

Contingent Labor Management

The Evolution of the Contemporary Contingent Workforce

May 2011

Christopher J. Dwyer

~ Underwritten, in Part, by ~

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Executive Summary

The contemporary contingent workforce has undergone an evolution over the past five years, one that has forced companies across the globe to enact robust strategies and solutions for driving value and gaining visibility into aspects beyond “classic” temporary labor, such as Statement-of-Work (SOW)-based projects, services (and services procurement), and independent contractors. This research study, which examined the intentions, strategies and challenges of over 200 companies, finds that the modern contingent labor umbrella encompasses over 22% of the average organization’s total workforce, and with corporate attention around SOW-based project and services, companies must enhance their processes to avoid compliance gaps, mitigate contractor risks, and link projects and services to true operational growth.

Best-in-Class Performance

Aberdeen used the following key performance criteria to distinguish Best-in-Class performance: percentage of SOW-based projects (and temporary workers) that meet pre-defined objectives, compliance to federal policies concerning independent contractors, and average year-over-year cost savings on contingent labor spending. Best-in-Class enterprises in this study are notable for the advantages that they hold over their peers:

- 70% higher average cost savings on contingent labor spending
- 42% higher frequency of SOW-based projects meeting objectives
- 42% higher rate of compliance to federal / regulatory policies concerning contingent labor and independent contractors

Competitive Maturity Assessment

Survey results also show that the firms enjoying Best-in-Class performance shared several common characteristics, including:

- 67% higher likelihood of standardizing SOW management processes than all other organizations
- 60% higher likelihood of maintaining real-time visibility into all subsets of contingent labor management

Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance companies must:

- Leverage third-party enablers, such as VMS, MSP and ICES solutions, to enhance contingent labor processes
- Utilize data analytics to gain intelligence on SOW-based projects
- Properly onboard and offboard all contractors and services

Research Benchmark

Aberdeen’s Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations

How Does Your Performance Compare to the Best-in-Class?



- Compare your processes
- Receive a free, personal PDF scorecard
- Benefit from custom recommendations to improve your performance, based on the research

Take the Assessment

Receive Your Free Scorecard

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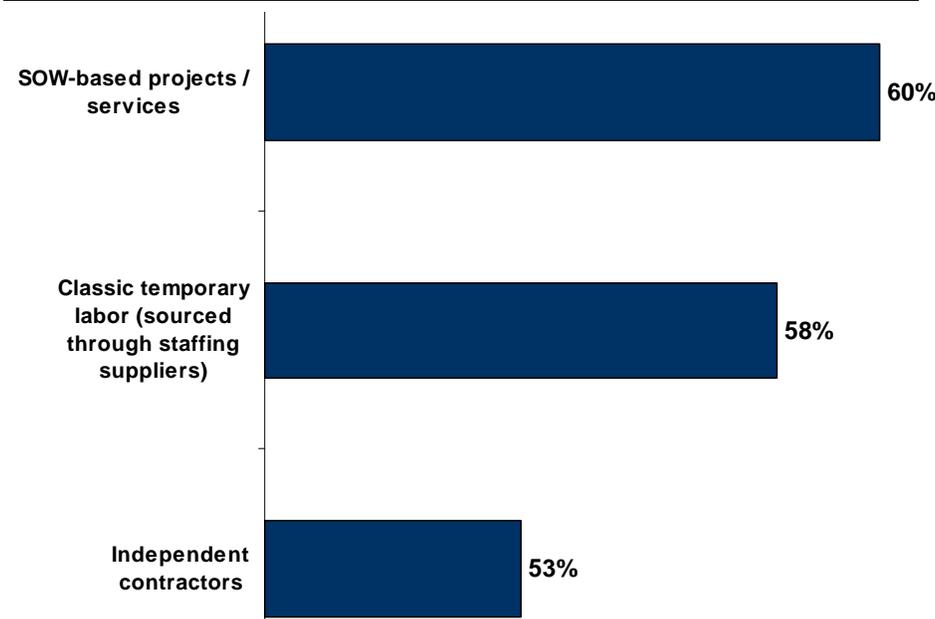
Chapter One: Benchmarking the Best-in-Class

Contingent labor has undergone a significant corporate shift over the last few years; as businesses move into a new decade of development and growth, this complex arena of organizational spending remains an evolutionary component in achieving overall company objectives and goals. Over 22% of the average company's workforce is considered contingent, and in a modern age where the contingent labor umbrella encompasses several critical links to greater business performance, organizations across the globe are digging deeper into this spend category to focus on the programmatic components of Statement-of-Work (SOW) projects and services for driving value through quality, effectiveness, visibility and savings.

Business Context

Last year's *Contingent Labor Management: Strategies for Managing the Complexities of the Contingent Labor Umbrella* report (June 2010) delved into the details of the modern aspects of contingent labor, including "classic" temporary labor (which is sourced through staffing agencies / suppliers), independent contractors, SOW-based projects, and services (and services procurement). It is within this backdrop that we move into a new decade of contingent labor management, and as Figure I indicates, SOW-based projects and services serve as the most profiled attribute drawing attention today.

Figure I: Contingent Labor Areas That Have Received Most Organizational Attention Over the Last Year



Source: Aberdeen Group, April 2011

Fast Facts

- ✓ Over 22% of the average company's workforce is considered contingent
- ✓ Only 14% of organizations currently have high visibility into SOW-based projects and services

"There's a significant focus on SOW-based work at our organization. The company relies on SOW-based labor in delivery of projects regularly."

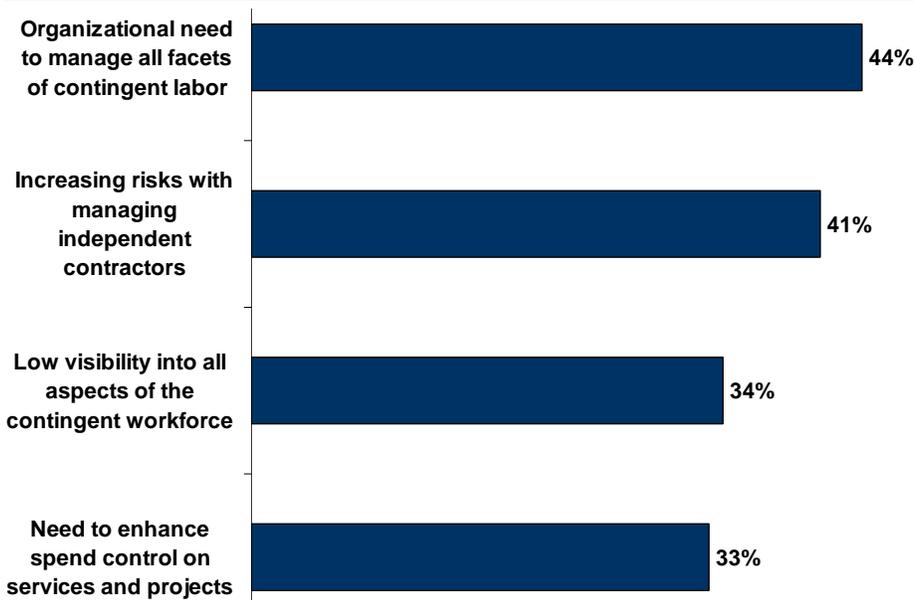
~ Partner / Principal, Small North American Company

With a figure trending to approach nearly a quarter of its overall workforce over the next year, the average organization has experienced a revolution within greater contingent labor management. The corporate focus on managing SOW-based projects and services presents a need for companies to attack this subset of temporary workforce management with more robust processes, strategies and solutions. This research study has discovered that over 25% of all contingent work is tied to a statement-of-work, further emphasizing the need to focus organizational attention on this contingent labor component.

