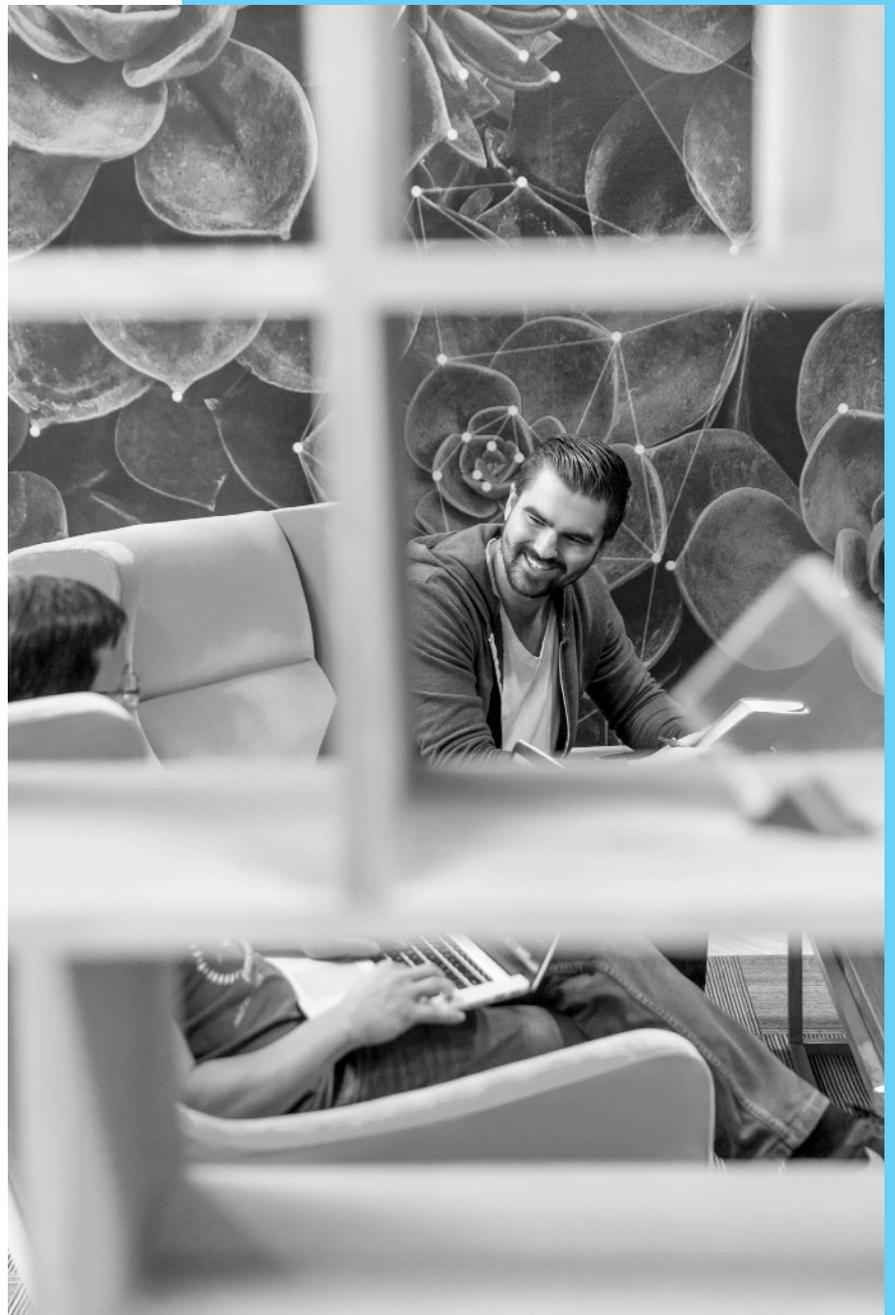




# MSP Partnerships: Work Reimagined, Workforce Reinvented



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# Introduction

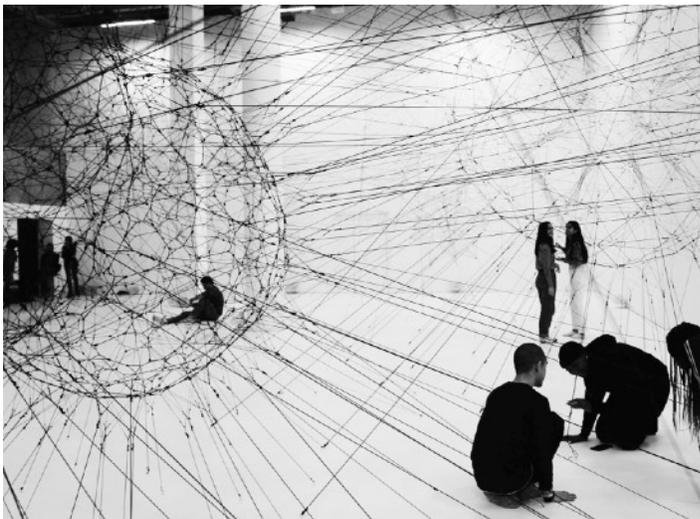
Over the coming decade, business leaders must rapidly adapt to a host of transitional dynamics that will forever redefine how they engage with customers, vendors, and their own talent. Companies that dig into the hardening soil of the status quo stand little chance of steeling themselves against the waves of progress, which always threaten to drown immovable objects lashed to posts in the sand. The companies that will endure and thrive are those willing to ride the crests of the rising surf and allow themselves to be propelled into the future. That means responding to accelerating changes in the workforce, the shifting nature of work itself, the fluidity of globalization, the emergence of intelligence and innovation as the currency of the machine age, and the fluctuations of economies that are transforming as a result of digital capitalism. Most importantly, businesses must recognize that people are the catalysts for this metamorphosis and that the modern workforce must be assembled, nurtured, and guided in new ways. Just as businesses must evolve, so too must managed services providers (MSPs) and the staffing professionals they partner with.

Deloitte's 2019 *Global Human Capital Trends*<sup>1</sup> report expands on these themes, arguing that organizations are standing at the precipice of an environment that demands reinvention. Within the next 10 years, Deloitte's research indicates, many companies will need to redesign jobs to "better enable their people to work alongside smart machines, robots, and new forms of off-balance-sheet talent (from freelancers to gig workers to crowds)."

The momentum of artificial intelligence and machine learning will play a pivotal role in shaping the forthcoming generations of recruitment technologies, hiring platforms, talent marketplaces, and staffing ecosystems. But as automation assumes a greater share of erstwhile traditional work tasks, not to mention gaining more prominence as a fixture in company structures, there will be a renaissance of sorts in the need for a human approach to temper the growing presence of machines—a focus that will encompass the workforce, the organization, and HR.

<sup>1</sup> <https://www2.deloitte.com/us/en/insights/legal/deloitte-insights-app.html>

However, with fierce pressure to innovate and compete, the demand for a flexible workforce will also continue to escalate. In fact, analysts estimate that approximately 25% or more of a company's current workforce is contingent—a percentage that likely won't diminish anytime soon. So what does a contemporary or near-future org chart look like? It's not merely the titles that have changed but the roles, the positions, the divisions, and the people themselves. And where do the machines fit in the matrices and hierarchies?



