The Dawn of the Mega

Super-sized operations come with increased challenges

By Jason Ezratty & Christopher Minnick

Managed service providers and those that sell vendor management systems typically define ideal customer prospects as companies with at least $50 million in annual contingent workforce spending.

SNAPSHOT

- Mega programs have unique diversity of management needs, risk losing the personal touch
- Mega often means global, requiring expanded personnel resources, skills
- Headcount and skills mix are more important than spending when evaluating program complexity
- Mega programs often require custom software development
- Fee structures may evolve as programs reach mega stage

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Based on average fees of 2 percent to 3 percent of spending, such a program would yield $1 million to $1.5 million in combined revenue for VMS and MSP software and services.

While ideal, though, those programs are not considered "large" — that term is typically reserved for programs of at least $100 million in spending. At that level, software requirements become more complex, services broaden and deepen, fee percentages reduce, and solution provider executives become generous with priority attention.

REACHING JUMBO SIZE

If $100 million in spending is exciting, then what about even larger programs? Is there a point at which a program achieves mega level?

There are some really huge programs out there — programs with more than 10,000 active traditional temp/contractor assignments and an abundance of technical and professional skills engaged in 12-month assignments or longer. And as it turns out, such large programs are not as unusual as one might think.

Several factors are at play in creating these mega programs. For example, if the definition of the total contingent workforce continues to broaden to include all categories of non-employees, reaching $1 billion in spending becomes more frequently possible.

Program

Another factor at play is the increasing proportionate use of contingent labor across the enterprise. In a down economy, the contingent component is more likely to grow first as the economy hits bottom and starts improving. A third factor is the broadening international scope of contingent workforce programs. Considering the degree of offshoring over the past decade, the numbers can get rather large.

GLOBAL CHALLENGES

The diverse, broad scope, high-volume needs of mega program customers and stakeholders make program expansion and compliance disproportionately more difficult. The complexities are due to a number of characteristics: variety of skills, worker types, state laws, country laws, as well as cultural differences across divisions and different lines of business.

Add to those issues the fact that many mega-size organizations grew through a series of sizable mergers and acquisitions. With operating requirements and styles as disparate as they were the day before they merged, program owners charged with achieving efficiencies and leveraging combined buying-power face many challenges.

"It's not just the dollar number that makes a program mega," says Ben Walker, VP of strategy and analytics for VMS/MSP firm ProcureStaff. "It's also about geographic scope and number of suppliers." Mega companies are more likely to have sales, manufacturing and other business operations in locations all over the world.

International programs must understand and abide by the laws and business cultures of many different countries. Of course, few issues complicate a global program as much as serving internal customers and suppliers that communicate in multiple languages.

Another complicating attribute of a program with vast global coverage is the range of time zones it must serve. MSP personnel must work in shifts and/or spread themselves across multiple, distant locations. And, having such a large number of MSP personnel is likely to require a new layer of specialists and middle-management roles. "Mega programs are more likely to incorporate centralized offsite operations to integrate specialized program support functions," Walker says.

PERSONAL TOUCH

Larger program teams are less likely to develop familiar relationships with hiring managers — hampering their ability to learn the personal preferences of their customers. If seen as just another call-center, some mega program operations run the risk of being inflexible and impersonal, and often deliver inconsistent results.

With contingent headcounts in the range of 10,000, the program team is likely to be responsible for recruiting and onboarding of a broad spectrum of different skills and position types. Mega programs are often seeking the hardest-to-find skills in some of the most technically demanding environments. In addition to differing recruiting specialties, multiple skill types often have different onboarding requirements and different degrees of urgency to quickly fill open requisitions.

Walker contends that in assessing program complexity, headcount and skills mix are more important than spending. "For example, clerical/admin positions may have simpler recruiting requirements, but their higher turnover rate places a heavier burden on MSP resources," he says. Broader and more exacting service expectations increase the skill set required of MSP team members. Furthermore, such broad spectrum and niche skill requirements often results in large numbers of suppliers — often more than a hundred but sometimes even several hundred. Worst of all, having such large headcounts means there's more opportunity for even low-probability risks and issues to occur.

BILLION-DOLLAR PAIN

Mega programs have more opportunity to benefit from differentiated sourcing model approaches by skill and/or by geographic location. Large programs may partition out specific skills, such as clerical/admin or light industrial, to go to the master vendor, leaving MSP-orchestrated competitive bidding to higher bill-rate and harder-to-find position types. Similar to multi-MSP programs on a single instance, those segments of spending that are to be managed by master vendor resources will likely require different workflows, business rules, and the potential for integration to the master vendors applicant tracking system.