Challenges in Modern Contingent Labor Management

The notion of modern contingent labor management programs enveloping more than just “classic” temporary staffing augmentation has now come full-circle; as Figure 2 indicates, the top pressure faced by organizations today in regard to the contingent workforce is the organizational need to manage all facets of contingent labor, which now includes SOW-based projects, services and independent contractors / consultants (44%).

Figure 2: Top Contingent Labor Management Pressures



Source: Aberdeen Group, April 2011

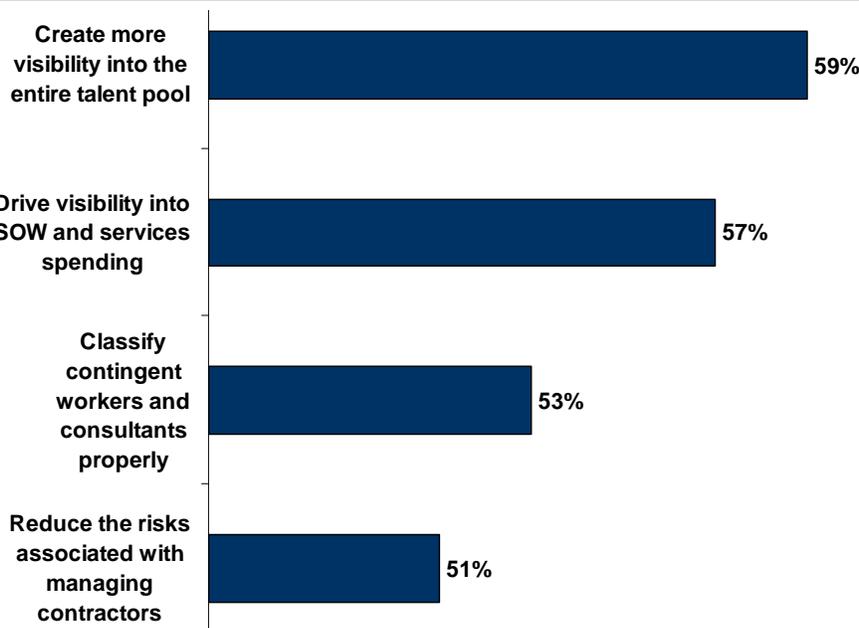
The need for optimized strategies, solutions and processes for managing contingent labor is also now reinforced in the top challenges faced by the modern organization in today’s business environment. Contingent labor management therefore is not merely a set of specific processes for managing the flux of staffing suppliers and vendors, but an intricate, multi-component program that involves strategies managing short- and long-term projects that utilize SOW-based services and contractors.

However, with this newfound organizational attention around these components of the contingent labor umbrella also come a variety of risks; for instance 41% of organizations are facing increasing risks with managing independent contractors and consultants, such as co-employment, federal audits, and liabilities concerning health care and taxes.

Visibility: A Top Priority for the New Decade

Increased corporate focus on the specific attributes of the contingent labor umbrella translates into an organizational need for visibility: visibility into spending, visibility into compliance aspects, and visibility into all companywide projects and services that currently utilize SOW-based labor and independent contractors. As Figure 3 indicates, visibility is the priority for companies as they manage the evolved elements of modern-day contingent labor.

Figure 3: Contingent Labor Management Priorities for 2011



“Nearly all of our specialty talents are on SOW-based contracts, which allow us to be flexible and have expected outcomes managed on a daily basis.”

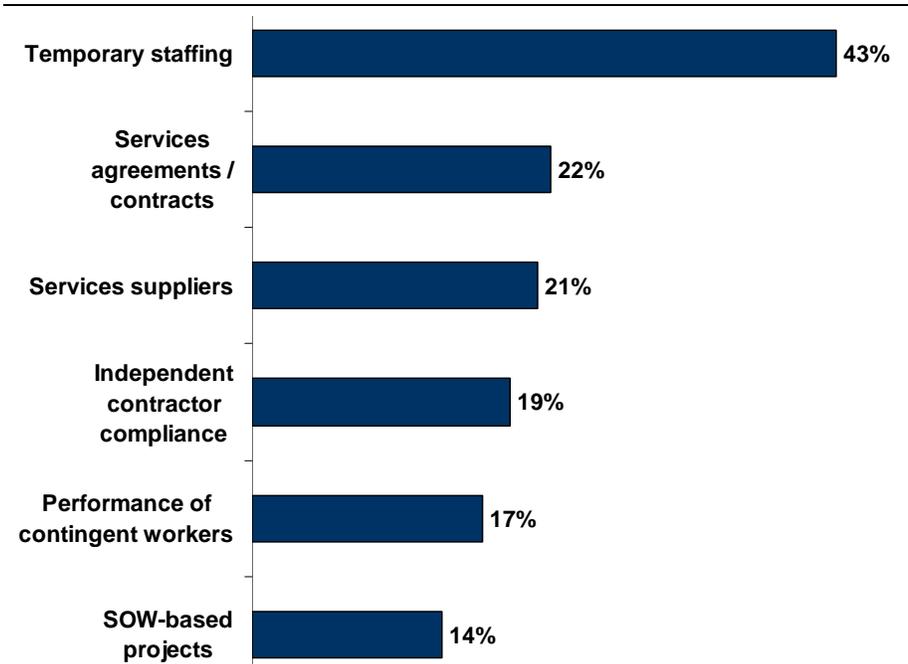
~ Corporate Director, North American Software Firm

Source: Aberdeen Group, April 2011

Nearly 60% of organizations are tasked with creating more visibility into their entire talent pool, a workforce collection that spans the gamut of services, projects, contractors and consultants. With over 22% of the average workforce existing in a temporary manner, it is critical for enterprises to maintain a proper level of visibility into the varied components that comprise these contingent labor aspects, such as spending, project-specific attributes, and effectiveness. Consequently, companies are also focusing on this visibility factor to gain intelligence around SOW and services spending (57%), the top area in which organizations globally have focused their efforts within the greater contingent labor management program.

While visibility remains prime component of managing the subsets of the contingent labor umbrella very few organizations are achieving the required visibility into these aspects to truly drive value out of their programs. Figure 4 details the aspects of the modern contingent labor umbrella in which companies have high visibility.

