The Next Frontier: Tackling Complex and Project-Based Services Spend
Companies that are formally managing their external workforces are increasingly interested in realizing similar benefits from their consulting engagements, offshore initiatives and other outsourced services typically procured through a Statement of Work (SOW). The benefits derived from managing an external workforce program also apply, and in fact multiply, when extending the solution to manage other types of services.

Many organizations institute external labor management programs to realize cost savings. The first year of an external workforce program often yields 10-14 percent savings due to rate rationalization, supplier consolidation, etc. It becomes more difficult to maintain that level of cost savings going forward because staffing firm rates can only be squeezed so much. As customers look to increase cost savings, they often look to other areas of spend such as consulting projects, offshore operations and independent contractors.

This whitepaper offers a practical and proven approach to controlling complex services spend. It outlines the key capabilities and benefits of managing not just external labor, but other types of services using the same technology infrastructure with common business processes. By adopting this approach, your company can quickly reap the benefits associated with best of breed flexible workforce management — including continuous bottom line improvement and increased compliance enforcement.

"Many companies are focused on indirect and direct, still ignoring the services spend. The irony is that a global recession is the perfect opportunity to put this spend under management, quickly gain efficiencies in workflows, and save more money."

— The Global Enterprise Application Market Sizing Report, AMR Research
7 Elements for a successful entrance into total spend management

Companies that have established a successful program for managing their external workers can realize the next level of improvement by also taking control of SOW engagements and other service providers. There are seven core capabilities and processes common to managing both external workers and services engagements that can help you drive greater transparency, cost savings and compliance adherence once you add services to the scope of your overall program.

1. Requisition through payment: Access end-to-end workflow with granular SOW functionality
2. Decision support: Guide managers to the right engagement type
3. Reporting and monitoring across all worker types: Gain greater transparency & control
4. Worker identity management and security controls: Encourage policy compliance and protect property
5. Integration points: Take advantage of existing configurations and rules
6. Change management and executive sponsorship: Realize for program success
7. Supplier adoption: Achieve through ease of use and existing supplier network
A best-of-breed Vendor Management System (VMS) provides tremendous granularity into the SOW, including details such as individual workers, rate cards and hours worked. It can also enable collaboration and controls throughout the entire lifecycle of an SOW between hiring managers, service providers, workers and third parties such as background check providers.

By migrating SOW spend into its external workforce program structure, a leading healthcare provider is transitioning from managing spend per worker on SOWs to managing to the SOW. This shift puts the emphasis on goals and reduces the number of hours needed to manage individual workers.

Without an automated and systematic way of managing service providers, hiring managers are often unaware that procurement has identified and negotiated preferred vendors with various specialties. Based on the type of work needed, a system can expose the top two to three firms to hiring managers before they execute an agreement, resulting in greater cost savings and worker quality. Overall this allows companies to maximize their buying power by consolidating spend with a smaller number of vendors, and eliminate risk and maverick spend as hiring managers are forced to use preferred vendors.

Hiring managers could also be allowed to facilitate their own arrangements, but give procurement immediate visibility into the negotiations, and in real time, have the opportunity to influence the project terms and conditions in order to eliminate risk. A Program Management Office (PMO) can institute SOW templates so the hiring managers never have to start from scratch when writing an SOW which delivers inherent efficiencies. In addition, those templates should enforce “do not exceed” spend amounts, providing greater control to the PMO and eliminating project overtures.
Managers must often decide whether a particular piece of work is best done by using a contract worker, an independent consultant or as a project under an SOW. Unfortunately, this is the precise point where mistakes are often made — for instance, by improperly classifying the worker or paying an unnecessarily higher rate. This lack of transparency incurs risks such as co-employment lawsuits.

A strategic decision support tool enables companies to influence the worker composition and guide hiring managers to the most appropriate engagement type. As they answer pre-defined questions, they can be guided to a particular engagement option. The process can be automated or trigger a particular workflow, allowing procurement, human resources and/or the Managed Service Provider (MSP) program office to assist the manager in selecting the correct resource.

Decision support can resolve many common challenges faced by organizations as it relates to MSPs, including the following scenarios:

- Determine whether to go out to bid or negotiate with a known supplier when sourcing a services contract
- Ensure offshore and global project-based workers are properly routed based on cost and spend category
- Reduce hourly consultants masquerading as project workers to bypass headcount restrictions or tenure policies

A decision engine can enforce proper classification and qualification of independent contractors, and in turn lower costs. A centralized program can take a traditional time-and-materials SOW and source the resources as contingent workers. Typically, rates of contingent suppliers are lower, yet still deliver quality resources.
Perhaps the most obvious benefit of managing all worker types in one application is the ability to gain transparency across the organization. This enables a better apples-to-apples comparison of labor. For instance, is it cheaper to bring in a particular worker as a contractor vs. contingent? When does it make sense to offshore?

