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**Special Report on HR Technology: Tracking the Contingents**

With the use of temps and other contingent workers on the rise, more companies are adopting software to control labor costs and better manage this segment of their workforces.

By Ed Frauenheim

**T**he time has come, it seems, for software to manage temps and other contingent workers.

As companies ramp up their use of staffing agency labor during the economic recovery and seek a better handle on their total workforce spending, they also are turning to software products called vendor management systems.

A report last year by research firm Staffing Industry Analysts (a sister company of *Workforce Management*) found that the percentage of companies using a vendor management system jumped from 34 percent in 2007 to 63 percent in 2009. Staffing Industry Analysts also predicted that the rate would climb to 81 percent in 2011.

Experts say the products have room to improve, especially when it comes to helping companies get a better bead on particular contingent workers.

But the tools, from vendors such as Provade, IQNavigator and Fieldglass, promise to help firms control contingent labor costs and comply with regulations at a time when the Obama administration is beefing up scrutiny of employee misclassification. Throw in the fact that the use of vendor management systems typically is paid for by staffing vendors rather than end-user companies, and conditions are ripe for a big increase in adoption.

“We’ve gone from a glacial pace to this incredible acceleration in just the last two years,” says Sara Moss, president of The Code Works, a technology consulting firm focused on the staffing and recruiting industry.



Sara Moss, president of The Code Works

**VMS virtues**

Vendor management systems have been around since at least the 1990s. Initially the tools were focused on helping companies request, select and track temporary workers coming from staffing vendors—hence “vendor” management systems. And the products continue to play this role. VMS software automates the “req to check” process, with capabilities such as job requisition templates, approval requests, distribution of the requisition to staffing suppliers, assignment letters, time sheets and invoices.

Over the years, VMS products have broadened in scope to cover more types of contingent workers. The systems now can help manage independent contractors and workers associated with “statement of work” deals. The latter refers to employees at outsourcing firms such as IT services providers or accounting firms.

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Vendor management systems often are used in conjunction with “managed service providers.” These are firms that offer to oversee a company’s use of contingent workers. Managed service providers, such as Manpower, Adecco and Guidant Group, may have their own software for keeping tabs on contingent labor. An MSP also might employ a separate VMS.

(To enlarge the view, click on the image below. *Adobe Acrobat Reader is required.*)

**MSP ADOPTION**  
 Managed service providers, such as Manpower, Adecco and Guidant Group, offer to oversee a company's use of contingent workers. Based on current usage, the heaviest users of MSPs are buyers in the energy/chemical, tech/telecom and pharma/biomed industries.

	2007	2008	2009	2011*
Energy/chemical	9%	53%	73%	85%
Tech/telecom	61	58	71	72
Pharma/biomed	56	45	73	73
Manufacturing	42	32	39	63
Finance/insurance	27	41	42	62
Retail/consumer	36	40	29	61
Business services	22	31	60	60
Health care	26	23	42	55
Gov't/education	22	21	NA	NA
Logistics	NA	55	NA	NA

\* Projected  
 Source: Staffing Industry Standards/CompensationSource, 2009

It makes good sense to combine a vendor management system with a managed service provider, says Chris Dwyer, analyst with research firm Aberdeen Group. He recently conducted a study examining companies’ ability to save money on contingent labor, to fill positions quickly and to comply with regulations. Of those companies in the top 20 percent on these measures—the “best in class” organizations—54 percent used a vendor management system and 66 percent used a managed service provider. Of all other companies in the 190-firm study, just 36 percent used an MSP and 35 percent a vendor management system.

Companies employing managed service providers are more likely to have standardized contract labor management processes and to actively gauge their contingent labor suppliers on quality and performance, Dwyer says.

A big attraction of vendor management systems, Dwyer says, is that they help companies home in on how much they pay for temps and other contingent workers. Currently, companies track just 43 percent of overall spending on contingent labor, his study found. In addition, he says, VMS tools help companies use preferred vendor relationships to procure higher-quality candidates.

“VMS users have reduced their time-to-fill rates by 34 percent while achieving 37 percent higher cost savings than non-VMS users,” Dwyer wrote in his October report.

An appealing feature of vendor management systems is that companies frequently do not have to spend money on them directly. They often are “supplier-financed,” says Jim Holincheck, analyst with research firm Gartner. A company might pay for the costs to implement the software, but then its staffing vendors connected to the system are charged fees based on the amount of contingent labor spending they receive.

The supplier-financed model means it is easy for a company to adopt a VMS without having a large amount of spending on contingent labor, Holincheck says. “You can start small,” he says.

Thus far, the interest in vendor management systems has been limited to firms that spend at least \$30 million a year on contingent labor, Holincheck says. That’s not a lot for large companies, he says, given that some organizations manage as much as \$1 billion in contingent labor costs through VMS tools.

### A workforce shift

More and more companies may hit the \$30 million threshold or otherwise decide they are ready to adopt the software, given the ongoing shift to just-in-time workforce strategies. For years, experts have forecast that companies would come to rely on contingent labor to a much greater extent. *Workforce*

*Management's* 2008 project "HR 2018" asked experts to look 10 years into the future to predict workforce trends. One of the top-ranking forecasts was: "Firms will become adept at sourcing and engaging transient talent around short-term needs, and will focus considerable energy on the long-term retention of smaller core talent groups."