Figure 4: Contingent Labor Aspects with High Visibility



Source: Aberdeen Group, April 2011

Although temporary staffing (often referred to as “classic” staffing in Aberdeen research studies) remains a factor that consistently elicits high or moderate visibility, SOW-based projects are one of the more complex components of the contingent labor umbrella where visibility continues to be a challenge. Considering this facet has become a crucial factor in the contemporary contingent workforce, only 14% of companies in this data pool indicate that they hold high visibility into SOW-based projects. Worse yet, companies are also lacking visibility into areas that have a direct result in poor quality and effectiveness in achieving project-based tasks, such as independent contractor compliance (19%), which can cause unwanted (and even negative) attention from the IRS.

The typical organization is also not afforded visibility into additional workings within the SOW / services subset, including services agreements and contracts (22%) and suppliers (21%). Both pieces of SOW-based projects can have dire effects on project timelines, milestones and many financial aspects tied to corporate projects utilizing contingent labor.

The Maturity Class Framework

Aberdeen used the following four key performance metrics to distinguish the Best-in-Class from Industry Average and Laggard organizations: percentage of statement-of-work-based projects; services and contractors that meet pre-defined goals and objectives; percentage of temporary workers that meet pre-defined goals and objectives; compliance to internal, federal, regulatory and state policies concerning independent contractors; and average year-over-year cost savings on contingent labor spending (achieved through better pricing, less expensive mark-ups, or introduction of efficiencies for the same amount and type of contract workers).

Table 1: The Maturity Class Framework

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 88% of temporary workers meet goals / objectives ▪ 79% of SOW-based projects / services meet goals / objectives ▪ 84% compliance to contingent labor policies ▪ 16% year-over-year contingent labor cost savings
Industry Average: Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 58% of temporary workers meet goals / objectives ▪ 55% of SOW-based projects / services meet goals / objectives ▪ 64% compliance to contingent labor policies ▪ 7% year-over-year contingent labor cost savings
Laggard: Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 20% of temporary workers meet goals / objectives ▪ 13% of SOW-based projects / services meet goals / objectives ▪ 12% compliance to contingent labor policies ▪ 2% year-over-year contingent labor cost savings

Source: Aberdeen Group, April 2011

Best-in-Class companies are known for their superior performance across the scope of modern contingent labor management. These organizations have achieved success within key metrics that reflect upon their capabilities and strategies for managing the complexities inherent in the contemporary contingent workforce. These organizations have driven:

- 70% higher average year-over-year cost savings on contingent labor spending
- 45% higher frequency of temporary workers meeting pre-defined and communicated goals and objectives
- 42% higher frequency of SOW-based projects and services meeting pre-defined and communicated goals and objectives

- 42% higher rate of compliance to internal, federal, regulatory and state policies concerning contingent labor and independent contractors

The Best-in-Class PACE Model

The efficient management of the wide range of attributes and complexities within modern contingent labor program requires a combination of strategic actions, organizational capabilities, and enabling technologies that can be summarized in the PACE Framework in Table 2.

Table 2: The Best-in-Class PACE Framework

Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> ▪ Need to better manage all facets of modern contingent labor (temporary staffing, SOW-based projects, services, independent contractors) 	<ul style="list-style-type: none"> ▪ Align contingent labor activity with greater organizational goals ▪ Implement distinct onboarding processes for contingent workers / services 	<ul style="list-style-type: none"> ▪ Clearly-defined employee types ▪ Standardized management of SOW-based projects ▪ Real-time data analytics and reporting ▪ Visibility into all subsets of contingent labor ▪ Ability to measure effectiveness of contingent workers and projects 	<ul style="list-style-type: none"> ▪ Vendor Management System (VMS) ▪ Managed Service Provider (MSP) ▪ Independent Contractor Engagement Specialist (ICES) ▪ Recruitment Process Outsourcing (RPO) ▪ Business intelligence / analytics ▪ Online labor marketplace ▪ Workforce Management Solution (WMS) ▪ Vendor On Premise (VOP)

Source: Aberdeen Group, April 2011

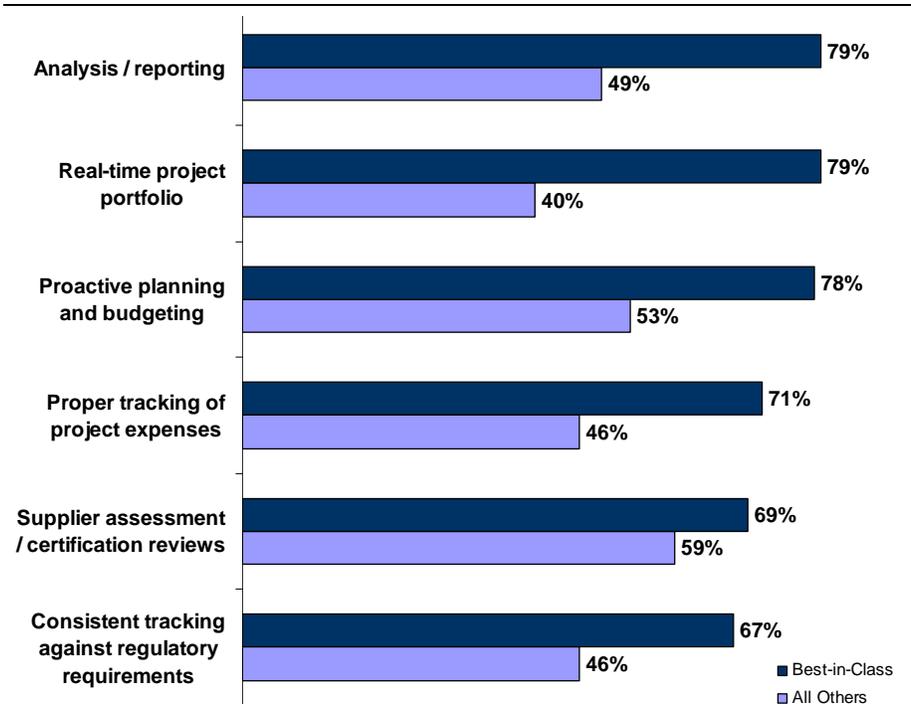
Best-in-Class Strategies for Managing SOW-Based Projects / Services and Independent Contractors

While “classic” temporary labor remains a viable and well-leveraged contingent labor aspect, companies are conducting business in the midst of facing fresh challenges within their respective contingent workforces, particularly as SOW-based projects / services and independent contractors represent significant links to operational and financial performance. Best-in-Class companies have demonstrated their ability to manage these areas of the contingent labor umbrella with precision, contributing to their overall level of superior performance.

Best Practices in SOW Management

Effective management of SOW-based projects and services revolves around a single notion in the world of Best-in-Class contingent labor management: information that results in intelligence (Figure 5).

Figure 5: Best-in-Class Strategies for Managing SOW-Based Projects and Services



“With the effects of the economic recession we’re experiencing a higher usage of contingent labor to keep our workforce flexible.”

