions that can be used to extend e-procurement strategies to services like the management of a contingent workforce. The best of these improve the performance of strategic sourcing by tightening the relationships with preferred suppliers to shorten lead-times, reduce costs and improve controls.

Recently, A.T. Kearney performed an analysis of temporary labor procurement processes and identified the benefits of a web-enabled solution for both buyers and suppliers. This paper highlights the results of our analysis. Using case examples, we discuss how buyers and suppliers of temporary labor can derive significant cost reductions by streamlining processes with strategic suppliers, reducing maverick spending, and implementing transaction and category management improvements.

HELP WANTED IN FINDING HELP

Buyers of temporary labor that subscribe to a web-enabled solution can save significant amounts of time and money. Consider the case of one US\$20 billion company that spends US\$230 million annually on contingent IT workers. The company was plagued by numerous problems in procuring temporary labor. It had no pricing standards, no standard approval process, inconsistent cost information and limited coordination across

FIGURE 1: A new model for temporary labor: costs go down, quality goes up



Source: A.T. Kearney analysis

business areas. Adding to the quandary, the company had no way of consistently tracking either costs or the performance of its suppliers and contingent workers they provide. And all of this occurred despite preferred vendor agreements with just a handful of suppliers.

Clearly, this company needed to improve its temporary labor procurement process. By implementing a web-enabled procurement and management system, this company expects to save up to 15 percent of its annual temporary labor costs, with an average savings potential of 7 to 8 percent. Figure 1 illustrates several key areas where these savings are derived from a web-enabled system:

Discounted billing rates. Of the US\$230 million that our example company spends on

temporary labor each year, only US\$150 million—or 65 percent—is spent with preferred vendors. The remaining 35 percent is categorized as “maverick” spending. Maverick spending occurs when managers source contingent workers outside the company’s preferred vendors. The company ends up paying hefty price premiums for using vendors without the benefit of volume discounts.

In sharp contrast, a company that uses a web-based system can maintain tighter control over vendor use. Less maverick spending will increase volume purchasing for the preferred supplier who may then grant additional volume discounts. In our case example, when the compliance rate is increased from 65–85 percent, compliance increases by US\$46 million. Based on A.T. Kearney experience,

it is not uncommon to see price premiums of 15 percent for maverick spend. In this example, the company could save US\$7 million annually through avoiding paying price premiums. Further, the increase in the total volume purchased through preferred vendors can bring additional volume discounts of approximately 2 percent of total spend, an additional US\$4 million in annual savings in our example.

Reduced lead times. Filling a temporary position with the right worker at the right time is the single most important—and time consuming—aspect of managing a contingent workforce. Formulating requirements, screening resumes and completing repetitive searches across several suppliers often results in positions left vacant for long periods of time or positions filled with unqualified candidates. Given the shorter life cycles of many projects, a few weeks without a key skill can be crippling, and acquiring an under-qualified or over-qualified candidate can prove costly for both the candidate and buyer. A web-enabled system can help solve this problem by standardizing skill descriptions and aggregating supply.

Using a web-enabled solution, both buyers and suppliers can significantly reduce the time required to fill positions. In our example, the current overall time required to fill a contingent IT position averages anywhere from 22–31 days. With the adoption of a web-enabled system, the combined buyer and supplier time to job placement can be reduced by more than 40 percent to average as little as 14–18 days.

Reduced process costs. An automated, web-based solution can also bring process savings. The cost to define the position, review and select candidates, confirm the contract, gain approvals and on-board a worker scale proportional to the

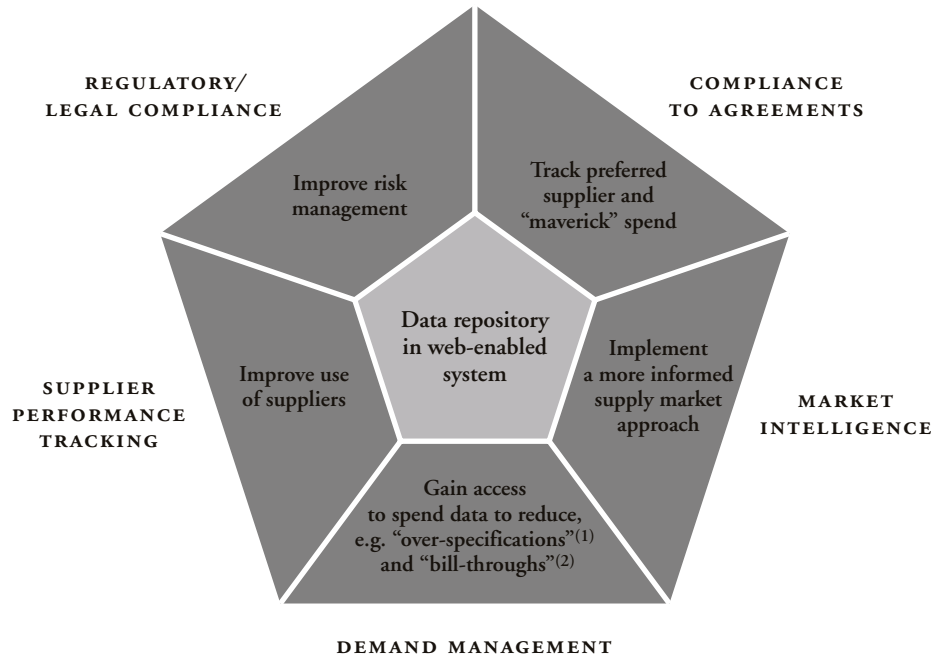
number of contingent workers brought on each year. Other processes require continual non-productive time to be spent by contingent workers, managers and administrators.