Government data analyzed by Staffing Industry Analysts indicate the switch to more of a contingent workforce strategy is well under way. The number of paid employees at temporary help services firms climbed 27 percent from 2002 to 2007, to 3 million. By contrast, total nonfarm employment in the U.S. rose just 6 percent from December 2002 to December 2007, to 138 million.

Although staffing employment still makes up a small fraction of the total U.S. workforce, companies are turning to temporary workers at a rapid pace as they try to climb out of the economic downturn. In a pattern typical during recoveries, employment in temporary help services has jumped in recent months. It rose by 284,000 from September to February, to 2 million.

Tapping staffing agency temporary workers, independent contractors and part-time employees can save companies money and increase agility in today's uncertain economy. But the shift to a nontraditional workforce raises a host of challenges. These include identifying and retaining the best contingent workers as well as complying with various regulations.

Among these is a set of rules and risks concerning "co-employment." Use of staffing firm temps can create a co-employment relationship, triggering rules including Family and Medical Leave Act provisions.

Another key compliance arena is employee misclassification, which refers to cases when businesses wrongly treat workers as independent contractors rather than as employees.

Companies may be tempted to categorize a worker as a contractor because they don't have to pay Social Security, Medicare and unemployment taxes on wages, and aren't constrained by overtime rules. A federally commissioned study a decade ago found that 10 to 30 percent of firms audited in nine states misclassified at least some employees.

In his 2011 budget proposal, President Barack Obama laid out a plan for the U.S. departments of Labor and Treasury to have increased power to penalize employers that misclassify workers. The budget also calls for \$25 million for the Labor Department to hire 100 more enforcement personnel and for grants to boost states' incentives and capacity to tackle the problem.

Figuring out whether a worker is genuinely an independent contractor isn't an exact science. The U.S. Internal Revenue Service advises companies wrestling with the issue to consider a number of factors, including whether the company controls what the worker does and how the worker does his or her job.

A number of software tools promise to help companies with compliance issues. Fieldglass, for example, says its vendor management system can incorporate company and government regulatory policies. Beeline, which is a unit of Adecco, says its VMS product can help enforce and monitor co-employment and regulatory compliance. There's also software from Agile-1 called AccelerationICC, which is designed to automate the process for qualifying independent contractors.

A number of other software providers apart from VMS vendors offer to help manage contingent workers. Kronos, for example, says staffing agency nurses can be entered into its scheduling software system to help health care organizations abide by regulations from industry group The Joint Commission.

Kronos also says its hiring software can assist organizations that bring on many seasonal workers. Its candidate assessment system is designed to weed

out applicants likely to be less reliable, based on the test answers and attendance records of workers hired earlier.

IBM sells workforce analytic software that can be used to do such things as monitor the performance of contingent workers and track their tenure, says Farhana Alarakhiya, director of IBM Cognos Analytic Applications. “We’re able to drive smarter workforce decisions regardless of whether it’s a contingent employee or a full-time-equivalent employee,” Alarakhiya says.

VMS tools also can keep tabs on performance. Software from Guidant Group, for example, can gather reports from managers on how well contract workers did on their assignments. And the tool can give clients a ranking based on performance scores, says Kevin Moran, vice president of implementations and technology solutions for Guidant Group. Edward Jackson, CEO of Provade, says his firm’s software contains “actionable analytics.” It will send out alerts if, for example, a staffing vendor or an individual temp gets a certain number of poor ratings.

Jackson also touts Provade’s tight relationship with business software giant Oracle. Because of that relationship, Provade software is closely integrated “out of the box” with Oracle and PeopleSoft applications such as procurement and human resource management system products.

Consultant Moss says the Provade-Oracle connection is promising. Theoretically, she says, it could help a company that decides to slow down its manufacturing volume to immediately put the brakes on temp hiring for the shop floor.

Still, she and others see shortcomings in software for managing contingent workers. Moss says VMS tools tend not to use sophisticated matching technology for pairing individual candidates from staffing firms with job openings. Vendor management systems “could improve if they point the hiring manager to the best candidate,” she says. “There can be a real flood of submittals.”

#### **More detailed data**

The current class of software also does not do much to track the individual skills and preferences of contingent workers. Such data will become increasingly important if companies continue to rely more heavily on a free-agent workforce. Holincheck of Gartner says he foresees VMS products collecting more information about contractors over time, but notes that too much attention to contingent workers increases co-employment risks.

“That’s going to be a definite tension,” he says.

Peopleclick Authoria, which offers both a VMS tool and talent management software, is working to mesh its systems in order to improve the way companies hire contractors on as regular employees and bring back former employees as contractors.

Tom Tisdale, Peopleclick Authoria’s general manager of VMS, says his firm wants to make it possible to quickly import a person’s history as a contractor into a company’s talent management system when he or she is brought on as an employee. Conversely, Peopleclick Authoria is planning to let a person’s record as an employee inform his or her record as a contractor later on.

“It’s all about continuous improvement of the talent profile,” Tisdale says.

By analyzing data more extensively, companies will be able to make wiser choices about such matters as whether to hire regular employees for a project or turn to outside contractors, Tisdale says.

Information about the time needed to hire particular kinds of workers and about how a skill set fits into long-term company plans could help firms make such calls, he says.

That's "when it gets exciting," Tisdale says.

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