~ COO, Small European Company

Source: Aberdeen Group, April 2011

In recent years, indirect areas of corporate spending have been enhanced with data analytics and reporting; the very concept of leveraging internal information and funneling it into true enterprise intelligence is a path tread by Best-in-Class organizations (79%). These top companies are able to utilize the information inherent in their programs to derive intelligence regarding project milestones, supplier agreements and time / material management for their SOW-based projects and services.

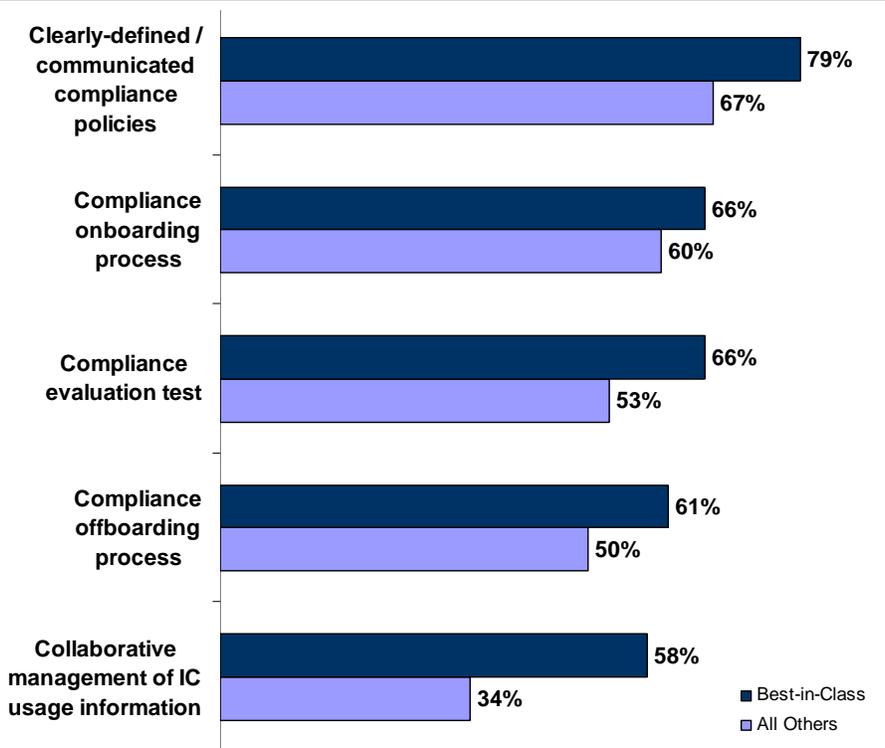
There are a number of activities within SOW-based project and services that must be streamlined and managed efficiently, such as approvals, billing transactions, and budget alignment. Best-in-Class companies are actively utilizing proactive planning and budgeting (78%) to properly map their projects with existing corporate budgets against ideal suppliers. Utilizing a real-time project portfolio (79%) can also give executives a clear view into current timelines, expenses and other critical aspects within an SOW-based project, often times helping organizations ensure that specific agreements are actively being met by suppliers and contractors.

Best Practices in Independent Contractor Management

Independent contractors remain a vital component of the contingent labor umbrella, as the reliance on these temporary workers often requires a balancing act to maintain quality while mitigating risks and managing costs. Although independent contractors are often tied to an SOW, these

contract labor workers aren't always tied to a standard corporate agreement. Best-in-Class companies have leveraged a series of unique strategies to better manage this subset of contingent labor (Figure 6).

Figure 6: Best-in-Class Strategies for Managing Independent Contractors



Source: Aberdeen Group, April 2011

The Best-in-Class independent contractor management program revolves around *compliance*. Co-employment, federal audits and tax / healthcare liabilities, all viable risks that have long-been detailed in Aberdeen contingent labor research, are perils that must be planned for when leveraging Independent Contractors (ICs). Top-performing enterprises have instituted several programmatic strategies to improve their compliance efforts, such as clearly-defined and communicated compliance policies (79%), which assist departments utilizing ICs to manage contractor relationships with federal and internal guidelines in mind.

Compliance evaluation tests (66%) examine the details of the company's relationship with ICs and validate proper unions between these entities, while collaborative management of IC usage information (58%) ensures that interdepartmental units share intelligence regarding utilization of independent contractors for companywide compliance efforts. Often times, specific divisions leverage ICs without executive knowledge, leaving the company exposed to compliance risks.

As we will see in the next chapter, Best-in-Class organizations have utilized a series of internal capabilities and external solutions to effectively manage their SOW-based projects / services and independent contractors.

Aberdeen Insights — Strategy: Centralizing Management of the Contingent Labor Umbrella

With the notion of the contingent labor umbrella firmly in the minds of organizations around the globe, the stage is set for companies to enact stronger processes and efficient strategies around their management of SOW-based projects / services and independent contractors. One key component of the Best-in-Class contingent workforce program is centralized management of contingent labor attributes.

The evolution of contingent labor translates into a requirement for organizations to gain visibility and control over their short- and long-term projects that are currently leveraging contingent labor. Aberdeen research has found that Best-in-Class companies are more likely than all other organizations to centrally-manage the key attributes of the contemporary contingent workforce. Best-in-Class companies are:

- 50% more likely than all other companies to centrally-manage services and services procurement
- 44% more likely to centrally-manage SOW-based projects
- 37% more likely than all others to centrally-manage processes around independent contractor utilization

Chapter Two: Benchmarking Requirements for Success

Contemporary contingent labor management translates into an organizational requirement for companies to enact robust strategies and leverage technology solutions to effectively manage all facets of the modern contingent labor umbrella. With corporate focus on the SOW, services and independent contractor subsets, enterprises must follow the Best-in-Class path to contingent labor management success, which includes vigorous data reporting and analytics, as well as a strong reliance on several key enablers, to efficiently gain visibility into companywide projects, boost cost savings, and ensure that all contingent workforce attributes meet or exceed corporate expectations, goals and objectives.

Case Study — The MSP Advantage

For a large North American health / medical services enterprise, contingent workforce management entailed a greater need to drive visibility into both “classic” temporary labor and SOW-based projects, as well as mitigate risks in their utilization of independent contractors.

The company turned to a Managed Service Provider (MSP) to assist with centralization of key contingent workforce processes. The MSP helped to augment control over SOW-based projects and increased visibility into key metrics. “The MSP partnership has accomplished many of our desired objectives, as well as moving us beyond our original expectations, and helping us to achieve an increase in efficiencies and cost savings,” said the senior vice president of human resources and talent management.

The MSP solution has had a direct tie to the company’s operational performance within the contingent workforce program, such as a 95% rate of temporary workers meeting / exceeding pre-defined goals and objectives, a 91% rate of compliance to federal and regulatory policies concerning independent contractors, and over 20% cost savings on contingent labor spending.