*"Organizational strategies and cultures have been undergoing a dramatic shift from hierarchies and 'command and control' mindsets to people practices that use empowered networks of teams to enable enterprise agility."*

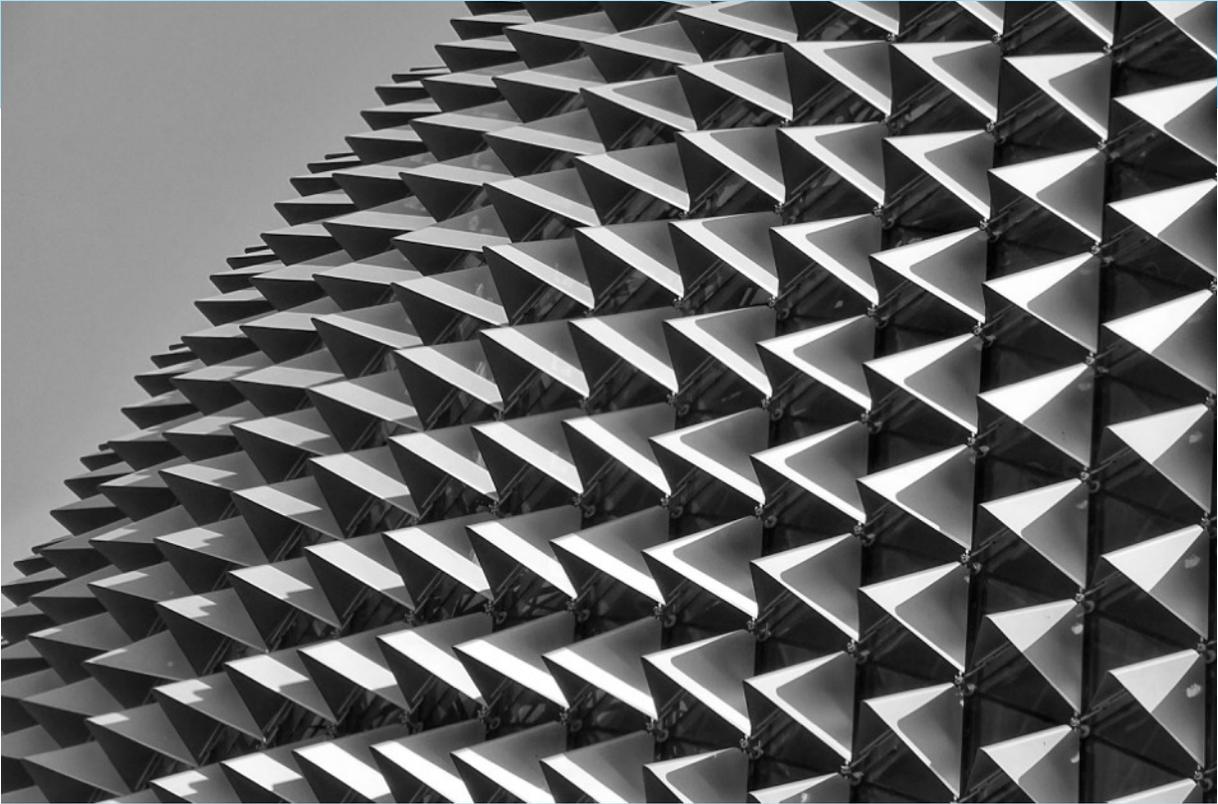
*- Deloitte*

This convergence of organic and electronic resources will naturally spur a reimagining and "recomposing" of standard processes as departments give way to networks—and as pyramidal chains of command dissipate while social enterprises spring from their remains. Several new realities and questions must be addressed.

- How can we effectively access and deploy talent using the full range of traditional and alternative work arrangements?

- How can companies move beyond the familiar to extend where and how work is performed using virtual collaboration platforms, remote communications tools, or other technologies?
- How will digital reality transform the way we engage and interact with each other and technology through 360-degree video, virtual- or mixed-reality, and immersive experiences place humans at the center of a system designed to be immersive and data-rich simultaneously?
- How can business leaders foster adoption and pave the path for the integration of people and machines in the next iteration of work?
- How will companies reprioritize or redesign work in the next era? To contain costs, to instill meaning in the work performed by dedicated and complementary talent, to deliver superior value to consumers, to fuel operational efficiencies, or to discover new avenues for skirting old regulations?

One thing is certain: as these workforce permutations unsettle traditional definitions of employees or broaden as innovators introduce different classifications of talent into the mix—with everyone interacting through automated platforms—governance and talent acquisition will remain critical objectives. This then becomes the impetus for the next state of MSPs and the staffing partners they select.



# Human Capital Trends that Will Steer the Course for MSPs

## The Nature and Novelty of Permanent Employment

The modern notion of an employee is precisely that: modern. The labor movement as we think of it grew out of the need to protect the common interests of the nation's expanding workforce. The impetus sprang from industrialization. For those in the sector, organized unions championed higher earnings, reasonable and established working hours, and safe conditions.

The adoption of the Fair Labor Standards Act of 1938 (FLSA) changed the face of employment. Prior to World War II, workers functioned as independent contractors. They were responsible for their own benefits, their own taxes, and they worked under limited standards for hours, job security and wages.

The execution of the FLSA set a national minimum wage, established maximum work hours and enforced child labor protections. Moreover, the federal government began pressuring employers to recognize their workers' rights to membership in the burgeoning unions of the time, which led to employer-sponsored benefits, and vacation pay.

The advent of the New Deal also ushered in the return of income tax withholding, a practice abolished after the Civil War. Prior to 1939, fewer than four million Americans paid federal income tax. According to the academic journal *The National Forum*, [income tax](#)<sup>2</sup>, despite its presumption as an age-old aspect of employment, is a relatively recent historical development: "Payroll withholding for income tax liabilities, as well as the tremendous expansion in the number of Americans who would have to pay federal income tax, were wartime innovations that clearly outlived the war."

<sup>2</sup> <https://www.questia.com/magazine/1G1-17879036/world-war-ii-and-the-expansion-of-government-in-america>

## The Exodus of Boomers and Tenured Talent

Right now, a wave of retiring workers is impacting the look and structure of the modern workforce. Vital skills and experience have already begun to disappear from the job market as the first members of the Baby Boomer generation reach the average retirement age in the large, developed economies of North America, Europe, and Asia. Over the next decade, 80 percent of the workforce growth in these countries will occur among people 50 years or older. By 2050, people over the age of 60 will comprise 40 percent of Europe's total population and 60 percent of its working age population. The mounting pension obligations and shrinking labor pools could force economic hardship on Germany, Italy, Spain, and Japan. The age of the average worker continues to rise, but the supply of youth is dwindling.

Shortly over 80 years ago, freelancers and independent contractors dominated the employment landscape. In February 2005, the U.S. Bureau of Labor Statistics (BLS) published a landmark "Contingent and Alternative Employment Arrangements" report, one of the most comprehensive studies of the rising contingent workforce to have been conducted. The researchers discovered that 5.7 million workers were classified as contingent, representing 4.1 percent of the total labor force. Interestingly, they also found that indirect talent demonstrated higher penetrations in certain occupations and industries, as compared with full-time employees.



## A New Breed of Talent

Flash forward to the most recent reporting on the subject of contingent work by BLS<sup>3</sup>. “In May 2017, 3.8 percent of workers—5.9 million persons—held contingent jobs,” the U.S. Bureau of Labor Statistics reported. “These contingent workers are persons who do not expect their jobs to last or who report that their jobs are temporary. Using three different measures, contingent workers accounted for 1.3 percent to 3.8 percent of total employment in May 2017. In February 2005, the last time the survey was conducted, all three measures were higher, ranging from 1.8 percent to 4.1 percent of employment.”

