Don't Leave Money on the Table:
Strategies for Optimizing Contingent Labor Spend

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DON'T LEAVE MONEY ON THE TABLE

STRATEGIES FOR OPTIMIZING CONTINGENT LABOR SPEND

MARCH 27, 2018
SESSION OVERVIEW

ANALYTICS

SELF-SOURCING

VENDOR NEUTRALITY

SOW MANAGEMENT
Contingent Labor – The final frontier of controls and data management

• Some companies have no idea the activity they have; some have the data but no idea what to do with it.

• At Novartis, we had a large volume of contingent workers but didn’t know the all-in costs associated.

• Were we making the proper business decisions regarding this population of workers across the enterprise?

• Even if we had the data, what would we do with it to advance business strategies?
Who would say your company is currently using proactive analytics to improve sourcing?
IDENTIFYING EFFICIENCY “SWEET SPOT”

Pricing by Engagement Type
12-Month Historical Actual Price Paid

<table>
<thead>
<tr>
<th>Engagement Type</th>
<th>Average FTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offshoring</td>
<td></td>
</tr>
<tr>
<td>Payroll</td>
<td></td>
</tr>
<tr>
<td>Competitive Bid Staff Aug</td>
<td></td>
</tr>
<tr>
<td>Independent Contractor</td>
<td></td>
</tr>
<tr>
<td>Non-Competitively Bid Staff Aug</td>
<td></td>
</tr>
<tr>
<td>Competitively Bid SOW</td>
<td></td>
</tr>
<tr>
<td>Niche Consultant</td>
<td></td>
</tr>
<tr>
<td>Non-Competitively Bid SOW Consultant</td>
<td></td>
</tr>
</tbody>
</table>

Efficiency Sweet Spot

Relative Cost (equivalent hourly rate)
• If I can source a position with any type of labor, anywhere in the world....
  • How should I source?
  • Where should I source?
  • When should I source?
  • How much should I pay?
  • How does that correlate to quality?

• Allows users to see quality scores and hourly “all-in” cost by type of engagement and location for a given job title.
Know who is ending and how difficult it will be to replace them. Be prepared

- See which workers will be terming shortly and all key sourcing metrics
- Set expectations when preparing to open a new requisition
- Cost savings opportunities through potential self-sourcing
- Be proactive!
**PROACTIVE UNDERPERFORMANCE COST MITIGATION**

- **Vacancy Costs**
  Estimates $7K - $50K per day\(^1\)

- **Quality Costs**
  41% believe bad hires cost $25K\(^2\)

- **Turnover Costs**
  Up to 70% of worker’s salary.\(^3\)

- Increasing your workforce visibility along with regular analytical reviews can cut these costs off before they start to mount.

- These costs can be assessed upon program implementation in conjunction with a full rate card analysis.

- Underperformance costs can be assigned at the job title level to alert management of which positions and skillsets require market realignment.

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\(^{1}\) Careerbuilder Communications – Skills Gap Study 2015
\(^{2}\) Careerbuilder – Staggering Costs of a Bad Hire
\(^{3}\) CPS HR – Cost of Turnover
• To pay someone else to find people OR to find people yourself?

• “Well, I do not know anyone for the position so I should assume no one in my company knows anyone for the position”

• Is there enough financial benefit in doing the work to leverage my network?
Which organizations here are actively promoting self-sourcing of contingent labor?
Staffing supplier markups typically range between 30-50%
Staffing-aligned MSPs are always interested in increasing profit margins by filling orders via their own recruiters

Self-Sourcing markups typically range from 18-24%

“(Engaging in MSP business) is defense because we believe that it protects our staffing business. We can deliver through the talent supply chain the best staffing to our customers in many cases that includes XXX staffing and we think that’s an important part of the strategy.”

- CFO, Major Staffing-Aligned MSP

Published in annual report to shareholders
Example for a $100M program

- $100M Program x 30% more payroll = $30M more in Payroll Activity
- Savings = $30M x 20%

~$6 Million in Recurring Annual Savings!

Depending on the size of your contingent workforce, cost savings amounts vary but percentages remain static

- Smaller: $50M program would save ~$3M
- Larger: $200M program would save ~$12M

Self-sourcing needs to be a targeted solution for driving cost savings
REALIZED BENEFITS FROM SELF-SOURCING

- Drive self-sourcing → Cost savings
- From 2007 to 2016 PRO’s client saved an estimated $57M in spend on its contingent workforce by leveraging PRO’s Payroll service.*

*These savings figures are in addition to the reported cost savings we currently measure today and shows the inherent value PRO brings.
Strategies for driving self-sourcing:

- Engage a purely-vendor neutral MSP
- Leverage company brand everywhere
- Utilize VMS technology to broaden talent pool
- Educate hiring managers
- Identify slow adopters
- Enjoy the cost savings and improved worker quality!
• Are my business partners working with me or are they pursuing their own agenda?
• Am I truly maximizing cost savings given the interests of all parties involved?
• What have I not considered when engaging with staffing suppliers?
• Are all of my staffing suppliers fully engaged and provided equal opportunity?
Financial Benefits of Competitive Bidding

• PRO looked at **over 100,000** filled positions across different clients and industries, comparing data from non-competitive environments to PRO programs.

• Savings varied by job category from 5% to 23%.

Across all job titles and categories, competitively bid orders average bill rates **6.2% BELOW** non-competitively bid orders.

