

Supply & Demand Chain

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The Trick to Vendor Management Systems

By Gary Wood

Get more out of your company's vendor management system by merging the interests of the human resources and procurement departments. Here's how.

Progressive corporations that have used the Internet to electronically procure materials to build their products are now doing likewise with workforce planning or services, especially with information technology (IT) consultants, which is usually the most expensive type of contract labor.

The analyst firm Gartner Group foresees growing demand for services procurement applications, with 30 percent of Fortune 1000 enterprises using a services procurement solution by 2007. Furthermore, the Bureau of Labor Statistics predicts that the number of temporary workers will increase by 49 percent from 2000 to 2010, compared to a 15 percent increase expected in permanent workers during that time.

Many companies are considering e-procurement tools that include a vendor management system (VMS), either as a stand-alone solution or embedded in a larger e-procurement toolset. Some reports show that 30 percent of the Fortune 100 already use VMS, or are in the midst of assessing proposals regarding VMS solutions. It is clear that many more will be analyzing and planning to implement VMS as a cost saving tool over the next few years.

Though there are several VMS implementation business models, one of the more popular employs a managed services provider (MSP) as a "partner" to work with the employer to assist or manage the procurement and administration of contract labor. Any other staffing agencies that support the customer also work through the MSP partner.

Fork in the Road for VMS

Though most often positioned as a standalone human resources (HR) solution, vendor management systems are beginning to be packaged and scaled up to a more general services procurement offering, where add on modules accommodate fixed-bid project and request for proposal (RFP) bidding, affirmative action, and other functionality.

At the same time, general services procurement tools are downsizing into specific niches by building modules to perform contract staffing, or acquiring products that offer this functionality, and blending them into their larger products suites.

This merging of capabilities promises to bring to market a whole new series of tools that either manage procurement activity or manage staffing, or both.

This presents a dilemma for the vendor management function/administration. Does VMS become a procurement toolset championed by procurement, or a human capital toolset driven by HR?

The answer is ... it all depends.

Experience shows that companies with priorities that have been driven by cost savings generally put human capital under the domain of procurement. Others focused on diversity programs, affirmative action or other quality metrics allow HR to drive the train. Seldom is the responsibility shared or these two "silos" brought together.

Best of Both Worlds

Though there are often significant obstacles to doing so, companies should seriously consider merging the interests of these two groups. More is to be gained by getting both groups together and working in cooperation. HR's goals are to make sure the company is obtaining a diverse workforce, hiring the best talent and maintaining acceptable turnover levels. HR also works to find the right soft skills, such as cultural fit and communication, not just the hard technical competencies.

Procurement, on the other hand, is often focused on good and fair pricing with a competitive landscape where multiple staffing vendors are working with the client to provide the best possible talent, at the lowest possible cost.

However, a well-formed VMS has the ability to cohesively pull these various characteristics together and satisfy the interests of all parties.

Getting Over the Hurdles

To achieve this type of a "common vision" the project requires executive-level support and sponsorship. Perhaps it comes from a chief information officer or chief financial officer who stands

up at a meeting and says, "We need to come together in a way to reduce costs, but not at the expense of obtaining quality talent or services." This is a critical first step.

Implementation often entails a significant amount of leg-work, and cookie-cutter approaches don't often work in this environment. Each client has a different purchase order (PO) process, a different review process, a different set of vendors and different techniques by which it hires contract talent. A managed services provider, therefore, must come in to the company and diagnose what the company is trying to accomplish, how it is currently conducting temporary staffing, and how that process can be improved through a VMS e-procurement tool. There is no easy way to automate the set up.

There is no question that companies can perform this function internally if they possess enough resources. However, the effort usually requires at least two people totally focused on the project for several months. With downsizing, many HR or procurement departments simply do not have the bandwidth or personnel to spare.

A proper MSP should be able to facilitate the discussions that have to be made between all these departments, including setting up weekly status meetings, developing the necessary specifications and then working with all parties involved to implement them. In the case of a vendor management program, it's a 60- to 90-day process involving appropriate stakeholders who are working to build a program that will both improve cost savings and quality of talent.

A Bright Future

The rapid pace of VMS implementations across the industry is having an impact that validates these trends. A recent survey conducted by the Jordan Group Inc. of client companies with annual revenues ranging from \$300 million to \$50 billion claims organizations have been drawn to VMS programs seeking administrative efficiencies, better control of spend and improved reporting and record-keeping. The survey goes on to state that 53 percent of respondents reported realizing dollar savings from 10 to 15 percent of their total spend for IT contingent labor as a result of their VMS programs.

And for the most part, the VMS are operating with a zero cost to the end client. The same survey shows that 60 percent are being operated with a vendor pay model in which staffing vendors pay the fees associated with implementing the program, training the consultants and vendors, and actual implementation of the software. This cost is borne by the vendors, so there is zero cash outlay typically to the end client. The survey also shows that 63 percent of clients surveyed said the quality was positively affected by vendor management.

In 2003, the human resources, information technology and procurement/finance functions at Dallas-based retailer The Neiman Marcus Group pulled together to add structure and gain control over their company's use of contingent labor.

The solution was a third-party, vendor pay model with Neiman Marcus maintaining responsibility for day-to-day VMS management. The benefits not only included a higher level of management over their use of contingent labor, but executives in all three departments gained better analysis through a wealth of new reports and spend statistics, all available in real time.

All this portends well for a future where VMS is adopted by both procurement and HR departments across enterprises. Only then can the full benefits of VMS be realized for the enterprise.

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SIDEBAR: VMS: Cost Savings Are Here To Stay

First introduced in the late 1990s by and for the staffing industry, VMS is now mature enough and economically sound enough that companies are not going to retreat back to the old ways of hiring contract labor, such as managing staffing procurement through manual processes that include paper-based record keeping, phone calls and faxes.

Without a centralized, automated system in place, most large companies have little idea how many temporary workers they have, how much they are paying them, what their total spend including fees will be and what accrued expenditure is owed to suppliers.

Contract information technology (IT) spending is usually the most lucrative place to start ferreting out cost savings via VMS. IT has evolved into the highest and most complex cost of all contract labor. When the technology sector took off in the late 1990s, fueled by Y2K, the dot-com explosion and an economic boom, it drove the price of technical resources through the roof. That same escalation didn't happen with light industrial or other types of temporary labor during the boom years. Most all VMS users integrate IT labor first, with the intention to bring in other contract labor channels once the technology has been proven to save costs.

The adoption of a Vendor Management solution is often paired with vendor consolidation procedures. One common practice is to use the robust reporting features of VMS systems as a metric in which to evaluate the different vendors of IT staffing, and thus determine which vendors are delivering more high quality candidates and which are under performing (comparing talent resources, engagement durations and turnover ratios).