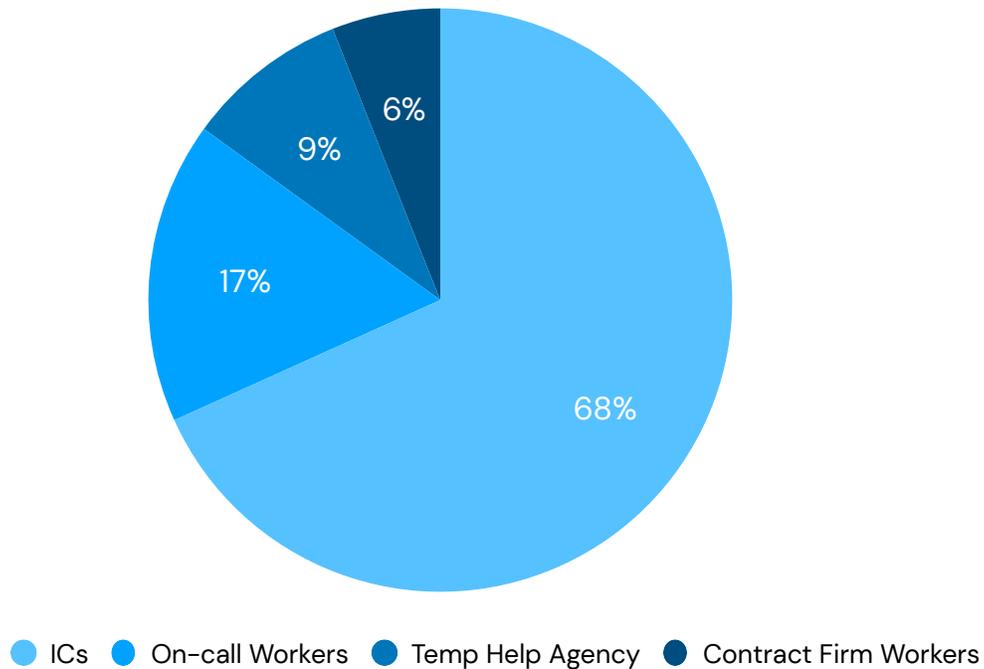
BLS now also accounts for non-traditional members of the U.S. workforce who don’t fit nearly into the category of contingent labor. These alternative work arrangements have made further impacts on the notion of standard employment.

Alternative Work Arrangement	Number of People	Percent of Total Employment
Independent Contractors	10.6 million	6.9%
On-call workers	2.6 million	1.7%
Temporary help agency workers	1.4 million	0.9%
Contract firm workers	933,000	0.6%

Today’s companies compete on an ever-widening playing field of developing businesses from across the world. Where the idea of international business once concerned only first world, primarily western countries, the concept has now grown to include second and third world countries. Because the exponential advances in technology and communications have opened the doors for a new kind of international commerce, decisions made halfway around the globe immediately influence markets worldwide, forcing businesses to alter course quickly.

<sup>3</sup> <https://www.bls.gov/news.release/conemp.nr0.htm>

Breakdown of the Alternative Workforce



Just as businesses need the freedom to ramp up or down with demands that veer rapidly in different directions, so do workers. They seek the same liberties and options as they strive toward greater levels of independence, control, work-life balance, and the ability to pursue different career avenues.



## A New Medium of Work

The structures that evolve will no longer be businesses as we think of them; they will become social enterprises<sup>4</sup>, as Deloitte described: “A social enterprise is an organization whose mission combines revenue growth and profit-making with the need to respect and support its environment and stakeholder network. This includes listening to, investing in, and actively managing the trends that are shaping today’s world. It is an organization that shoulders its responsibility to be a good citizen (both inside and outside the organization), serving as a role model for its peers and promoting a high degree of collaboration at every level of the organization.”

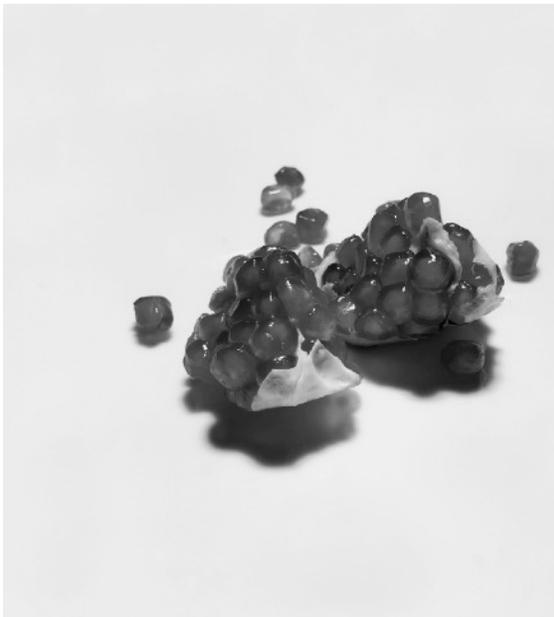
These ecosystem-based models decouple consumers, vendors, and buyers while ultimately uniting and aligning them. Amazon proved that virtualized, platform-based business models will define the future of commerce. What started as an online bookseller blossomed into a holistic and revolutionary approach to uniting buyers, sellers, and distributors in a centralized exchange for any product. Amazon achieved this by developing a solution stack that integrated modern technology platforms with a multi-sided marketplace and lean operations.

The exponential advances in digital communications have opened the gates for new kinds of marketplaces. Decisions made halfway around the globe immediately influence markets worldwide. As a result, economic conditions have become more dynamic, creating a consistent state of flux that affects the size, location, working hours, composition, and interactions of a company’s workforce. The environment is elastic, agile, and networked. Growth and longevity depend on workforce flexibility.

<sup>4</sup> <https://www2.deloitte.com/us/en/insights/legal/deloitte-insights-app.html>

## Alternative Work Receives Mainstream Respect

What began as “contract work” has steadily expanded into a vibrant community of outsourced teams, statement of work (SOW) professionals, highly skilled contractors, freelancers, gig talent, and even a burgeoning crowd, which essentially encompasses outsourced networks of recruiters and individual job seekers. Around the world, businesses are witnessing the rapid growth of people working under these alternative arrangements. By 2020, according to Kelly Monahan, Jeff Schwartz, and Dr. Tiffany Schleeter’s *Decoding millennials in the gig economy: Six trends to watch in alternative work*<sup>5</sup>, the number of self-employed talent is projected to reach 42 million, or triple its current rate.