A web-enabled system automates all of these processes including repetitive, tedious tasks such as updating timesheets, reconciliation and billing. Electronic forms can enable accurate and efficient distribution of information that streamlines the billing process. Consider what happens when there is a perceived error in a timesheet or an unclear expense report. In a traditional process, payment and settlement are delayed while both the buyer and supplier dispute expenses and bills. Automatic reconciliation and immediate notification of discrepancies mean that bills can be paid promptly, and managers and administrators spend less time on paperwork and more time on value added activities. Overall, the buyer in our example can reduce process costs by 36 percent or approximately US\$1.2 million annually.

Improved category management. The data repository in a web-enabled system can be used to improve category management (*see figure 2*). Better data can enable improved ability to track supplier performance and compliance to agreements as well as improved ability to reduce procurement costs due to, for example, over-specifications and bill-throughs.* A web-enabled solution can also enable improved risk management through improved legal compliance. Improved legal compliance protects buyers from potential exposure due to such issues as co-employment. Such a system can track each worker's tenure and notify the hiring

*Over-specification means defining contractor skill levels higher than required for task. Bill-throughs occur when a primary supplier cannot fulfill a request, and it may subcontract to another supplier, billing the mark-up to the buyer.

FIGURE 2: Efficient category management equals savings



Notes: (1) Avoid use of contractor skill levels higher than required for task

(2) Primary supplier subcontracting to other supplier when cannot fulfill request, mark-up billed through to buyer

Source: A.T. Kearney analysis

manager and appropriate management organization when tenure business rules are about to be violated. Overall improved category management can account for an additional 1–3 percent savings on total spend. In our example, a 2 percent savings results in an additional US\$3 million saved each year based on strategic supplier spend.

In total, the potential savings for the company in our case study, which spends US\$230 million per year on contingent labor, can save over US\$15 million per year by implementing a web-based procurement application.

SELLING SMARTER

Just as buyers of contract labor suffer costly inefficiencies when using a manual procurement process,

so do suppliers. Consider the case of a US\$100 million supplier of temporary IT contractors. The company experienced lengthy delays in job placements and in receiving payment, as well as difficulties in monitoring worker performance and compliance. As figure 3 on page 7 illustrates, a web-enabled procurement solution can yield several benefits to suppliers, including:

Increased revenues. Greater compliance on the buy side means more business for preferred suppliers. Even if buyers require an additional discount for larger volumes, the cost can be more than offset by the growth in business—growth that requires limited additional selling and administrative costs. Furthermore, the operational efficiencies introduced by a web-based system can curb staff increases and

related expenses. In our case example, the supplier can increase revenues by 18 percent net of reduced billing rates.

Reduced transaction times and costs. Reduced transaction times and costs. For suppliers of contingent labor, lead time for reviewing job requests, recruiting candidates and fulfilling requests can be reduced by up to 20 percent. Similarly, the time required for processing time-cards and expense reports, and for billing and collection can be shortened by more than 60 percent. For the supplier in our case example, these reduced lead times can reduce transaction costs an additional 11 percent.

Reduced sales and marketing costs. Suppliers can reduce marketing costs by 10–30 percent by marketing to multiple buyers automatically through a web-enabled system. Also, suppliers can better coordinate national and local account marketing activities.

QUALITATIVE BENEFITS FOR BOTH BUYERS AND SUPPLIERS

There are several qualitative benefits to be derived from a web-enabled temporary labor procurement solution. For example, a single point of data entry can reduce errors, rework and resubmissions inherent to companies that use manual processes or to companies tied to multiple, disparate legacy systems. Furthermore, buyers and suppliers of temporary labor can improve global access to broader markets through web-enabled procurement. And, when companies have an easy-to-use interface combined with better information visibility they can improve the consistency and implementation of their temporary labor programs. Finally, buyers can use aggregate spend data to facilitate strategic sourcing and the use of auction tools.

Suppliers may use a web-enabled temporary procurement system to offer co-branded solutions.