When used across worker types, reporting and analytics capabilities can expose some potential compliance concerns as well as cost-saving opportunities. For instance, how many SOW templates are circulating in your organization? Are they compliant with legal policies? Bringing these templates under one umbrella can reduce this risk. Furthermore, do you know who has the ability to draft SOWs and what the review and approval process looks like? True reporting tools allow companies to identify the weaknesses of their process and verbiage. Perhaps some SOWs were poorly written years ago and they simply continue to get updated with only a change to the date and dollar amount. Gaining visibility into when SOWs are due to expire allows you to renegotiate in advance.

The spend associated with projects and SOWs can be significantly greater than in the contingent market even on an individual basis. One SOW could be worth more than $1 million. That said, it’s imperative to know the fee structure and skill sets of individual workers or team members associated with a project. Large consulting arrangements are a good example of why this is important. When those SOWs are negotiated, perhaps a high-cost senior partner is slated to be actively engaged with the project. You can then ensure that the partner continues to be engaged throughout the project lifecycle.

A common system also provides central control for managing suppliers. As an example, if a hiring manager gets too comfortable working with a particular supplier, a company could be missing out on cost savings. That manager might be working with a consulting company where engagements are managed under an SOW, although a particular piece of work is really traditional staff augmentation, and in turn, the company is forced to pay a premium. If these staff augmentation SOWs were sourced and managed as external workers, clients can realize 20-50 percent cost savings on hourly bill rates.

Sometimes a strategy that was intended to be a cost-saving measure doesn’t pan out. For instance, a large telecommunications company thought they could save money buying services in bulk, making payments upfront. But, once they were able to compare this with their time and materials workers, they realized that paying through time and materials was actually less expensive, so they changed their policy.
It is critical to maintain a consistent process for on- and off-boarding all workers regardless of whether they are contingent, consultants or outsourced services, such as cafeteria staff, security, etc.

Operating multiple systems for acquiring workers allows managers to work around internal policies. A typical example includes converting contingent positions to projects to get around headcount or tenure limits. Similarly, contract workers are often misclassified as ‘consultants’ to bypass rate cards. A single platform can assist in tracking and managing the identity of individuals regardless of how they may engage with the organization. For example, workers that should not be rehired across both contingent positions and service engagements can be identified. Lastly, using one platform ensures that workers brought in under a fixed fee lose their security privileges and company assets at the end of the project.

Protecting high dollar company assets can also be controlled through powerful on- and off-boarding capabilities. For example, a global pharmaceutical company outsources a large volume of clinical research. In order to test a drug the company gives the service provider access to equipment valued at over $100,000. With proper on- and off-boarding processes in place they are assured the return of this expensive equipment.
VMS solutions are often integrated to other mission-critical applications such as ERP systems, HRIS systems, identity management and provisioning systems. Seamlessly incorporating all SOW workers and other onsite workers into processes supported by any existing integrations an organization has in place can save significant time and effort.
Expanding a program from external workers to SOW is often an incremental effort. Due to a common interface and similar flows, end user change management is simpler and adoption is often faster. It is also important to find a solution that offers shared functionality such as workflow, on- and off-boarding and reporting.

Which group within the organization owns the SOW program can vary by company or even by business unit or spend category. Often this is related to company size or organizational structure. In some cases it may be the same owner of the external workforce management program, and in other cases, it may not. For example, some companies have flexible workers managed by a procurement department while SOWs are managed by a sourcing department. Other companies have flexible workers managed by HR while SOWs are managed by procurement. The structure of the program and the change impact is very organization-specific.

It’s important that you outline the project to each group of stakeholders, from top-level executives to end users. Each group needs to understand the business drivers, expected timing and direct impact on the organization. This will help manage expectations moving forward. Users must also be properly trained on the system. A phased rollout approach can help people adjust to the new system and allow the project team to navigate and manage the political environment.
The leadership team of one or more of your vendors may very well have strong relationships with members of your own executive staff. Most commonly this holds true with service providers, such as consulting firms, rather than providers of temporary workers. In these special cases it is critical to execute a top-down approach to get the suppliers on board and actively using the system.

Suppliers of external workers and SOW services often have a high degree of overlap and may be better managed in the same place. Consulting firms often do hourly work as well as SOW work. IT staffing firms increasingly deliver project work. Finally, many situations involve combinations — timesheet-based billing with an SOW attached or SOW billing with hours tracked using time sheets.

Today, thousands of suppliers are using VMS tools as a method to source workers on behalf of their clients. Many of those suppliers are consulting firms and other service providers that are managed through SOWs. So you should be confident that your suppliers, too, can become an active user even if they are not today.

It is important to remember, and position to suppliers, that there are several benefits for them. They will be able to track their work and get benchmarks against other suppliers to gain an understanding of how to improve service levels. In addition, having their information in the system exposes them to other business units or divisions within your organization, providing a natural selling platform. If the worker they supplied did well in X situation, then they could be recommended for Y role in a different group or location. This specifically provides small vendors with an opportunity to get more marketability at a low cost.

Learn more

The world of work is changing, and SAP Fieldglass is leading the way with innovative solutions that harness the power of the external workforce in driving the digital economy. Explore additional resources on www.fieldglass.com/resources to learn more about the external workforce and the way work gets done.