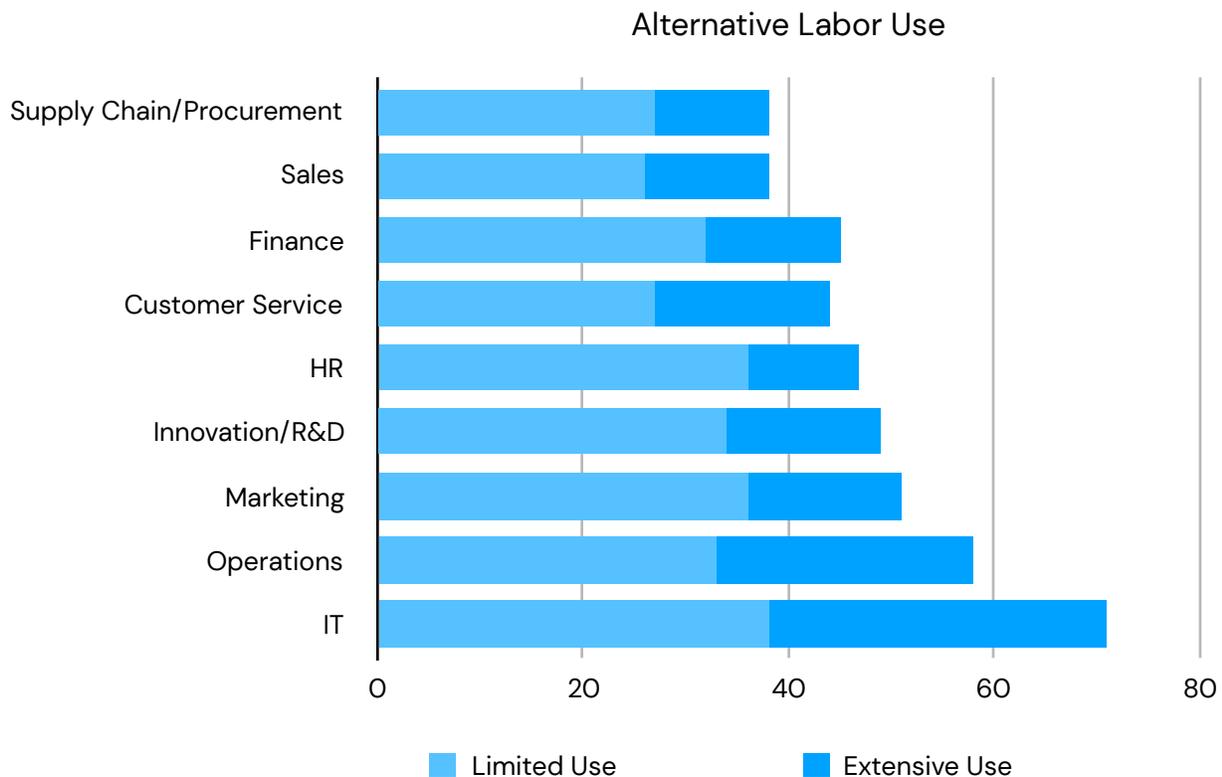
*For organizations that want to grow and access critical skills, managing alternative forms of employment has become critical.*

*Many countries are seeing declining birth rates, reducing the size of the labor pool. Forty-five percent of surveyed employers worldwide say they are having trouble filling open positions, the largest such percentage since 2006. Among companies with more than 250 employees, the percentage struggling to find qualified candidates rises to 67%.*

<sup>5</sup> <https://www2.deloitte.com/us/en/insights/focus/technology-and-the-future-of-work/millennials-in-the-gig-economy.html>

“For many years, people viewed contract, freelance, and gig employment as ‘alternative work,’ options considered supplementary to full-time jobs,” Deloitte explained. “Today, this segment of the workforce has gone mainstream, and it needs to be managed strategically. Given growing skills shortages and the low birth rate in many countries, leveraging and managing ‘alternative’ workforces will become essential to business growth in the years ahead.”

The use of alternative labor, once relegated almost exclusively to the realm of information technology (IT), has spread across other mainstream job categories, including sales, finance, customer service, and many others. “In this year’s Global Human Capital Trends study,” Deloitte reported, “33 percent of respondents reported extensively using alternative arrangements for IT, 25 percent for operations.”



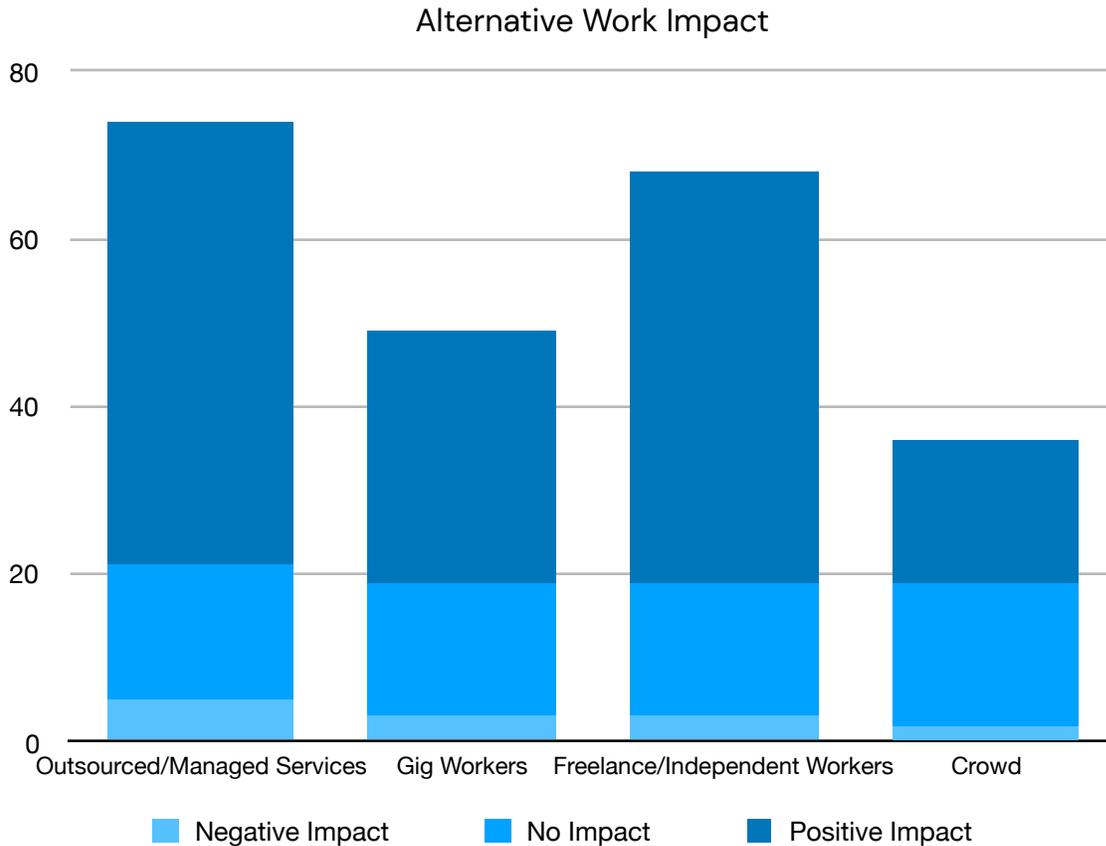
## Challenges

Although reliance on alternative labor has become more accepted and pronounced, Deloitte discovered that many organizations are using these professionals transactionally, not strategically.

- Of all survey respondents, 44% stated that they considered the issue important or very important.
- Only 28% of respondents believed they were prepared to address it.
- Just 8% of respondents had established processes for developing and managing alternative workforces.
- A majority of respondents, at 54%, said they managed alternative talent inconsistently or lacked adequate processes with which to manage them at all.

## Missed Opportunities in Alternative Labor

This failure to emphasize or prioritize alternative workforce recruitment and management strategies could be hindering business outcomes, as research shows that alternative workers often bolster the performance of the companies they support.



To further illustrate the value of alternative work, Deloitte showcased the example of Bosch: “For instance, the German company Robert Bosch GmbH has created an entire subsidiary—Bosch Management Support GmbH—to manage its on-call contingent workforce of more than 1,700 former and retired Bosch employees worldwide. These ‘senior experts’ are brought in to consult and work on projects at Bosch on an as-needed basis, often at short notice, in functions as varied as research and development, production, purchasing, finance, and sales and marketing. Bosch claims a 92 percent satisfaction rate among these workers’ customers, who value them both for the work they perform and for the coaching and development opportunities they bring to younger Bosch associates.”