Fast Facts

- √ Best-in-Class companies are 41% more likely than all other companies to institute collaborative sharing of information and data pertaining to SOW-based projects and services
- √ 85% of Best-in-Class organizations are currently leveraging project milestone and delivery date data to improve their management of SOW-based projects and services

Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (the approaches they take to execute daily contingent labor management operations); (2) **organization** (corporate focus and collaboration among stakeholders); (3) **knowledge management** (contextualizing contingent labor data and exposing it to key stakeholders); (4) **technology** (the selection of the appropriate contingent labor management tools and the effective deployment of those tools); and (5) **performance management** (the ability of the organization to measure its contingent labor management

results to improve its business). These characteristics (identified in Table 3) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

Table 3: The Competitive Framework

	Best-in-Class	Average	Laggards
Process	Standardized processes for management of SOW-based projects and services		
	75%	38%	17%
	Proper onboarding / offboarding of all contingent workers		
	74%	60%	44%
Organization	Collaborative sharing of information regarding SOW-based projects / services and independent contractors		
	57%	30%	16%
Knowledge	Visibility into all contingent labor subsets		
	76%	37%	17%
	Real-time SOW project portfolio		
	53%	28%	23%
	Contingent labor management solutions in place:		
Technology	<ul style="list-style-type: none"> ▪ 80% Vendor Management System (VMS) ▪ 79% Managed Service Provider (MSP) ▪ 70% Recruitment Process Outsourcing (RPO) ▪ 37% business intelligence system ▪ 30% Independent Contractor Engagement Specialist (ICES) 	<ul style="list-style-type: none"> ▪ 45% Vendor Management System (VMS) ▪ 39% Managed Service Provider (MSP) ▪ 34% Recruitment Process Outsourcing (RPO) ▪ 27% business intelligence system ▪ 20% Independent Contractor Engagement Specialist (ICES) 	<ul style="list-style-type: none"> ▪ 33% Vendor Management System (VMS) ▪ 36% Managed Service Provider (MSP) ▪ 24% Recruitment Process Outsourcing (RPO) ▪ 14% business intelligence system ▪ 11% Independent Contractor Engagement Specialist (ICES)
	Contingent labor management performance-tracking capabilities:		
	<ul style="list-style-type: none"> ▪ 71% reviews / monitoring of contingent labor compliance 	<ul style="list-style-type: none"> ▪ 60% reviews / monitoring of contingent labor compliance 	<ul style="list-style-type: none"> ▪ 37% reviews / monitoring of contingent labor compliance

Source: Aberdeen Group, April 2011

Capabilities and Enablers

Best-in-Class organizations have demonstrated a strong reliance on specific process, organizational, knowledge management, performance management and technology capabilities/enablers to effectively streamline contingent labor management processes and drive value out of their reliance on temporary labor, SOW-based projects and services, and independent contractors.

Process: Standardization and Onboarding / Offboarding

Standardization has long been a Best-in-Class component in corporate spend management. Standardization in contingent labor management, however, reveals a much more complex series of processes. Standardized processes for management of SOW-based projects and services, in place in 67% more Best-in-Class companies than all others, ensures that enterprise-wide projects are managed and executed utilizing a specific set of guidelines and processes, including reviews of supplier agreements and SLAs, project milestones, and other measures to keep projects and services on budget.

Onboarding and offboarding have long been aspects of effective talent management. In the contingent labor realm, these process capabilities help protect intellectual property, verify that contingent workers have handed in security badges and access keys prior to project completion, and provide visibility into who exactly is working within the firm as part of a SOW-based project or service. Best-in-Class companies are 26% more likely than all other organizations to effectively institute onboarding and offboarding processes in their contingent labor management programs.

Organization: Information-Sharing from the Umbrella

The modern contingent labor program has become a multifaceted string of sub-categories that comprises a significant portion of not only the total enterprise workforce, but also a bulky segment of corporate spending. A contemporary approach to this arena involves intelligence derived from the extraction and analysis of key data elements.

With various SOWs tied to projects, services and contractors across the organization, it is crucial for departments involved in leveraging these temporary workforce attributes to freely share data and information regarding project delivery dates, performance against objectives / expectations, and potential instances exceeding pre-determined budgets. Best-in-Class companies are 41% more likely than all other companies to have this organizational capability in place.

Knowledge Management: Real-Time Visibility

As detailed in the previous chapter, visibility is a cornerstone of modern spend management; in the contingent labor category, there are several key components beyond financial avenues where organizations must have visibility to maximize the value of the contingent workforce and avoid the common risks associated with temporary labor. Visibility into all aspects /

“We’ve undergone a consolidation of contingent labor programs under one MSP umbrella. There’s a continued focus at our company on expanding the MSP program for SOW-based work.”

~ Procurement Manager, Large
Pharmaceutical Manufacturer

subsets of contingent labor, in place in 60% more Best-in-Class organizations than all others, can provide true intelligence into usage of specific contractors and services and ensure that all projects leveraging contingent labor are meeting goals and adhering to compliance policies.

Real-time project portfolios allow executives and program heads with a clear view into the enterprise-wide collection of past and current SOW-based projects. Execs can also identify major suppliers, analyze financial aspects, monitor timing items and milestones, view project deliverables and track project expenses, all in an effort to understand the full scope of projects in development across the corporate spectrum. Best-in-Class companies are nearly 50% more likely than all other organizations to have this capability in place in their contingent labor management programs.

Performance Management: The Compliance Factor

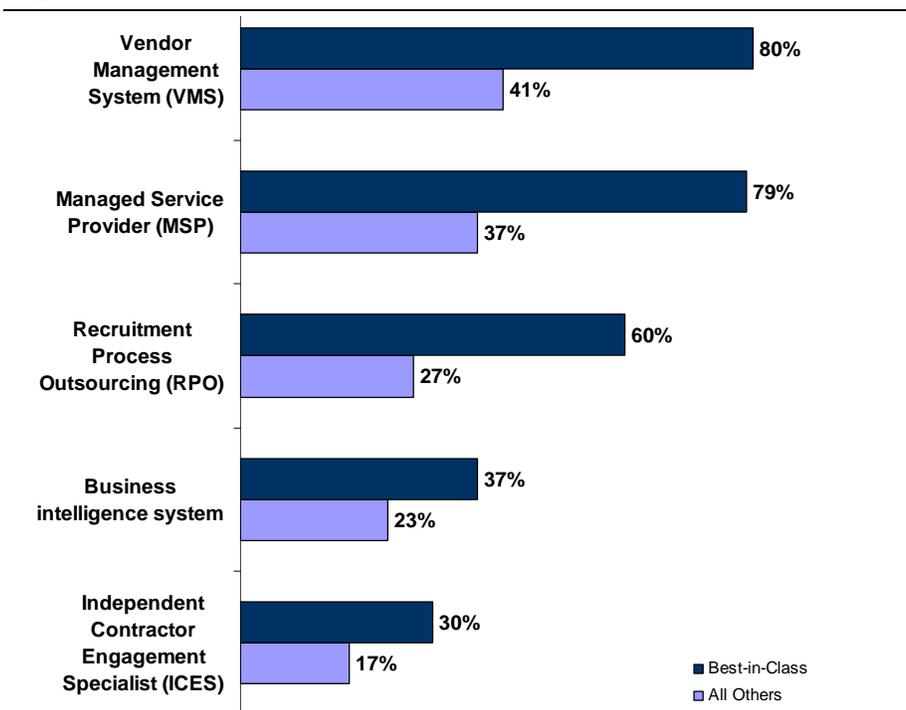
A frequent occurrence in the world of independent contractor management, many high-profile cases have hit the newswire over the past decade with regard to co-employment. Leveraging ICs to complete short-term and project-based work often seems like a cost-effective and flexible way of achieving business objectives, however, misclassification of the contractor and corporate relationship can result in Sarbanes-Oxley violation, federal audits and fines, or even class-action lawsuits.

