

Managed Services Program (MSP)

Getting Started with a Managed Services
Program: The Definitive Guide



WHAT CONSTITUTES A “NON-EMPLOYEE”?

Most companies today depend on non-employees to help drive business. These individuals are engaged to bridge skill gaps, fill in during periods of peak demand, and increase workforce composition flexibility. They are an intrinsic part of the overall workforce. The most recent assessment by the Department of Labor/Bureau of Labor Statistics, conducted in May 2017, finds that they represent nearly 10% of the U.S. workforce.

Non-employee working relationships come in many forms. While these workers may collectively be referred to as contingent workers, temporaries, or alternative workers, their job categories may reflect the way they are sourced by a company, their IRS status, or the terms under which they conduct work. Since there is overlap between these factors, terminology is often confusing. Here’s a high-level view:

- **Staffing Agency Worker (a.k.a. contractor):** An agency worker is a person contracted by an employment agency and sent to perform temporary work for a third-party. Agency workers have an established contract between themselves and a temporary agency and are considered by the IRS to be employees (i.e., W-2 classified) of the staffing agency. They are supplied to the third-party for a set period and are required to perform work identified by the third-party, which includes instructions about how they should perform their work. Typically, when the engagement with the third-party comes to an end, their employment with the agency is also terminated. The American Staffing Association reports that more than three million temporary and contract employees work for America’s staffing companies during an average week.
- **Independent Contractor:** An independent contractor is a person contracted to perform work for—or provide services to—another entity as a non-employee. An independent contractor is considered by the IRS to be self-employed (i.e., “1099 classified” by the IRS). Independent contractors are also referred to as freelancers, gig workers, or consultants. This is the largest category of non-employee workers, with a population of 10.6 million people representing 6.9% of the total U.S. workforce.
- **Workers Provided by a Contract Firm:** In this category, a company engages with a client to provide a team of workers for a limited time to deliver a specific service or project. Workers who are employed by these companies are usually assigned to only one of the company’s customers. They can be temporary workers or regular employees. The services of the company can be offered on a time-and-materials or fixed price basis. These agreements between the two firms are referred to as project services or Statement of Work-based services. At the end of the year, each client issues a 1099 statement to the company that delivered the service. This category represents the smallest population (933,000) of temporary workers, or 0.6% of the total U.S. workforce.
- **Direct Sourced Worker:** These are workers who are sourced by a company for a temporary assignment and then assigned as a W-2 employee to a firm (referred to as the Employer of Record or EOR) that is legally responsible for paying employees, including dealing with employee taxes, and many other employment operations. These workers differ from staffing agency workers only in terms of how they are sourced. They are often referred to as “payrolled” workers

WHAT DO YOU DO WHEN YOUR USE OF NON-EMPLOYEES EXCEEDS YOUR ABILITY TO MANAGE THESE RESOURCES?

Companies strive to create an ecosystem in which they have efficient access to exceptional talent regardless of category. Unfortunately, they often report that they are overwhelmed by the need to keep track of the staffing suppliers, contracts, invoices, security requirements and employment regulations that come with their use. Faced with these operational challenges, contingent labor is typically managed tactically, with little attention given to strategic issues of utilization, cost and quality of work. Modern workforce solutions are needed, but many organizations don't have the resources, capacity, expertise or bandwidth to achieve these solutions on their own.

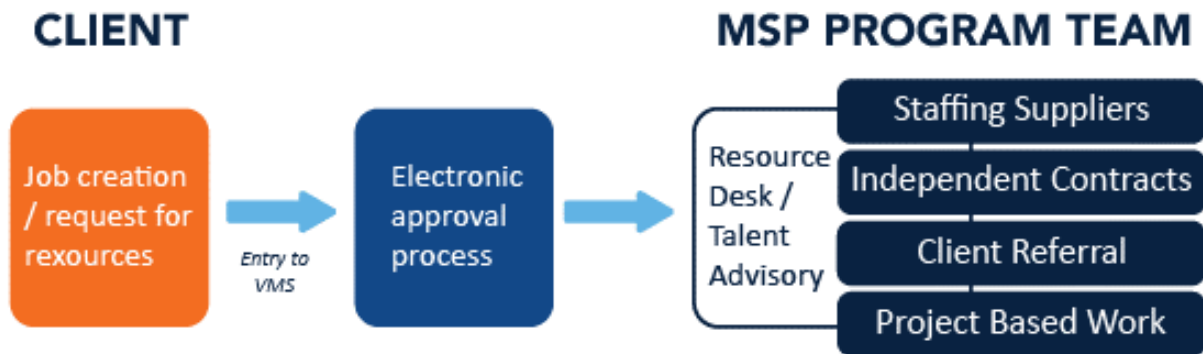
The world's largest companies reached this tipping point more than a decade ago. Industry analysts estimate that 70% of the F1000 companies now have a formal contingent workforce management program in place in which all or part of this responsibility has been outsourced to a third party known as a Managed Services Provider (MSP). Lessons learned by nextSource in delivering managed services for more than twenty years can serve as a guide for growing companies who are defining their path forward.