Billion-dollar buying power certainly has its advantages; however, it also brings its headaches for client and VMS/MSP supplier(s) alike. Even the largest VMS or MSP companies have only $3 to $5 billion in spending under management. So adding $1 billion to spending would represent an significant increase in transactions. This increase in responsibility can be difficult to scale quickly. However, considering how fragmented most mega programs tend to be, it isn't likely that a VMS/MSP solution provider would be expected to deploy to the full population of potential users all at once.

Even so, the impact of staffing program talent can be deeply disruptive to an MSP company. Resources are often removed from other programs, affecting other customers. Moreover, finding people with contingent workforce management experience can be very difficult. Accordingly, the proven effectiveness of an MSP's training program is an important selection criterion (as is average tenure of MSP resources on a given program team).

Disruptions can be equally unsettling to VMS companies. The diverse workflow requirements demanded by a fragmented user population means the VMS application's program configuration architecture must be able to adapt to multiple sets of rules within a single program instance.

Most VMS applications have established some type of grouping of user types and corresponding rules. Sometimes these groups imply a reporting structure and their approval hierarchy. Sometimes approval levels also imply a level of financial approval authority. Some business rules need to be managed at the job template level, such as how many suppliers are required to be included in a valid competitive bid, or an onboarding check list should be spawned by a requisition resulting from this template and who should it be sent to.

However, higher-level program rules such as maximum tenure and tenure-gap durations also exist. For most programs, a standard set of rules is possible to establish and enforce, however difficult in the first six to 12 months of program operations. At the mega program level, aspirations of uniform standardization are impractical at best, and detrimental at worst. According to Fieldglass CEO Jai Shekhawat, mega programs "may never get to a common config." He says, "Local variations in business practices, regulations and culture make it difficult to enforce a common program configuration across a diverse multinational [workforce]."

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Because it is impossible to account for every possible condition, trigger and desired outcome within a configuration model, mega accounts tend to require custom software development. High priority clients tend to bully their way to the front of the product development pipeline, requiring change management overhead and/or sophisticated modular software testing and release methods.

SPREADING THE WEALTH

According to Shekhawat, "The larger programs become, the more likely they will need a third party to manage them. At that point it is more than a procurement problem, it's a talent management problem." And, as global coverage broadens, the likelihood of mega programs requiring multiple service providers increases. "Having multiple MSPs on the same software instance is something that most VMS suppliers are not capable of," Shekhawat offers. "It makes sense for a truly global program in the current environment where no single MSP sufficiently covers the entire globe."

As it turns out, experience managing one mega program doesn't necessarily provide a working knowledge of what another mega program will require. The more sophisticated requirements of the mega program are must-have features, such as getting multiple programs with multiple currencies to be manageable and reportable from a single program vantage-point.

The great debate on whether VMS and MSP components should come from one or several companies is a healthy one. We firmly believe that circumstances exist proving the virtues of both sides of this argument, requiring objective, case-by-case analysis. However, for the mega program, especially if multiple MSPs are being considered, the argument for segregation begins to make clearer sense — if having all your eggs in one basket is risky, the risk disproportionately multiplies if you have 10 times more eggs. However, as VMS/MSP solution infrastructures grow and mature, segregation will likely wane in importance.

PRICING MATTERS

When spending reaches mega levels, pricing VMS and MSP solution components can be trickier than usual. For one thing, most would agree that $30 million netted from supplier fees of 3 percent on $1 billion seems excessive for most levels of service. Another issue to consider is the large degree of consulting, outsourcing and independent contractor spending, each requiring their own set of software requirements and service levels, and therefore unique analyses of fair pricing. Accordingly, mega programs are more likely to require their VMS/MSP provider(s) to support multiple, conditional fee structures.

Complexities aside, the question of what is fair pricing remains. Of course, as with any pricing exercise, this depends on scope, expectations and risk. Because the parameters upon which percentage of spending based pricing have been surpassed, it is worth beginning with an analysis of cost-plus pricing. This doesn't preclude one from charging suppliers this amount, or more, it simply helps to ascertain a more direct measurement of the value of VMS and MSP software and services.

In our experience, owners of mega programs often don't realize how large they are, or how much leverage their size gives them. However, VMS/MSP revenues show that a mega program is a seismic addition of business to any player. Whether you manage a mega program, or your VMS/MSP solution provider just landed one, the gravity of the mega program is felt by all. Mega programs have entered the VMS/MSP landscape and they are likely to reshape it.

WEB RESOURCES

www.fieldglass.com
www.procurestaff.com

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