Best-in-Class companies are 25% more likely than all other organizations to actively engage in monitoring and reviews of independent contractor compliance, a factor which surely speaks to their 42% higher rate of compliance than their peers. These top performers are avoiding the risks associated with managing independent contractors and consultants, while consistently driving value out of this contingent labor sub-category.

Enhancement Solutions for Modern Contingent Labor Management

The contemporary contingent workforce program could not exist without enhancement via third-party technology enablers and solutions. As indicated in Figure 7, Best-in-Class organizations have heavily-leveraged these solutions to enhance their existing contingent labor management processes and programs.

Figure 7: Best-in-Class Solution Utilization



Source: Aberdeen Group, April 2011

Technology enablers and solutions are core components of the Best-in-Class contingent workforce program. By utilizing the solutions detailed in Figure 7, these organizations have greatly-enhanced the processes around management of SOW-based projects and service, temporary labor, and independent contractors:

- Vendor Management Systems (VMS), in use in nearly 50% more Best-in-Class companies than all others, have historically automated the supplier selection and management processes of contingent labor. However, VMS solutions have evolved along with the greater contingent labor category, offering a single, robust platform for managing all facets of contingent labor, specifically SOW-based projects and services. VMS technology also enables organizations with a centralized portal that contains data around service categories, project milestones, project expenses, and other dashboards for gaining true contingent workforce intelligence. Aberdeen research has found that companies currently leveraging VMS solutions have experienced a nearly 20% higher frequency of temporary workers achieving pre-defined goals and objectives than companies not currently utilizing VMS solutions, as well as a 15% higher frequency of SOW-based projects and services achieving pre-defined goals and objectives.
- Best-in-Class companies are 53% more likely than all others to utilize Managed Service Providers (MSP), a solution that serves as a

“Through our MSP relationship we have gained more efficient operations while increasing quality and reducing costs as well as gaining a jump-start on new projects and organizational initiatives.”

~ EVP of Talent Management,
Mid-Market Health / Medical
Enterprise

central access point for internal hiring managers, staffing vendors and suppliers, and independent contractors. The consultative nature of MSPs can help drive visibility into all aspects of the contingent workforce while reducing risks and optimizing processes within the greater contingent labor program. Users of MSP solutions have experienced a 20% higher increase in total workforce efficiency than companies not currently utilizing MSP solutions, as well as over 10% higher cost savings on contingent labor spending.

- Independent Contractor Engagement Specialists (ICES) are specialized solutions that assess independent contractor relationships against IRS guidelines and offer W-2 employment to fully-mitigate co-employment risks. ICES solutions also automate analytics and visibility aspects by offering a portal for executives to view project milestones, expenses and timelines. Best-in-Class companies are 43% more likely than all others to utilize an ICES solution. Aberdeen research has found that users of ICES solutions have achieved a 56% higher rate of independent contractor compliance than companies not currently utilizing this enabler.

“MSP and VMS solutions have brought visibility to our contingent workforce spend, standardization of key processes, and the ability to measure the quality of services.”

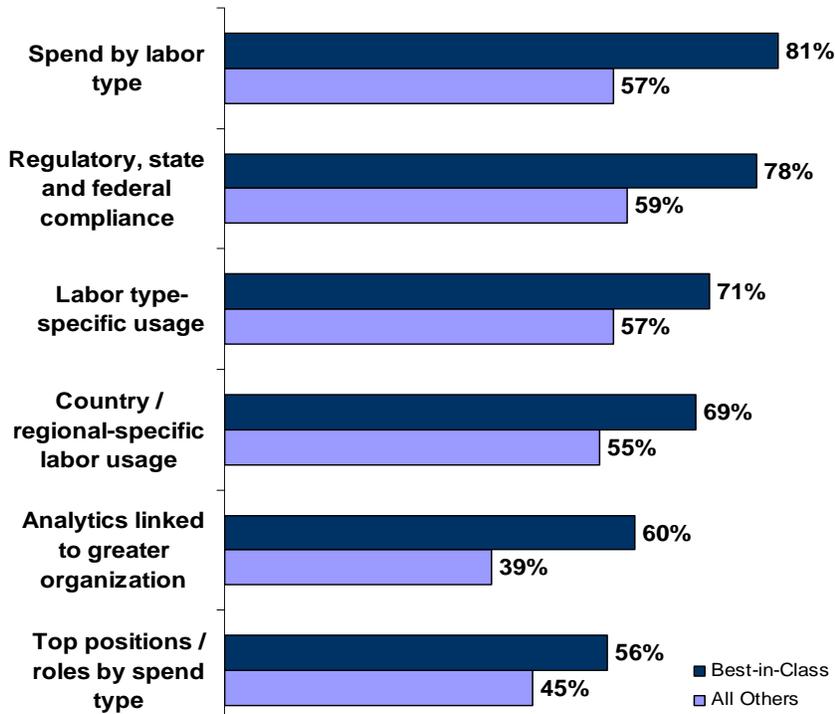
~ Chief Procurement Officer,
Large Pharmaceutical
Manufacturer

Best-in-Class companies are also relying on Business Intelligence (BI) systems to supplement their contingent workforce management efforts. In an age of innovation and evolution within the contingent labor category, data analytics and reporting are crucial measures in gaining intelligence and visibility into the complexities of the modern contingent labor umbrella.

Analytics in Modern Contingent Labor Management

While Best-in-Class organizations are currently relying on both classic and novel approaches to managing their contingent workforces, no other arena can provide true intelligence into usage of SOW-based projects, services and contractors quite as vigorously as data analytics and business intelligence systems (Figure 8).

