Managing Your External Workforce

Building a Business Case for a Vendor Management Solution (VMS)

SAP Fieldglass eBook
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About SAP Fieldglass

SAP Fieldglass, a longstanding leader in external talent management and services procurement, is used by organizations around the world to find, engage and manage all types of flexible resources. Our cloud-based, open platform has been deployed in more than 180 countries and helps companies transform how work gets done, increase operational agility and accelerate business outcomes in the digital economy. Backed by the resources of SAP, our customers benefit from a roadmap driven by a continuous investment in innovation.
If you find it challenging to manage the independent contractors, freelancers, consulting firms, and other companies who do work for your company, you are not alone.

In a global study by SAP Fieldglass and Oxford Economics, *External Workforce Insights 2018: The Forces Reshaping How Work Gets Done*¹, executives shared that they face numerous challenges with managing their external workforce (see Figure 1). With the spend on the external workforce approaching nearly half of organizations’ workforce spend (44%)¹ getting visibility to these workers and services providers, and managing them more effectively, is a challenge worth pursuing.

Fig. 1: How challenging are the following aspects of managing your external workforce?

<table>
<thead>
<tr>
<th>Finding high-quality resources at the right time and in the right place</th>
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<tbody>
<tr>
<td>Extremely challenging</td>
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<tr>
<td>25%</td>
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<table>
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<tr>
<th>Tracking resource and project quality</th>
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<tbody>
<tr>
<td>17%</td>
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<table>
<thead>
<tr>
<th>Managing digital/cyber security</th>
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<tbody>
<tr>
<td>16%</td>
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<table>
<thead>
<tr>
<th>Ensuring non-employees or suppliers who do not perform well are not re-engaged</th>
</tr>
</thead>
<tbody>
<tr>
<td>15%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Compliance with local tax laws, labor laws, regulatory, and privacy requirements</th>
</tr>
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<tbody>
<tr>
<td>15%</td>
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**Who’s who in the extended workforce?**

**Non-payroll workers** (contingent labor): individuals hired by a company to do work on its behalf, but not as traditional employees. They could include independent contractors, consultants, or temporary labor, and could be contracted via staffing agencies, through freelance marketplaces, or sourced directly.

**Services providers**: organizations such as consulting firms, marketing agencies, and facilities management companies. They are typically contracted for project-based work via a Statement of Work (SoW).

**External workforce**: the combination of non-payroll workers and services providers (also known as an extended workforce).
Executives around the world say the external workforce is critical to achieving a range of business goals — goals that have a better chance of being realized with better oversight and management (see Figure 2).

Tremendous value can be achieved by implementing a technology solution to help you manage your external workforce — for example, visibility to rates and contract terms across your organization (to standardize rates and enforce contract terms); efficiency gains; compliance with local labor laws, candidate privacy, tenure requirements, and safety regulations; and reduced costs.

**Fig. 2: How important is the external workforce in meeting the following business goals?**

“Important” and “Very important” responses

- Developing or improving products and services: 68%
- Increasing speed to market: 66%
- Operating at full capacity/meeting market demands: 65%
- Increasing organizational agility: 64%
- Achieving sustainability goals/shrinking our carbon footprint: 62%
- Managing costs: 60%
- Reducing risk: 54%
How do you begin the process to find a technology solution to manage your external workforce, and accommodate your unique business policies, processes, and objectives?

**First, it’s important to develop a business case to ensure that you have alignment around business objectives for the solution.**

In this document, we provide steps and questions for you to consider when developing a business case to implement a technology solution — a Vendor Management System (VMS). By working through these steps, you will be one step closer to developing your business case and realizing greater value from your external workforce.
Define business drivers

Before you can embark on a process to select and implement a technology solution to help you manage your external workforce, it’s important to understand what issues you want to tackle, and the business outcomes you want to realize. Many companies embark on these initiatives as they want to:

• Understand the mix of how work is getting done, and determine the optimum mix for their organization
• See how much they are paying for talent, and if they are paying market rates
• Identify where external labor is engaged in their organization
• Gain more visibility to spend on labor external to their organization, across business functions
• Ensure compliance with local labor laws, safety regulations, and regulatory requirements
• Ensure they are paying contracted rates, and tenure requirements are being met
• Understand who has access to their facilities and confidential business information
• Reduce maverick spend

Get input across your organization

Much can be gained by examining inefficiencies and shortcomings across the business and defining pain points. Gain input from various constituencies across your organization — e.g., business and geographic units, business functions (manufacturing, corporate, field, IT, etc.), and various categories of labor. Speak with internal stakeholders such as procurement, hiring managers, IT, finance, security, and human resources across geographies to gain greater visibility into issues you already knew about, and uncover issues that you may not have known existed.