<table>
<thead>
<tr>
<th>Job Category</th>
<th>Job Title</th>
<th>Comp Bid Hourly Bill Rate</th>
<th>Single Sourced Hourly Bill Rate</th>
<th>Savings %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admin</td>
<td>Admin Assistant IV (Executive)</td>
<td>$40.50</td>
<td>$47.70</td>
<td>17.8%</td>
</tr>
<tr>
<td>Clinical</td>
<td>Biostatistician with SAS Programming II</td>
<td>$108.75</td>
<td>$110.00</td>
<td>1.1%</td>
</tr>
<tr>
<td>Clinical</td>
<td>Clinical Trial Operations Manager II</td>
<td>$94.78</td>
<td>$85.20</td>
<td>-10.1%</td>
</tr>
<tr>
<td>Clinical</td>
<td>SAS Programmer II</td>
<td>$86.00</td>
<td>$86.00</td>
<td>0.0%</td>
</tr>
<tr>
<td>Engineering</td>
<td>Automation Technician V</td>
<td>$82.00</td>
<td>$110.00</td>
<td>34.1%</td>
</tr>
<tr>
<td>Engineering</td>
<td>Quality Manager III</td>
<td>$100.95</td>
<td>$133.33</td>
<td>32.1%</td>
</tr>
<tr>
<td>Engineering</td>
<td>Validation Lead III</td>
<td>$118.25</td>
<td>$132.04</td>
<td>11.7%</td>
</tr>
<tr>
<td>Engineering</td>
<td>Validation Specialist V</td>
<td>$100.00</td>
<td>$113.91</td>
<td>13.9%</td>
</tr>
<tr>
<td>IT</td>
<td>ABAP Developer III</td>
<td>$120.00</td>
<td>$119.92</td>
<td>-0.1%</td>
</tr>
<tr>
<td>IT</td>
<td>Software Developer III</td>
<td>$101.00</td>
<td>$105.00</td>
<td>4.0%</td>
</tr>
<tr>
<td>IT</td>
<td>Software Developer IV</td>
<td>$101.47</td>
<td>$106.89</td>
<td>5.3%</td>
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<tr>
<td>IT</td>
<td>Systems Analyst II</td>
<td>$74.70</td>
<td>$78.33</td>
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<tr>
<td>IT</td>
<td>Systems Analyst III</td>
<td>$100.80</td>
<td>$82.50</td>
<td>-18.2%</td>
</tr>
<tr>
<td>IT</td>
<td>Systems Analyst V</td>
<td>$118.00</td>
<td>$139.00</td>
<td>17.8%</td>
</tr>
<tr>
<td>IT</td>
<td>Technical Writer II</td>
<td>$74.00</td>
<td>$71.40</td>
<td>-3.5%</td>
</tr>
</tbody>
</table>

These rates are representative of multiple fills within a given job title for multiple clients.
• So I am getting the most out of my staff aug dollar, but what about the millions going out the door to project engagements?

• What percentage of my project work is able to be analyzed?

• How can I manage all projects coming through?

• What does each SOW firm offer and what are my requirements?
SOW MANAGEMENT

Benchmarking of project rates, milestones / deliverables, estimated completion time

Competitive Bidding / Reverse Auction

Supplier Negotiation Best-Practices

Vendor Optimization and Performance Tracking

14 – 20% PER PROJECT*

PRO Unlimited Cross-Client Benchmark for SOW Cost Savings

* When PRO manages the full upstream/downstream SOW process
Save hard dollars by questioning proposed contract terms that may have been overlooked by busy SOW buyers

**Real World Client Example**

**Proposed and Agreed Upon Terms:**
- $165/hr for training program
- 25 hours of prep for every 1 hour of course time
- $14,000 for an international trip (2 trips)
- Full $165/hr bill rate for travel time

**Recommended Negotiating Points**
- $150/hr for training program
- 20 hours of prep for every 1 hour of course time
- $8,000 for an international trip (2 trips)
- $100/hr bill rate for travel time

Adoption of the negotiation points represents a savings of $131K - 30%

Recently, a major SOW supplier was removed from a client program for attempting to take advantage of payment terms and contracted allowances

**SOW Guidance**
- Do not be intimidated by the letterhead
- View initial terms as an invitation to negotiate
- Know the right questions to ask
- Leverage technology and analytics team to achieve the best possible SOW pricing
Case Study – IT Statement of Work

Project Details
- Epic Implementation
- Length of Project: 4.5 months
- Epic Testers x 13

Competitively Bid

Vendor 1
- Initial bid in based on manager specifications
- Presented cost of SOW: $873,600

Vendor 2
- Presented cost of SOW: $949,975

Vendor 3
- Presented cost of SOW: $811,000

Selected Bid
- Manager identified Vendor 1 as the best fit for the project based on team composition and lowest bid
- Negotiated cost of SOW: $726,960
- $147K (17%) Negotiated Savings

Using market rate intelligence PRO leveraged vendors and negotiated rates in line with market
INTRODUCTION TO PRO Unlimited

- Founded in 1991
  - Managed Services Program (MSP) and Vendor Management System (VMS)
  - Workforce Compliance and Third-Party Employer of Record Service (Payrolling)
  - Statement of Work management

- Purely vendor-neutral
  - No ownership, affiliation or profit-share with any staffing firm whatsoever
  - Participating suppliers compete on level playing field
  - Multiple talent sourcing channels

- Double digit growth for 18 years
  - Senior management team intact for 17 years
  - Managing over $6B of spend across 90+ countries
  - Industry’s best client retention record
Visibility to data, next-level analytics can be a tremendous advantage in contingent workforce management.

Pure vendor-neutrality is critical to optimizing cost savings with quality:

- Self-sourcing & competitive bidding

Savvy organizations are starting to leverage their MSPs for material cost savings.
QUESTIONS?
CONTACT INFORMATION

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