Contingent Labor Management: There is a better way

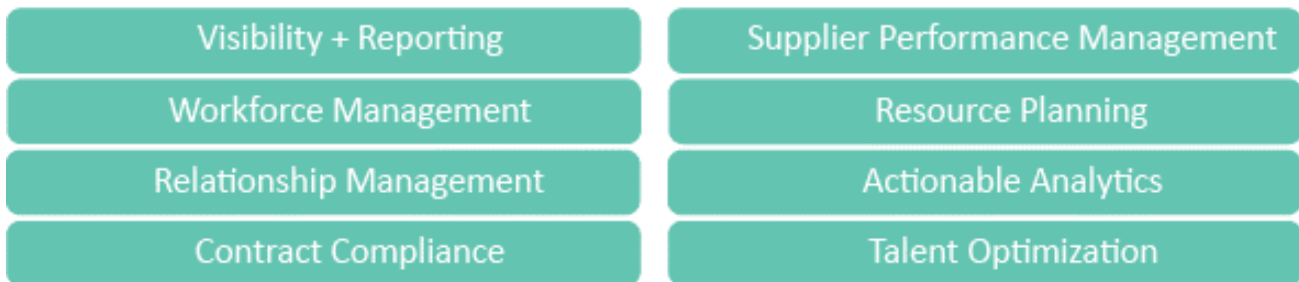
A Managed Services Provider is a third-party company that assumes responsibility for all aspects of contingent workforce management. Working as an extension of the client's human resources team, the MSP will oversee and administer the entire end-to-end process of contingent talent fulfillment from sourcing to worker offboarding. This includes assisting in job requirement creation and distribution, candidate screening and selection, worker onboarding, worker payment administration, issue resolution, supplier payment, and worker offboarding. The MSP will also manage staffing agency performance, verify compliance with employment laws and regulations, and provide the reporting and analysis needed to evaluate all aspects of program performance.

The best providers deliver this range of services across all categories of temporary workers. By employing a staged approach to expanding the scope of the program, they will create a platform for creating greater access to talent by introducing new approaches regardless of category. They also provide business intelligence that enables organizations to continually enhance their program and prepare for the future.

In most cases, companies elect to employ specialized software to facilitate the management of contingent labor. Although the software is called Vendor Management Systems (VMS), the technology has evolved from simple automation of the workflows involved in the use of staffing agencies. Today, leading VMS products manage all types of temporary workers, offer extensive reporting and analytics, and integrate with critical financial and human resources systems.



VALUE DRIVERS



While the MSP takes on the repetitive, arduous tasks associated with talent sourcing, onboarding/off-boarding, payment and invoicing, you will maintain managerial control. In fact, the MSP will provide the expertise, streamlined processes, and performance data you need to increase control over your non-employee workforce.

GETTING STARTED: BEGIN BY UNDERSTANDING THE PROBLEM YOU ARE TRYING TO SOLVE.

Every organization is different, as is the workforce solution that will be most effective for its environment and unique needs. Many clients tell us that they “don’t know what they don’t know”. We advise them to start with an assessment of their current situation.