Figure 8: Contingent Labor Aspects Captured via Data Analytics and Business Intelligence Systems



Source: Aberdeen Group, April 2011

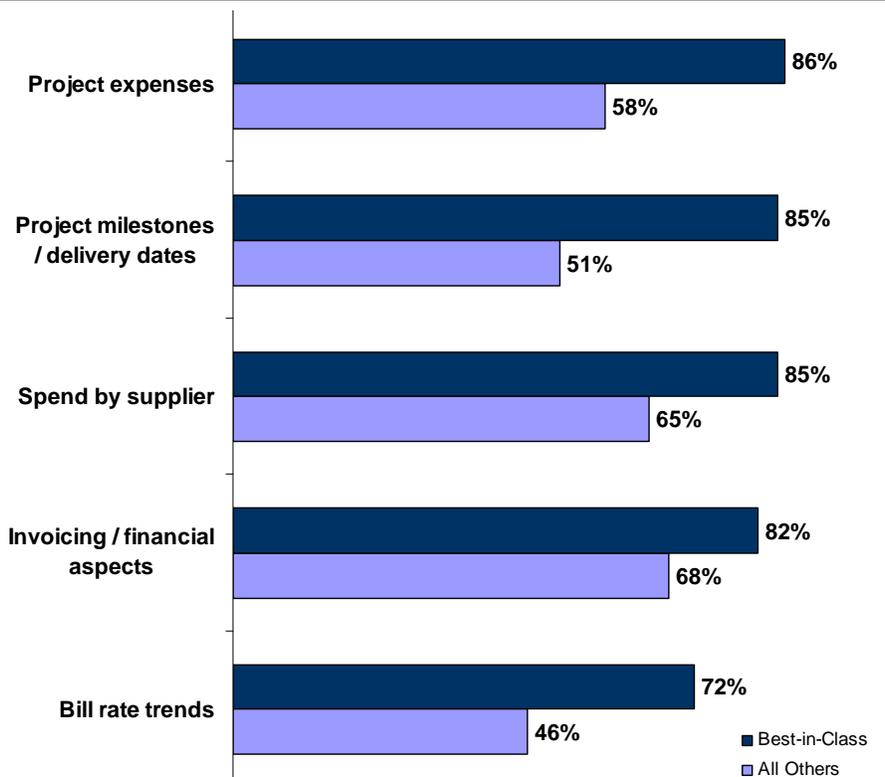
With visibility as a prime priority in this new decade, it has become critical for companies to leverage existing information within their contingent workforce programs as a means of driving intelligence. Best-in-Class organizations are actively capturing specific aspects of contingent labor intelligence via data analytics and business intelligence:

- Data around spending by labor type (81%) can help executives hone in on the areas that are receiving top financial attention and help align processes with specific components of the contingent labor umbrella
- Data concerning federal, state and regulatory compliance (78%) is critical for executives who are concerned with the many risks in leveraging independent contractors and consultants. It is critical for organizations to have a clear view of potential relationship violations and instances of labor non-compliance.
- By linking analytics to the greater organization (60%), Best-in-Class companies have given their executives (and the C-level suite) visibility into utilization of contingent labor and how milestones and delivery dates of SOW-based projects are linked to operational and corporate performance.

Data analytics and business intelligence capabilities are also critical measures for managing the SOW component of the contingent labor umbrella. As

indicated in Figure 9, Best-in-Class companies are capturing SOW-specific data aspects as part of their greater contingent workforce programs.

Figure 9: SOW-Specific Aspects Captured by Data Analytics and Business Intelligence Systems



“At our company, there’s been an increase in analysis and trending with specific focus on cost-associated benchmarking of contingent labor and reduction of costs.”

~ Director of Quality Control,
European Telecommunications
Services Company

Source: Aberdeen Group, April 2011

The modern contingent workforce dictates a wide range of complexities, and with companies now focused on SOW-based projects and services as the premiere component of the contingent labor umbrella, it has become vital for organizations to gain true visibility and intelligence within this sub-category of temporary labor spending. Best-in-Class companies are actively capturing and leveraging data around project expenses (86%) to firm up financial management of SOW-based work, and are also utilizing analytics to gain visibility into project milestones and delivery dates (85%) to ensure projects are staying on-time and on-budget.

Best-in-Class organizations have also utilized analytics to track project spending by supplier (85%), a factor which allows these top companies to understand the full scope of project and services spending across the entire corporation. This information can be used to negotiate better rates with key suppliers and spot spend trends / patterns.

Aberdeen Insights — Technology: The Future of Contingent Workforce Management

Technology enablers and solutions are often seen as supplements to proper spend management. In the contingent labor realm, these solutions are often what breeds success within a company's contingent workforce. As detailed earlier in Chapter Two, Best-in-Class companies are readily-relying on key technology enablers and solutions, such as VMS, MSP and ICES, to complement their respective contingent workforce programs and add a sense of efficiency for proper visibility and control over the attributes under the contingent labor umbrella.

The future of contingent workforce management sees VMS and MSP solutions continuing to enhance existing contingent labor processes, especially in the wake of organizational attention and focus over SOW-based projects and services.

When looking at users of VMS and MSP solutions, it is clear that these enablers have helped organizations not only supplement the programmatic approaches to contingent workforce management, but also enhance inherent complex processes:

- MSP users are over 47% more likely than companies not utilizing MSP solutions to have the ability to forecast use of contingent labor to accurately forecast and budget for corporate planning
- Companies currently leveraging VMS solutions are nearly 40% more likely than organizations currently not using VMS technology to have visibility into SOW-based project and services, as well as independent contractors and temporary staffing

Chapter Three: Required Actions

Modern contingent labor management calls for a wide scope of capabilities, strategies and solutions to effectively streamline processes that are part of the present-day contingent labor umbrella. Organizations must look to improve their management capabilities of temporary labor, SOW-based projects and services, and independent contractors to derive value out of their contingent workforce. In order for those companies to reach a Best-in-Class level of performance, they should leverage the following recommended actions:

Laggard Steps to Success

- **Implement an internal review process for evaluating independent contractor relationships and gauging compliance.** Co-employment and federal audits are viable risks when leveraging independent contractors. An internal review process for measuring compliance against federal and regulatory regulations, in place in over 38% more Industry Average organizations than Laggards, can help companies continue to utilize the strategic flexibility of independent contractors while mitigating potential risks.
- **Standardize all processes related to management of SOW-based project and services.** SOWs represent a prime area of organizational focus moving into a new decade of contingent labor management. SOW-based projects are linked to corporate financial performance, thus it is critical for Laggard companies to implement standardized processes for this component of the contingent labor umbrella. Industry Average organizations are nearly 40% more likely than Laggards to have this capability in place, which ensures that projects and services stay on budget and adhere to company policies.
- **Centralize management of all sub-categories of contingent labor.** The modern contingent workforce involves a series of complex components that fall under the greater contingent labor umbrella. Disparate management of these areas can result in projects exceeding budget, non-compliant instances of business and contractor relationships, and a lack of visibility into agreements with services providers. Centralized management of these attributes, in place in 65% more Industry Average organizations than Laggard enterprises, can drive intelligence around all contingent workforce aspects and help companies mitigate risks, drive savings, and ensure SOW-based projects are completed to expectations.