## MSP Threats and Opportunities

The Bosch case study certainly highlights the power that alternative work arrangements can bring to innovative clients, but it also reveals the threats that MSPs are facing currently. MSPs have traditionally been courted by large enterprises. However, that's changing. Clients in the mid-market are seeking similar ways to outsource their supplier and non-employee management functions. This kind of MSP Lite program would cater to companies that spend between \$5 million and \$50 million on contingent talent. Why is this crucial? Smaller businesses are playing a much bigger part in today's economy. MSPs understand this, and they are struggling to create models that give modestly sized organizations greater agility and power to innovate through the support of an MSP partner.

### **More Workforce Planning Desired**

Members of a client's contingent workforce no longer congregate in a centralized location or dedicated office. Workers are spread across departments, roles, and geographies throughout many organizations. Modern MSP programs must provide visibility and consistency across an expanding array of contingent talent channels.

With that also arises a growing need for analytics that extend beyond traditional performance metrics. MSPs are confronting requests to evolve their value propositions by integrating into workforce planning initiatives. But with the rigors of simply performing their core duties, little time and resources are left for MSPs to undertake these more strategic efforts.

### **More Clients Considering Internally Managed Programs**

In 2013, Staffing Industry Analysts (SIA) reported that over 50% of established MSP programs had entered their second generations, with many of those approaching

the six-year mark. At that time, analysts predicted reliance on MSPs to taper off as knowledge transferred to hiring managers. Based on SIA's June 2014 Buyer Survey<sup>6</sup>, however, it appeared that MSPs had continued to dominate. Approximately 81% of buyers participating in that survey projected their workforces to grow, with contingent labor representing 30% of their primary skill purchases.

However, in a thought-provoking March 2017 article, Spend Matters shattered the peace with an unsettling observation:



*The managed services provider (MSP) model, which started 20 years ago as the “go-to” for contingent workforce management, is losing relevancy and the voice of the customer is confirming they want changes. Today, clients want a strategic business partner, true vendor neutrality, effective benchmarking and reporting, best practices and expanded supply chain options with digital platforms. They want to go beyond the current MSP “command and control” of cost control, process and visibility.*

SIA confirmed the pivot in direction when it revealed that 33% of global companies have transitioned to an internally managed program (IMP). And that figure continues to rise, driven by clients who desire MSPs to develop more nuanced value propositions that satisfy services such as direct sourcing, strategic collaboration, and workforce planning.

<sup>6</sup> <https://www2.staffingindustry.com/row/Research/Research-Reports/APAC/CW-Programme-Sophistication>



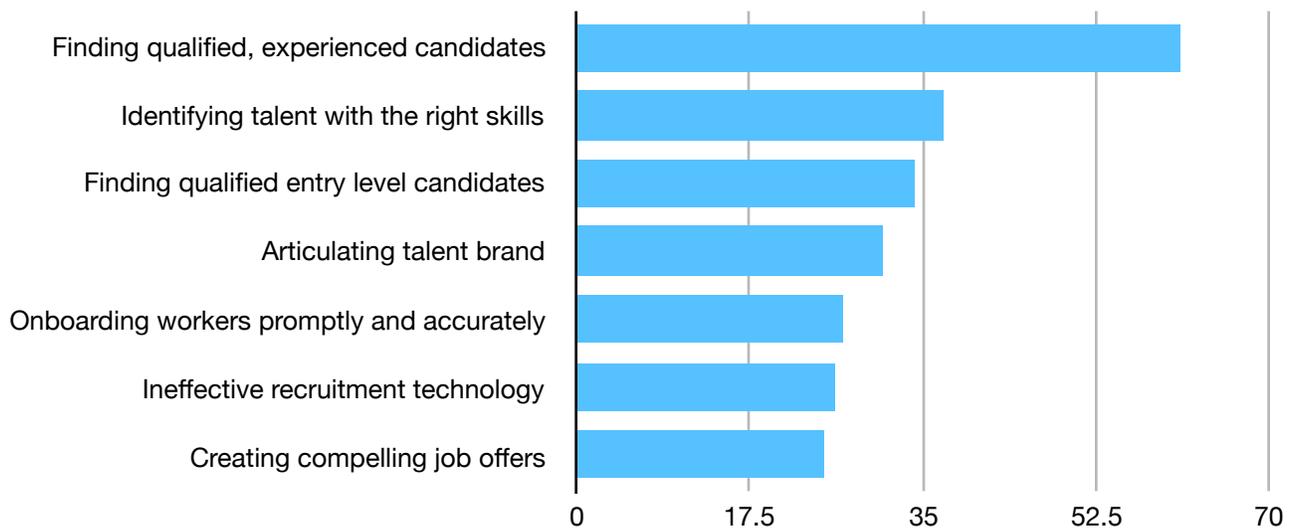
# Talent Acquisition in the Digital Age

With the growth of the economy and historically low jobless figures in developed countries, recruitment has become more difficult than ever before. In this year's study on human capital trends, 70% of Deloitte's respondents referenced talent acquisition as a primary issue, with 16% calling it the most urgent challenge facing them in 2019.