CHALLENGES OF WEB-BASED PROCUREMENT

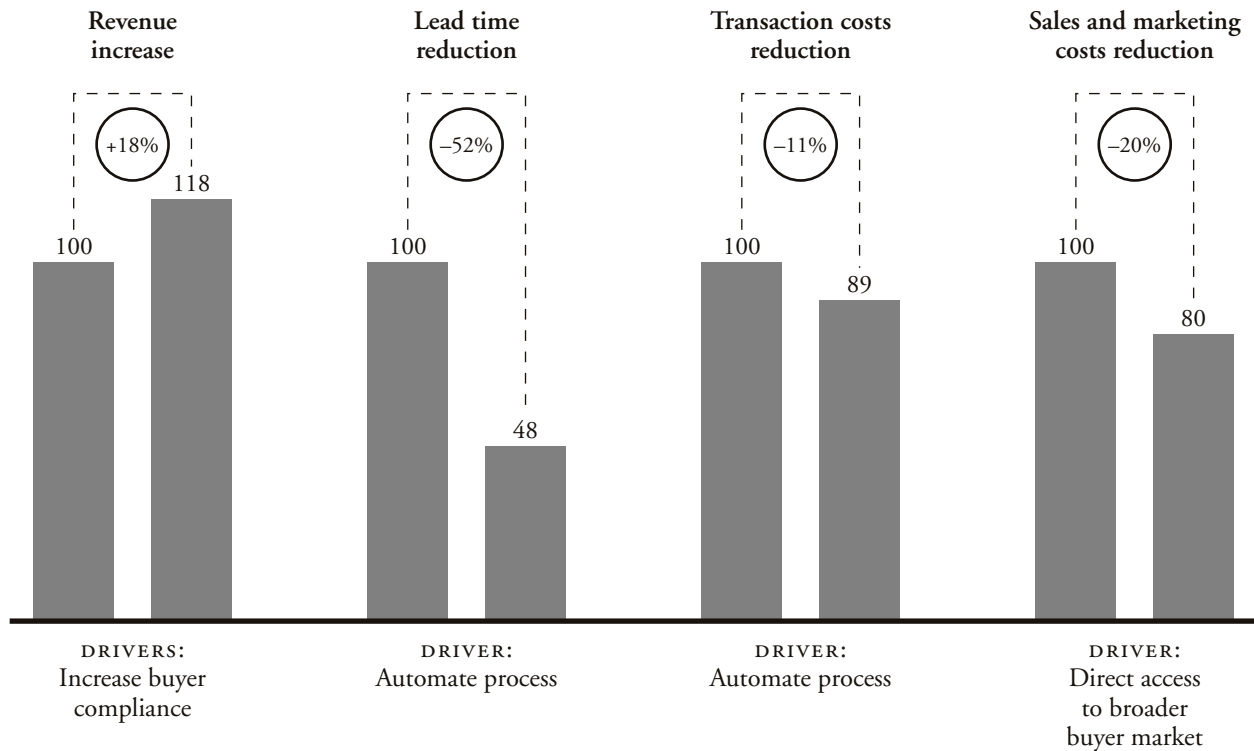
The key to success for both buyers and suppliers is implementation. A web-enabled system can ease implementation, limiting the need to overhaul infrastructure or replace legacy systems. In fact, the systems can quickly go “live” and coexist with current systems during a managed rollout.

The challenge for both buyers and suppliers is that a company-wide rollout requires a company-wide transformation, including changes to underlying processes, organizational structures and management systems. Roles and responsibilities must be realigned, and some jobs—particularly those that involve transactional purchasing processes—will be redefined. All users will need to receive sufficient training in order for the new system to yield full benefits. With the new system, every employee (in the buyer organization) is a potential buyer and new service functions will be required.

A bigger challenge will be to ensure that all users are *motivated* to use the system and that they thoroughly understand the time, cost and quality improvement potential. The key to success has less to do with implementing software and more to do with changing behavior: employees will need to change buying habits, accept automated processes and in some cases, change suppliers. Workforce managers can redirect their efforts to more value-added roles such as strategic sourcing and supplier management while project leads can focus on successful, on-time delivery of projects.

Buyers will have to become accustomed to less frequent in-person meetings with suppliers and a

FIGURE 3: Suppliers can increase revenues while decreasing costs and lead times



Source: A.T. Kearney analysis

potential loss of intimacy with the supplier base. Suppliers will need to increase service levels to meet rising customer expectations in terms of turnaround times and service.

CONCLUSION

Buyers of temporary labor have struggled with traditional procurement processes that are inaccurate, inefficient and time-consuming. A web-enabled temporary labor procurement system can standardize and automate processes, improve the quality of the results (both in worker placement and

related administrative functions) and infuse transparency of information throughout the process.

Suppliers of contract labor have similar issues with traditional procurement processes, but must also strive to excel in an increasingly intense competitive market. A web-enabled system can streamline the placement process and improve quality for suppliers in addition to enabling several strategic advantages for increasing sales while reducing costs. And when such transparency, efficiency and legitimacy become infused into an industry, everyone gains.

A.T. Kearney is an innovative, corporate-focused, e-business consulting firm and one of the largest high-value management consultancies. The firm was established 75 years ago to focus on management advice and issues on the CEO's agenda. Our 5,000 employees worldwide serve the largest global clients in all major industries. A.T. Kearney's offices are located in 59 cities in 34 countries in Europe, Asia Pacific, the Americas and Africa.

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