Fast Facts

- ✓ Industry Average organizations are nearly 40% more likely than Laggards to standardize all processes related to SOW management
- ✓ Best-in-Class companies are nearly 30% more likely than Industry Average organizations to utilize analytics to track project milestones and delivery dates

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Industry Average Steps to Success

- **Leverage Vendor Management System (VMS) technology to gain visibility into enterprise-wide SOW-based projects and services.** VMS solutions have evolved to help companies automate management of specific service categories and projects that are tied to SOWs, as well as provide data analytics and dashboards for gaining intelligence around corporate projects, services, supplier agreements, and project costs. Best-in-Class organizations are 44% more likely than Industry Average enterprises to leverage VMS solutions.
- **Utilize data analytics and business intelligence systems to capture and analyze data pertaining to project milestones and delivery dates.** SOW-based projects are built off agreements that detail specific delivery items over a tight calendar; without capabilities to properly track milestones and dates, a failure to meet project objectives can occur, as well as projects exceeding budgets. Best-in-Class companies are nearly 30% more likely than Industry Average organizations to utilize analytics to track project milestones and delivery dates.
- **Look to Managed Service Providers (MSP) to enhance contingent workforce processes and centralize management of all contingent labor umbrella aspects.** MSPs have been linked to gains in operational efficiency across the scope of contingent workforce management, and can centralize processes regarding management of temporary labor and independent contractors. Industry Average companies should follow Best-in-Class enterprises (which are 54% more likely to utilize this type of solution) and leverage MSPs to effectively manage all facets of the modern contingent labor umbrella.

“The SOW component is becoming an area by which there is a clear opportunity for savings through better management.”

~ Vice President of Operations,
Large Telecommunications
Services Company

Best-in-Class Steps to Success

- **Align contingent labor activities and processes with the goals and objectives of the greater organization.** While 58% of Best-in-Class companies are currently instituting this type of alignment between the contingent workforce and the greater organization, these top performers can reach an unparalleled level of success by further aligning aspects like project data analytics, bill rate trends and services agreements with activity in the offices of the CFO and COO.
- **Increase utilization of Independent Contractor Engagement Specialists (ICES) to improve management of independent contractors.** ICES solutions remain on an upward trend in usage for Best-in-Class companies as compared to last year (10% increase in usage from 2009 to 2010, and 22% increase in usage from 2010 to 2011), and although these top performers have achieved an 84% rate of contingent labor policy compliance, there is

room for improvement. ICES solutions can improve IC management aspects and help further mitigate the risks of co-employment, labor violations and federal audits.

Aberdeen Insights — The State of Contingent Workforce Management

The current state of contingent labor and contingent workforce management builds off a notion detailed in last year's [Contingent Labor Management](#) research study (June 2010). The contingent labor umbrella has encompassed a complex series of temporary workforce attributes that all must be managed effectively to avoid potential risks, balance financial aspects, and drive true quality out of the short- and long-term projects within the greater organization that utilize contingent labor.

SOW-based projects and services are a “new frontier” of corporate management; these areas of the contingent labor umbrella have historically been linked to poor visibility, leaving the enterprise open for a variety of internal risks that include compliance and federal violations concerning independent contractors, as well as projects exceeding budget due to a failure in accurately tracking milestones and delivery dates.

The contemporary contingent workforce program calls for centralized management of all contingent labor subsets and an enhancement in processes via technology enablers and consultative solutions (such as VMS, MSP, and ICES) and a robust presence in the field of data analytics and business intelligence to not only drive value out of SOW-based project and services, but also leverage the flexibility of contingent workers while mitigating risks, staying on budget, and gaining visibility into these arenas of complex spending.

Appendix A: Research Methodology

Between March and April 2011, Aberdeen examined the use, the experiences, and the intentions of more than 200 enterprises using contingent labor in a diverse set of enterprises.

Aberdeen supplemented this online survey effort with interviews with select survey respondents, gathering additional information on contingent workforce strategies, experiences, and results.

Responding enterprises included the following:

- **Job title:** The research sample included respondents with the following job titles: manager (36%); director (25%); VP / EVP / SVP (15%); C-level / executive office (6%); and others.
- **Department / function:** The research sample included respondents from the following departments or functions: procurement, sourcing or supply chain (72%); finance (7%); business development (5%); operations (5%); IT (4%); and others.
- **Industry:** The research sample included respondents from the following industries: manufacturing (11%); public sector (10%); utilities (10%); IT (9%); financial services (8%); food and beverage (5%); and 25 others.
- **Geography:** The majority of respondents (62%) were from North America. Remaining respondents were from the following regions; Europe (24%); Asia / Pacific (8%); Middle East and Africa (4%); and South / Central America (2%).
- **Company size:** Sixty percent (60%) of respondents were from large enterprises (annual revenues above US \$1 billion); 24% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 16% of respondents were from small businesses (annual revenues of \$50 million or less).
- **Headcount:** Seventy-two percent (72%) of respondents were from large enterprises (headcount greater than 1,000 employees); 17% were from midsize enterprises (headcount between 100 and 999 employees); and 11% of respondents were from small businesses (headcount between 1 and 99 employees).

Study Focus

Responding executives completed an online survey that included questions designed to determine the following:

- √ The degree to which contingent labor management is deployed in their retail operations and the financial implications of the technology
- √ The structure and effectiveness of existing contingent labor management implementations
- √ Current and planned use of contingent labor solutions to aid operational and promotional activities
- √ The benefits, if any, that have been derived from contingent labor management initiatives

The study aimed to identify emerging best practices for contingent labor management, and to provide a framework by which readers could assess their own processes and capabilities.

Table 4: The PACE Framework Key

Overview
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p>Pressures — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p>Actions — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p>Capabilities — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)</p> <p>Enablers — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, April 2011

Table 5: The Competitive Framework Key

Overview	
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</p> <p>Best-in-Class (20%) — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</p> <p>Industry Average (50%) — Practices that represent the average or norm, and result in average industry performance.</p> <p>Laggards (30%) — Practices that are significantly behind the average of the industry, and result in below average performance.</p>	<p>In the following categories:</p> <p>Process — What is the scope of process standardization? What is the efficiency and effectiveness of this process?</p> <p>Organization — How is your company currently organized to manage and optimize this particular process?</p> <p>Knowledge — What visibility do you have into key data and intelligence required to manage this process?</p> <p>Technology — What level of automation have you used to support this process? How is this automation integrated and aligned?</p> <p>Performance — What do you measure? How frequently? What’s your actual performance?</p>

Source: Aberdeen Group, April 2011

Table 6: Relationship Between PACE and the Competitive Framework

PACE and the Competitive Framework – How They Interact
<p>Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</p>

Source: Aberdeen Group, April 2011

Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- [Contingent Labor Management: Strategies for Managing the Complexities of the Contingent Labor Umbrella](#); June 2010
- [Contingent Labor Management: Best-in-Class Contingent Workforce Strategies for 2010...and Beyond](#); October 2009
- [Driving Contingent Labor Performance Through Managed Service Providers](#); September 2009
- [VMS: Vendor Management Success](#); April 2009
- [The CPO's Agenda 2009: Smart Strategies for Tough Times](#); April 2009
- [Contract Labor Management: Superior Workforce Strategies for a Demanding Environment](#); January 2009
- [Technology: The Pathway to Contract Labor Savings](#); November 2008
- [CPO Rising: The CPO's Agenda for 2008](#); February 2008
- [Contract Labor Management: Permanent Solutions for Temporary Workers](#); January 2008
- [Contract Labor and Professional Services](#); April 2007
- [The Contract Labor Benchmark Report](#); August 2006

Information on these and any other Aberdeen publications can be found at www.aberdeen.com.

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