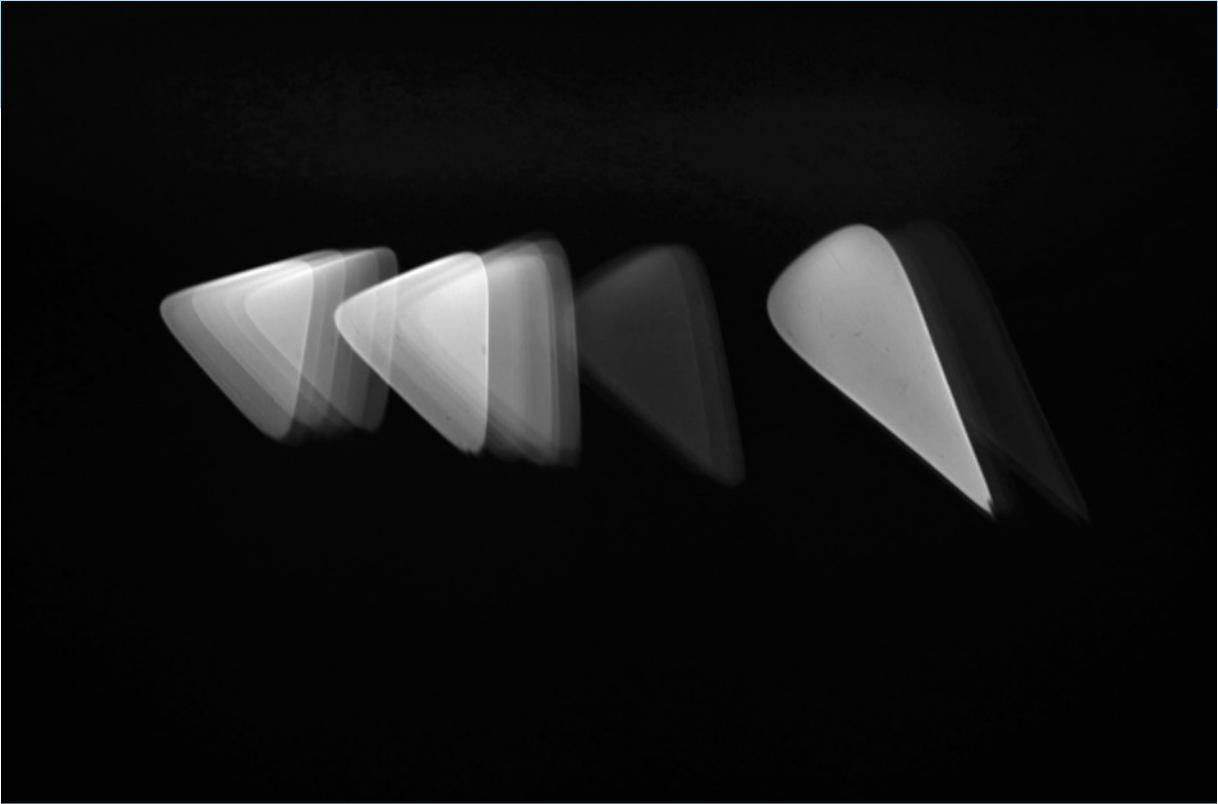


*During the last decade of economic expansion, organizations have focused on finding the right talent to drive business growth. But with record-low unemployment rates and skills shortages in many technical areas, recruiting has gotten harder, leading to an escalating war of employment brands, recruitment marketing campaigns, and artificial intelligence (AI)-driven tools to deliver recruiting excellence. In 2019 and 2020, as the economy is likely to slow, we think a new approach is needed. Rather than automatically opening a job requisition when a manager needs a role filled, it's time to think about how organizations can continuously "access talent" in varying ways: mobilizing internal resources, finding people in the alternative workforce, and strategically leveraging technology to augment sourcing and boost recruiting productivity.*

Worldwide economic expansion, the emergence of middle classes in developing nations, and low unemployment numbers are not the only factors contributing to recruitment difficulties. The massive adoption of automation is creating intense



demand for technical skills that don't widely exist in today's workforce. Business leaders have also found that too many university graduates are entering the new workforce unprepared or without proper training in complex thinking, collaboration, and communication. Another dramatic shift has taken place as candidates command more power in their choice of employers. Finding qualified talent is one of the most formidable obstacles confronting businesses—and the MSPs running outsourced workforce programs.



# How MSPs Can Transform & Evolve

Designing an end-to-end MSP/VMS program requires building a consolidated vendor model that identifies and addresses the needs of all client stakeholder groups invested in the engagement. The most successful programs are customized to each client's operation, and a multi-faceted contingent labor solution can span departments and individuals: IT, executive branches, Human Resources, Procurement, Accounts Payable, and the hiring managers responsible for contingent labor categories in each business unit. MSPs learn early on that every group has firm expectations and priorities for the program. HR seeks compliance with policies and procedures. Procurement wants compelling billing rates and contract terms. Hiring managers stress the importance of submittal times, fulfillment rates, vendor performance and robust reporting capabilities. IT officers focus on candidate quality and skills. And the business leaders tend to distinguish vendors by qualifications and past performance.

When you strip away conformance to policies, budgets, processes, systems, spend, and headcount, you find that all practice leaders desire the same outcome from the vendor population—quality talent. Some enterprises perceive successful MSPs as driving compliance and cost savings. However, award-winning MSPs will tell you their core task is to ensure client satisfaction. What inspires satisfaction and program adoption? A flawless talent acquisition process that consistently delivers the best talent at the most competitive rates, with the fastest submittal times.

## Talent Mobility

A study<sup>7</sup> published by the Institute for Corporate Productivity (i4cp) found that managers who cling to their best talent actually hobble their businesses. Of the 665 companies assessed, nearly three quarters of the lowest-performing organizations engaged in talent hoarding. The most productive enterprises made talent mobility a priority and rewarded managers for developing their workers.

<sup>7</sup> <https://www.i4cp.com/productivity-blog/2016/04/14/i4cp-study-finds-managers-who-cling-to-good-talent-are-bad-for-business>

“Talent mobility is about being able to rapidly and strategically identify, develop, and deploy talent to meet the needs of the business, its customer, and the aspirations of its employees,” said Lorrie Lykins, Director of Research Services at i4cp and co-author of the study. “Our research found that prioritizing talent mobility directly correlates to higher market performance in areas that matter most to business leaders—profitability, revenue, customer satisfaction, and market share.”

Building this culture of mobility is an opportunity that MSPs and their staffing partners can seize. It happens almost organically when top performing talent are identified and offered opportunities for new assignments or projects within the program. While one hiring manager might be letting an exemplary worker exit the department, the overall organization—and the program—still retains the worker. Not only that, the staffing supplier gains the chance to groom and refine the skills of great professionals.

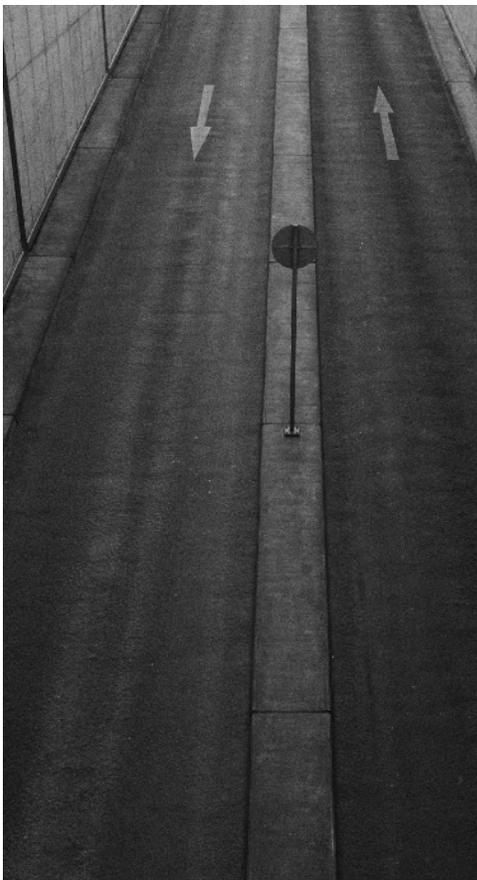
## Tapping Into the Alternative Workforce

As Spend Matters discussed in its article, “*The Future of MSPs: 3 Characteristics of Successfully Evolving Providers*<sup>8</sup>,” MSPs would be well advised to adopt a multichannel strategy that captures not just traditional contingent labor but the spectrum of available alternative talent.

New technologies and workforce trends have changed labor markets, giving business leaders more options for sourcing talent than they did a decade ago. But they often lack the knowledge and resources to effectively manage what becomes a multichannel strategy. MSPs have the experience and insight to identify the most compliant and efficient talent types for an engagement, ranging from traditional staffing to digital work and services platforms and SOW solutions.

<sup>8</sup> <https://spendmatters.com/2018/06/28/the-future-of-msps-3-characteristics-of-successfully-evolving-providers/>

Successful implementation, of course, usually requires an industry insider's knowledge of the various channels. According to Spend Matters:



*This is an essential direction successfully evolving MSPs must lead their clients if they want all parties (and programs) to remain relevant. Forward-thinking, effective MSPs serve as the trusted advisor for their clients, maintaining regular contact with enterprise labor requirements and changing workforce preferences. They understand the differences between various talent channels and how to effectively access these sources in the context of a client's contingent workforce program. This knowledge ultimately positions those MSPs to be the best choice for vetting, planning, and operationalizing a multichannel strategy for their clients.*

Beyond identifying the appropriate channels and resources, MSPs must also rely on carefully selected staffing suppliers who can source, recruit, and deliver the best-matched talent within these areas.

## Enhanced Compliance

“Along with these growing labor pools comes increasing amounts of risk that non-employee labor managers must address — if they even have the visibility necessary to identify it,” Spend Matters explained. With every new category of worker, there come nebulous new regulations on properly classifying them, whether as true independent contractors (1099s) or statutory W2s, exempt vs. non-exempt employees, genuine SOW contractors, and more.