Begin by trying to answer these operational questions:

- How many contingent workers do you have? Can you break this down by temporary worker category? What types of roles are they filling? Where are they deployed?
- What is your annual spend on contingent workers and which business units have the highest spend? Do you believe you are paying too much for these workers?
- Were all contingent workers properly contracted and onboarded in alignment with your corporate policies?
- Do you have concerns or lack of visibility regarding worker classification, security, intellectual property protection or other compliance issues?
- What online tools are being used to manage these workers? How do they work together? Do they provide the data you need?
- What internal organizations are involved in managing contingent workers? How much time is invested? Are these resources working collaboratively, or at cross-purposes?
- How many staffing agencies are involved in providing resources? How well is each performing?
- How would candidates evaluate your interview and engagement process?
- Are your company’s operational leaders satisfied with the ability to rapidly find high quality candidates?

- Could you pass a government audit of your policies and procedures?

Program governance must also be assessed:

- Who owns the governance of your contingent workers?
- Do your policies and procedures include contingent workers?
- How is your contingent worker strategy mapped to your human capital and workforce strategy?
- What level of usage growth do you expect in the future?
- Do you have an established budget for contingent workers? How is it managed?
- Who are they key stakeholders responsible for contingent workforce management? Are they champions, influencers, or dissenters?
- What is the view of contingent labor internally? Necessary evil or strategic advantage?
- What are today's priorities for enhancing your ability to manage contingent workers? At a high level, how do you define program success?
- Are there other strategic initiatives planned/underway that could affect the decision to move forward with a contingent labor management program?
- Do you anticipate resistance to a formal program? If so, from where?
- What are your fears for the future?

After considering these, you must address the most important question: *Does the lack of insight or control over your use of contingent workers exceed acceptable spend levels or risk thresholds and keep you from accessing the best talent?* If the answer is yes, you have the basis for justifying the investment into a formal, outsourced contingent workforce management program.

MANAGED SERVICES PROGRAMS COME IN DIFFERENT FLAVORS. DECIDE WHICH IS BEST FOR YOU.

Deciding to outsource your contingent labor program is only the first step in selecting the right structure for your managed services program. As with any major change initiative, equal attention must be paid to people, process and technology. There are strategic, operational and cultural factors to consider and, to avoid major rework in the future, you need to plan for today's environment while considering how current needs may change over time.

Determine the program scope and goals

When initiating a managed services program, consider the program goals. To avoid future resistance, ensure that the priorities of each stakeholder are represented, and concerns are addressed. Goals should balance and prioritize quality, cost, efficiency and risk, and each goal should be quantified and measurable.

Clients can opt for one broad company-wide program that encompasses all contingent labor or can elect to start with a bounded MSP program that serves as a proof of concept, then expands over time. Programs can be limited by worker classification (e.g., agency contractors), business unit, skills managed (e.g., IT personnel), location, and more. In some cases, companies may first outsource Employer of Record or Compliance services, then introduce an MSP program. The choice should be driven by pain points previously identified as well as your organizations' ability to accommodate change.

Decide whether you want to also implement VMS technology as part of the managed services program. In most cases, if your annual spend on contingent workers exceeds \$10M you will see significant benefits from the use of a VMS. Of course, also take into consideration reporting requirements, volume of requisitions issued each month, number of workers to be payrolled, and number of suppliers delivering resources.

Next, determine who is responsible for driving the program during MSP selection, implementation and ongoing operation. Historically, Procurement organizations took responsibility for MSP selection, while the Human Resources team took ownership once the program became operational. As programs have become more complex, many companies establish a steering committee to make the initial purchase decision, with Finance, I.T. and Line Managers also playing key roles.

Finally, establish a realistic timeline for choosing an MSP vendor and implementing the program. This will be based on the availability and bandwidth of the resource assignments made above as well as by internal procurement processes.

Define the relationship with the Managed Services Provider

Depending on your situation, you may select a single MSP to manage your enterprise-wide program or choose a hybrid model in which your internal resources manage some parts of your program, such as project services, while an MSP manages other aspects.

The MSP may deliver services by placing personnel in your facilities (i.e. onsite), or from a remote site. While industrial facilities typically select an onsite option to manage short-term assignments, multiple shifts, and other unique requirements, this approach is equally applicable to a client in any industry. The choice is primarily driven by volume of transactions (requirements, onboarding and off-boarding, timecard submissions, etc.) and desire for “elbow to elbow” support at that location.