Key questions

1. What are the business drivers for seeking a technology solution to help manage your external workforce?
2. What is the scope — i.e., how many non-payroll workers and outsourced services providers do you engage?
3. What are your specific pain points?
4. How will you define success and return on investment (ROI)?
Think about the scope of your program — now and in the future

What are the priority functions, business units, geographies, and labor categories? Most companies first implement a VMS for external workers (e.g., consultants, freelancers, temps) and they approach it in phases, either by geography or business unit. They stabilize and optimize their program before embarking on the next phase.

Next, they often want to gain visibility to ALL workers — i.e., people working for them via outsourced services contracts, as they want to understand who has access to their systems and facilities. More often than not, organizations are surprised at the number of people who are identified through this initiative.

This is a great stepping stone to implementing a services procurement program and bringing these project-based contracts under management.

It’s important to understand the mix of your overall workforce, and how your organization is using different labor types. Are hiring managers engaging the right suppliers? Are you engaging digital suppliers for certain talent types? How can you make the sourcing process easier and simpler? What’s change management going to look like for your organization? You also want to think ahead, to what your needs may be down the road so that you select a solution that will grow with you. Best-in-class VMS solutions go beyond managing external labor, and handle outsourced services management (SOW) including the bidding process, milestone tracking, hold-backs, and equipment tracking, for example.

The complexity of your program, the speed at which you can ramp up program adoption, and the resources that you can allocate to the program — initially, and ongoing — will impact your business case.
Define what success looks like

Set objectives up-front and define the relevant transactional metrics that you will track to support management scorecards. Your solution provider will help you define this, based on industry best practices and experiences of other customers. Using specific dates, percentage increases and decreases, or dollar amounts, common metrics are applied to calculate ROI across targeted areas.

It’s also important that you consider your challenges with managing your external workforce today and what you anticipate being challenging in the future.
The importance of stakeholders who will champion the new solution and promote its adoption cannot be overstated.

The same people who helped identify your pain points and business drivers are potential program ambassadors and should be closely involved in the change management process. This typically includes hiring managers, procurement, HR, legal, IT, and finance — and their senior leadership.

Critical stakeholders are more likely to support the program when they know how it will benefit them specifically and improve their current processes. For example, hiring managers might be frustrated by long cycle times or the finance team could be slowed down by inconsistent invoices and a lengthy reconciliation process. Procurement might be struggling with poor visibility into external workforce spend whereas legal is potentially grappling with misclassification and intellectual property control.

Key questions

1. Do key stakeholders have a full understanding of how a VMS will help solve everyday challenges in managing the flexible workforce?

2. How will the VMS implementation specifically benefit each of these groups?

3. Who are the executive leaders who will champion the VMS and endorse organization-wide adoption?

4. Where does the VMS implementation fit in the hierarchy of other business-wide initiatives?
Examples of role-specific outcomes

**Line of business end user:**
- Quicker access to talent — external workers and outsourced services providers
- Access to broader candidate pools, networks, and providers
- Availability of data such as rates, location, and time-to-fill, to inform better decisions and pay the right price

**Procurement and accounting:**
- Better collaboration with line of business end users and suppliers
- Enforced selection of preferred suppliers and contracted rates
- Visibility into suppliers/supplier consolidation
- Accurate billing/invoicing and seamless integration with accounts payable

**Legal and risk management:**
- Availability of data on workers to manage co-employment risk
- Ability to manage compliance with labor laws, candidate privacy, safety regulations, etc.
- Contract compliance

**IT and cybersecurity:**
- Low maintenance and total cost of ownership
- Standardized integrations
- Fast deployment, strong security capabilities

**Program management office (central organization that manages overall external workforce program):**
- Self-sufficiency
- Strategic advice and support from technology solution provider
- Analytics/reporting to analyze workforce and suppliers for continuous improvement

Communicating the specific tactical and strategic outcomes that stakeholders stand to realize is instrumental to building broad internal support.

Support from executive-level leadership might also hinge on other planned technology initiatives. Any technology implementation impacts resources, bandwidth, and process changes, so it’s imperative for executive leadership to understand how a VMS deployment will affect those initiatives and where it fits in that framework.
After securing stakeholder support, hone in on the issues most important to them, establish priorities, and make those an integral part of the change management process. This will help to set your program up for success.