A hasty or haphazard selection of contingent labor can unleash the floodgates to regulatory risks such as improper worker classification and compliance violations that lead to lawsuits or legislative penalties. These increased threats have elevated risk mitigation and compliance adherence to the same heights that cost containment and spend visibility formerly occupied.

## New Technologies and Data Analytics Reporting

Despite what would seem to be common knowledge, there persist many organizations that utilize contingent and alternative labor sources without HR information technologies such as applicant tracking systems (ATS), vendor management systems (VMS), or a host of other recently unveiled platforms for worker compliance, classification, performance, timekeeping, onboarding, background screening, freelancer management, online recruitment, and more. Issues that may appear outdated to big procurement organizations remain fresh thorns in the sides of smaller and mid-sized businesses:

- Visibility into worker locations, assignments, rates, and program spend
- Process optimization and centralized administration
- Cost containment through automation, streamlined distribution and approvals processes, consolidated billing and invoicing, etc.
- Mitigated co-employment risk and increased compliance
- Quality improvements and sourcing enhancements
- Reduced cycle times
- Labor forecasting and trending
- Robust reporting for metrics, program analytics, service level agreements (SLAs), key performance indicators (KPIs), and the identification of renegade spend

As Software Advice noted four years ago in its "Human Resources Software BuyerView 2015<sup>9</sup>" report, "Nearly half (48 percent) of buyers currently use manual methods, such as pen and paper or spreadsheets, to handle their HR needs, while 32 percent use dedicated HR software."

In 2019, the situation has yet to experience significant improvements despite the plethora of new hiring technologies hitting the market. Deloitte explored the boom in upcoming automation solutions for staffing<sup>10</sup>:

<sup>9</sup> <https://www.softwareadvice.com/resources/hr-buyer-report-2015/>

<sup>10</sup> <https://www2.deloitte.com/us/en/insights/legal/deloitte-insights-app.html>



*A decade ago, organizations invested in applicant tracking systems as the core platform to help collect, catalog, manage, and track candidates. More recently, an explosion of new tools, many powered by AI, have come on the market to make that process more scientific, scalable, and effective. Mature organizations now use AI-driven chatbots to enable a more streamlined approach to the application process; video interviews can screen and assess candidates for their fit to a particular role and the organization; and many new tools can help with targeted job advertising and expansive candidate searches. Tools are available, for instance, that combine publicly available data with machine learning capabilities to create a complete picture of the candidate, then highlight factors that differentiate each candidate based on their fit for the role*

There are several examples to consider:

- An AI-based candidate assessment system from Pymetrics can evaluate a large swath of behavioral traits and skills, then map them directly against criteria determined from datasets that incorporate the characteristics of high-performing workers in similar roles.
- Mya, an AI-based chatbot, has been gaining adoption from recruiting firms with its ability to reduce the candidate screening time by 30% to 50%, allowing recruiters to concentrate on more mission-critical activities.

- There's also Arya, a machine learning platform that matches candidates to requisitions based on inputs it gathers from an internal team. It can also automatically engage with candidates who express interest in an open position.
- Ideal uses AI to screen and shortlist candidates by analyzing data-rich intelligence such as resumes, assessments, conversations, and performance metrics. The system further works within most existing ATS applications, eliminating the need to learn a new software.
- Textio focuses on overcoming the hurdles of poorly composed job postings. It purports to identify biased language and then suggests alternatives to use instead. For companies with diversity and inclusion issues, this solution may hold additional advantages.
- Zoom.ai seeks to "improve and simplify the employee experience" through its automated assistant software. Features include scheduling meetings, transcribing calls, and creating departmental knowledge bases.

The unfortunate reality is that even in most current MSP programs, businesses still have little access to data beyond the historical information extracted from their VMS. This may hobble a client's ability to solidify strategies and perform analyses based on metrics that extend beyond the parameters of the program or its internal stakeholders. This approach also delivers scant intelligence about the quality or productivity of talent, making it difficult to stake program decisions on anything more than basic measurements like price, attendance, negative turnover, assignment completion rates, and others.

"Evolving MSPs," Deloitte concluded, "are raising the bar when it comes to what contingent workforce programs can offer. They are doing so by providing externally benchmarked rates for labor, segmenting these insights into separate categories including skill sets, job types and geographic regions. In addition, these MSPs are applying advanced predictive analytics to their own internal systems, allowing them to provide guidance about where rates could go and how talent is likely to perform based on previous performance for multiple businesses."



## Sourcing the Right Supplier Partners

## Best Practices in MSP Supplier Sourcing

As the workforce changes and a new breed of talent enters the market, breakthrough results will come from innovative staffing suppliers who excel at providing these exceptional workers. For savvy MSPs, sourcing the right agencies leads to higher offer acceptance rates, stronger retention levels and superior productivity. Exemplary supplier sourcing leaders with top-rated MSPs rely on well-defined and validated methodologies when sourcing, engaging, and enrolling staffing partners.

### More Workforce Planning Desired

Prior to gathering data, developing sourcing channels, sending out RFPs or interviewing prospective suppliers, MSP sourcing managers must rally an internal team of people who have a stake in the vendor selection process. For many MSPs, team members will include professionals across an array of functional divisions: supplier engagement managers, supply chain resources, client services directors, operations leaders, diversity officers, data analysts, project managers and marketing resources.

### Needs Analysis

The first task assigned to the team should be crafting a comprehensive needs analysis, in which the client's business and technical requirements are defined and logged. The team will develop a project charter that documents program scope, defines functional areas that need to be represented, sets ground rules and guidelines, assigns roles and responsibilities, identifies all stakeholders, establishes a preliminary project timeline with interdependencies, and documents key contract terms and provisions.

Next, the team should baseline the client's current state with regard to contingent labor, which includes the following best practices:

- Determining current and forecasted volumes, as well as capital expenditures
- Analyzing current purchasing strategies and acquisition means
- Mapping the client's current processes
- Determining and prioritizing client requirements
- Identifying potential risks
- Validating existing measurement systems and recommending revisions where necessary
- Setting expectations and goals
- Researching and benchmarking external industry standards and successful case studies
- Performing market and supply base analyses
- Developing industry cost drivers
- Analyzing available technologies
- Defining and documenting staffing supplier requirements
- Conceptualizing and establishing supplier sourcing strategies and options

By the end of the exercise, the team will have developed a working sourcing and engagement strategy that clearly lays out options, meets client objectives, identifies contingencies, establishes risk mitigation plans, maps processes, and includes transitioning plans for existing suppliers that will be phasing out, if applicable.

## Search

With team members in sync and the marching orders prepared, it's time to begin the search for staffing suppliers. The process can be a cumbersome and emotional undertaking: not all suppliers will meet the established minimum requirements; not all suppliers possess the skills you're seeking in certain regions; additional follow-ups and interviews may be needed after shortlisting finalists; and contract negotiations may not flow as smoothly as anticipated.

Remember, MSP implementation specialists historically consider the supplier engagement phase to be the most time consuming. They slate it to start during the earliest stages of their project plans and allow it to run concurrently with other phases of implementation. For client programs with international components, leading MSPs regularly add another 30 days to their implementation schedules to accommodate supplier sourcing.

Before beginning the search, the sourcing team must collaborate with their implementation professionals to allocate enough time in the process to overcome any stumbling blocks. The key here is to under-promise and over-deliver. As a rule, the number of supplier prospects should be proportional to the program's scope: the larger the program, the more suppliers the MSP should canvas in the search. Determining the optimal number of suppliers is based on a variety of factors, which can differ with each client program. Some common examples include spend, criticality to business, skill sets and multiple job categories.