Vendor neutrality may be a priority for your stakeholders. A vendor neutral MSP is not affiliated with a staffing firm and does not provide staffing services. Neutrality goes beyond impartiality among the suppliers, as demonstrated by simultaneous distribution of requirements. A truly neutral MSP is committed to the success of all suppliers, coaching and supporting them to ensure complete commitment to the program.

Diversity status may also rank high in your requirements, allowing you to achieve Tier 1 diversity spend while supporting your cultural values.

Choose the right program model

Also consider the program model. In a vertically integrated model, you will contract with the MSP, who will hold the contract with the VMS and/or staffing agencies and other suppliers. The benefits of doing this include recognition of increased diversity spend when working with a minority or woman-owned MSP, an additional layer of protection against co-employment risk, and reduced administrative burden. In a distributed model, you would contract directly with all parties. Of course, regardless of who holds the contract the MSP will ensure that all terms and conditions are met.

Pricing models also vary widely. Programs can be supplier or client funded. MSP firms may or may not charge for implementation. Payments can be based on spend under management, the number of resources assigned to the MSP team, or a flat monthly rate. Pay structures can also vary by worker category (agency contractors, statement of work-based project services, freelancers) within a single program.

SELECT AN MSP THAT CAN MOVE YOUR ORGANIZATION FROM “FAMILIAR WITH” TO “WE GOT THIS”

As with the procurement of any service, the evaluation criteria can be highly subjective. Many companies issue a lengthy request for proposal that includes hundreds of questions regarding every aspect of contingent workforce management. They then struggle to sort through responses that contain very similar content. A well-designed request for proposal will ease the evaluation process and go beyond capabilities to propose a program that specifically addresses your unique situation. To get the best results, we advise the following:

1. Focus on what matters most. Questions should directly tie to stakeholder priorities and you should have specific criteria for evaluating potential MSPs. Present your business problem and ask the provider to solve.
2. Clearly articulate your needs, priorities (timing, long-range plans, priorities, pain points) and current state in the RFP introduction. In the absence of this information respondents will provide generic responses.
3. If VMS technology is being proposed, explore its reliability, scalability, performance, and security. Ask respondents to highlight features not found in other VMS systems, explaining why these innovations will be of use to your organization. Verify their experience with this VMS. To avoid “on the job training” and finger pointing confirm that the MSP is deeply experienced with the platform of choice.
4. Explore how the MSP will develop, implement, execute and enhance the program. Questions should delve into what the MSP does and how they do it.
5. Test for flexibility. Is the MSP willing to accommodate changes throughout the program? Under what circumstances will change requests involve incremental charges?
6. Ask for proof of any claim made by the respondent. This can be in the form of statistics, case studies and/or guarantees. Verify claims in discussions with references.
7. Check into how the MSP works with key suppliers, partners, clients, and contingent workers.
8. Determine what sets each MSP apart and consider if the provider’s strengths are aligned with your priorities.
9. Look to the future. Are you convinced that the MSP can infuse modern recruitment strategies, innovative ways of conducting work, leading technologies and forward-looking talent planning into the program? Does the MSP have an actionable plan for Year 2 and beyond?

Remember: Business relationships are cultivated over time

A dynamic program is required to respond to changing business conditions. A close working relationship with the MSP will, over time, result in a deeper understanding of your business and more insightful recommendations for keeping the program fresh. Before engaging an MSP, ensure that the proposed program goes beyond operational efficiencies to include a formal process for program evaluation and future planning.

STRATEGIC PLANNING

PROGRAM PERFORMANCE

- Optimization of structure, processes, and tools
- Accommodation of legal and industry trends
- Supplier Optimization
- Program expansion
- Further cost savings
- Evolution of VMS tool
- Satisfaction with MSP/VMS

FUTURE PLANNING

- Revalidation of goals
- Program expansion
- Workforce mix planning
- Workforce technology ecosystem
- Journey toward total talent management

Conclusion

A well-defined MSP program is based on best practices but is custom designed to reflect your specific needs. A highly effective program starts with solid planning. Understand your starting point by evaluating your current state. Be clear on your program's scope and goals. The solution design must support your stakeholders' priorities while mitigating their concerns. Choose the program structure that fits your organization. And, select an MSP that delivers new ways to access great talent, streamlines operations, increases return on investment, reduces risk, and serves as a trusted advisor in planning for the future.