With any undertaking of this nature, it’s very important to have a change management plan and process — from early and effective communications, to overall governance, to reporting successes — in order to maintain momentum. It’s also important to identify critical success factors. What must you get right? What are some quick wins that would help paint the picture of the possible?

Prioritize goals

One of the significant benefits of a VMS is that it provides visibility and transparency across the entire source-engage-manage-pay lifecycle. Increased visibility enables more informed business decisions.

Key questions

1. What are the specific goals for the program, and over what timeframe?
2. What are the priorities?
3. What are some of the hard and soft cost savings you’re hoping to achieve?
A VMS implementation usually addresses four key areas: efficiency, compliance, quality, and cost. As you identify the elements essential to making your organization’s flexible workforce management program a success, you can start pinpointing specific goals, the benefits of achieving them, and hone in on your priorities — for example:

**Gain efficiencies**
- Reduce time-to-hire
- Speed onboarding and offboarding
- Reduce internal bottlenecks
- Improve managed services provider (MSP) and supplier responsiveness
- Integrate with digital providers such as freelancer marketplaces

**Improve quality**
- Improve candidate quality
- Improve supplier quality
- Improve adherence to service level agreements (SLAs)

**Improve compliance and risk management**
- Reduce co-employment risk
- Improve tenure tracking
- Comply with labor laws, privacy
- Improve health and life safety (HLS) compliance
- Audit trail capabilities

**Reduce costs**
- Hard cost savings: Hard cost savings can be the result of centralized bill rate management and bill rate compliance, tiered suppliers, reduced maverick spend, volume discounts, early pay discounts, overtime discounts, replacing high-priced contractors with full-time employees and streamlined payment processes.
- Soft cost savings: One of the most common areas of soft dollar cost savings is faster hiring cycle times. Other opportunities may derive from reducing legal liabilities and on/offboarding risks, improved supplier contracts, consolidated buying power, and reduction of maverick spend.
Pursue relationships with potential solution providers

After defining your priorities and identifying the factors most important to your success, you should engage VMS providers. Because your organization has unique business needs, you’ll want to choose a VMS provider that is best equipped to partner with you. But where do you start?

Understand the process of managing an external workforce

First, you must understand how an external workforce management program workflow typically operates. From sourcing to payment, there are many steps along the way and examining this workflow can help you start mapping your organization’s workflow to this cycle.

Once you know how your program might work, it’s time to reach out to VMS providers. The request for proposal (“RFP”) process is when your internal stakeholders can ask specific questions about VMS provider capabilities. During this process, you’ll want to conduct a thorough review of each provider’s business model, core solution functionality, and overall differentiation — e.g., focus on innovation, customer service, and customer referrals.

Key questions

1. Do you know the questions you’d like to ask during the RFP process? Have your stakeholders included questions that address their specific needs and pain points?

2. Will you have an implementation plan and team in place who can help steer the project and make sure objectives are met?

3. Have you developed a change management program to ensure sufficient governance, commitment, and realization of outcomes?

4. Do you know how your program will be structured?

5. What are your integration requirements?
Centralizing your external workforce management program

One of the best practices for managing external talent is to have one central program to drive new policies, standards, and processes throughout the organization. If you haven’t already, consider centralizing all aspects of your program as an initial step to gain more consistency and control of achieving your desired business outcomes. It will be easier to roll out a new solution with a central program management office and leadership team in place who are accountable for the program.
Understand the complexities of integration
Integration is a topic you’ll need to discuss at length, both internally and with solution providers. Organizations might overestimate or underestimate the amount of time and resources required for a successful integration, so a VMS provider should offer guidance into which systems are truly needed during this process. Choose a provider who has ready-built integrations with digital providers so that you can tap into these solutions which will add value and speed up business processes. Two examples are on-demand, online marketplaces for freelancers and electronic document signing solutions.

Ongoing program optimization and excellence
Your VMS provider should have the expertise to design your program around your specific business objectives, and help you determine how best to implement the solution — quickly, or with a phased approach. They can also help you determine the program model that best fits your company, resources required to manage it, key elements for being effective, and methods for measuring the program’s successes, challenges, and risks. Lastly, your VMS provider should be able to help you maximize the solution to fit business requirements long after implementation is completed.

Once your program is in place and your organization is using the solution, it’s likely you’ll want to connect with other users to share experiences, challenges and successes. Engaging with a community of users will give you access to evaluate your program against others and get ideas for pushing your program to the next level and getting a better return on your investment.