Keep detailed records of the sourcing process and the prospects. Some MSPs subscribe to online supplier management portals. Most others build databases or spreadsheets to track supplier contact details, available job titles, industries served, geographic coverage, diversity status, rates and other data. Also include fields for the actions the team has performed during the search, noting relevant dates and outcomes.

Leverage relationships with external business associates for leads, set Google alerts for search parameters, and use trusted registers or directories. Also consider niche sources, depending on needs. When seeking certified diversity suppliers, for example, many MSPs recommend using the National Minority Supplier Diversity Council (NMSDC) index.

## Distribute RFIs/RFPs to Prospects

After compiling a list of suppliers, begin parsing down the prospects to identify the vendors most likely to meet or exceed program requirements. Distribute formal Requests for Information (RFIs) or Requests for Proposals (RFPs) to these suppliers as a proactive sourcing strategy. The preamble should include at least the following information:

- A cover letter introducing the MSP and its primary supplier contact
- An executive summary outlining the background, needs and requirements of the proposed program
- Request for supplier company information: sales or fact sheets, sample case studies, scorecard examples, etc.
- A detailed overview of specifications
- Screening and selection criteria to be used in the evaluation
- Assumptions and constraints
- Deadlines and requirements for communications and submittals

The best way to structure an RFP is to ask focused questions that address all of the points in your needs analysis document. When used properly, an RFP provokes thought, careful planning, innovation, and a solid basis for further discovery. Proposals can be driven by long and meticulous narrative. Brevity remains tantamount to success. Make sure to ask questions that elicit concise, no-nonsense responses.

Equally important is establishing a rubric for quantitative and weighted pass/fail scores. Assign values for each requirement that rank both importance and the supplier's performance in response.

Send out mutual NDAs to all prospects prior to releasing the RFP. Mutual NDAs protect your interests and those of your bidders. An NDA also removes any objections a supplier may raise to justify withholding information. Also avoid questions that allow respondents to self-certify answers. Fashion questions in a way that requires proof and validation of claims, which you can verify. Don't entertain non-answers such as "We don't typically release this information at this stage of the relationship." If a company has something to hide, you can't build a business partnership predicated on trust. File the bid away and move on to the next one.

## **Selection**

After reviewing all the bids submitted, create an even more refined shortlist of prospects based on each vendor's calculated performance score. First eliminate all bidders that failed to meet essential criteria in the scoring. For any reasonable ambiguities in passing responses, or if the team would like to further explore a supplier's answers, contact the vendor for clarification. Afterward, select the winning bidders as a team. Make sure the business leaders involved in the process participate and approve the final selections.

## **Negotiations**

Most suppliers who decline participation in an MSP program cite contractual terms as the primary reason for not engaging. Successful contract negotiations work toward delivering positive incentives and outcomes for the MSP and the staffing suppliers. A mutually agreeable contract forms the foundation of a lasting and productive relationship that can extend to new opportunities with other clients. Experts caution that when MSPs use negotiations to strong-arm suppliers down to

unsustainable margins that prevent profit realization, they also sacrifice the quality of talent the client will receive.

A best practice for any negotiation, regardless of complexity, is to involve legal counsel for guidance and protection. Prior to hosting the negotiations, meet with all team members and a legal advisor to rank objectives, create alternatives, differentiate wants from needs, establish a hard and inviolable bottom line, assess potential liabilities, and approve the key terms and conditions.

As the negotiations open, the MSP should immediately make clear the following to staffing suppliers:

- Essential prerequisites, terms, conditions and mutual indemnifications
- A comprehensive Statement of Work (SOW) that outlines all services to be rendered and performed, explicitly detailed and transparent
- Any EULAs or licensing needs for VMS systems or other software to be used for the client program
- Dates for contract execution, contract start, contract completion and renewal options
- Any termination clauses and their parameters
- Potential risks
- Current and forecasted expectations for the relationship
- Additional incentives or benefits (i.e., providing staffing suppliers opportunities with other existing clients, preferred status in tiers, volume commitments, etc.)
- Total costs, billing and invoicing schedules, payment or financing terms, and other compensation

## Niche Suppliers

Way back in 1971, while discussing the “economic miracle” of Japan’s rising dominance in business output and performance, Harvard Business Review’s Peter Drucker hit on a fascinating topic that seems just as relevant today: understanding the nuanced balance between being a specialist and a generalist<sup>11</sup>. Western companies, Drucker asserted, were afflicted with a sort of “tunnel vision” in their structuring of personnel. The Japanese, meanwhile, promoted a sense of continuous development where a young professional could quickly transition from production to market research to accounting. In the end, Drucker discovered an interesting paradigm—that talent in Japan remained specialists in their core areas of expertise while gaining a generalist’s knowledge of managing all the related processes. Basically, smaller boutique departments produced a bigger impact on the company’s overall operations. With that in mind, let’s explore why MSPs should focus on enrolling smaller, less generalized staffing suppliers and how niche vendors can join the ranks of these programs.

### Specialists in Deed, Generalists in Thought

In striking a profound difference between 20th century business practices in Japan and the West, Drucker cited the career path of an engineer he interviewed during his research. The simple anecdote defines the essential value that smaller players bring to the larger stage.

*The individual departments in an office tend to be rigidly specialized and highly parochial in the defense of their “prerogatives.” Yet the tunnel vision afflicting so many people in Western business is conspicuously absent in Japan. For instance:*

<sup>11</sup> <https://hbr.org/1971/03/what-we-can-learn-from-japanese-management>

*The industrial engineer I quoted earlier insists meticulously on the boundaries between the industrial engineering and personnel functions. He himself never worked in any other function, from the day he graduated from engineering school to the day when, at age 55, he was made president of an affiliate company in the corporate group. Nevertheless, he knew the work of every other function. He understood their problems. He knew what they could do for his industrial engineering department and what, in turn, his people had to do for them. He is the purest of specialists in his own work, and yet he is a true “generalist” in his knowledge, in his vision, and in the way that he holds himself responsible for the performance and results of the entire organization.*

In staffing, many well-established agencies continue to embrace the traditionalist mindset of attempting to staff every labor category in scope, hoping to capture the bulk of their clients' requisitions. In some ways, the approach echoes the axiom of “let's throw everything at the wall and see what sticks.” Such enterprises become generalists, but in a way that Drucker would likely have labeled the Western idiom. They try to be all things to all customers. Or, to use another old expression, they risk becoming “Jacks of all trades, masters of none.” They may be less willing to take risks or pursue unconventional paths toward innovation. This can result in a lack of focus and dilution of service. Whatever their core competency was—let's say financial analysts—they may shift their attention to other roles, like QA testers, to seize more business, even when recruiting for those positions falls outside their primary skills or candidate pools.

Integrating smaller and perhaps less familiar firms into a program can help MSPs establish a more diverse supplier community. MSPs may discover that, when pitted against niche providers, some of their incumbent suppliers fall short in locating talent for hard-to-fill categories, challenging regions, or at the client's preferred markups. Boutique agencies and those just entering the space will be striving to lay down roots in the industry. They could be more likely to offer:

- greater concentration on delivering specific skill sets, now and in the future;
- streamlined and well-organized candidate recruitment processes;
- experience filling specialty positions in the client's industry, especially when emerging or niche job titles enter the picture;
- closer cultural alignment to the MSP and the client—shared values for the current or transforming environment (e.g., emphasis on sustainability, enhanced diversity and inclusion, common mission, etc.); and
- a superior grasp of geographies where talent populations may seem scarce or difficult to reach for larger firms.