



A Tale of Two Companies: Delivering Bottom-Line Procurement Value to Temporary Staffing

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Introduction

Strategic sourcing is never a one-size-fits-all proposition. Every organization is different, and each spend category has its own unique considerations, including category-specific drivers, cost and price trends, supply-and-demand challenges, and potential supply issues and risks.

This whitepaper discusses two practical approaches our clients used when sourcing the temporary staffing category. While this area of spend may have been fully explored in previous strategic sourcing initiatives, don't be too quick to dismiss the familiar. All too often "comfortable categories," such as temporary staffing, deserve a second look and often offer extra saving opportunities. This whitepaper shows how two solutions can be tailored to meet the unique needs and preferences of each organization.

Temporary Staffing as a Category

Temporary staffing has traditionally been a robust, mature category with significant potential to drive savings. During times of economic uncertainty, companies must control costs, remain competitive, and preserve flexibility. As a result, they often look to temporary staffing to assume work that otherwise might have been assigned to traditional full-time employees. Using a contingent

staffing firm for labor management allows organizations to run more efficiently by hiring temporary employees with the right skill level for specific durations of time. This helps companies to run leaner and avoid layoffs by hiring additional employees only when absolutely necessary.

According to Denali Intelligence — a business unit within Denali that provides subscription and custom supply-market intelligence — over the past decade there has been a consistent shift to use contingent labor for professional staffing instead of general labor. Because of market uncertainty, firms resist investing in full-time employees and resort to temporary staffing. And persistent economic weakness is accelerating this trend. Additionally, penetration — the number of firms using temporary staffing — has been rising in the United States, with about one-third of all jobs gained via temporary services, though in Europe that rate is lagging. While unemployment remains high, the presence of a considerably fragmented and competitive labor market is expected to favor sellers and sustain the demand for skilled labor.

The chart below depicts Denali Intelligence's most current data on top global suppliers in the temporary staffing category.

Top Suppliers

The supplier list below was created by analyzing the list of temporary labor solution providers published by **Workforce.com**, **Hoovers** and **Staffing Industry Analysts** as well as research sources, trade associations and industry publications. The focus was on service providers in the US and globally.

Company	Primary Focus	Headquarter Location	Internal Employees	Temporary Staff Base/Day
Adecco	Finance, legal, engineering, technical, information technology (IT), medical, science, sales, marketing restructuring	Cheserex Switzerland	33,000+	700,000+
Manpower	Administrative, industrial, IT, engineering, finance, accounting, Business Process Outsourcing (BPO)	Milwaukee, WI	31,000	9,589
Randstad	Administrative, industrial, technical, BPO, finance, accounting	TC Diemen The Netherlands	605,500	520,000
Allegis Group	Technical, industrial, IT, accounting, finance, sales, legal, HR	Hanover, MD	8,000+	90,000
Kelly Services	Administrative, accounting, IT, legal, science, industrial, healthcare, marketing	Troy, MI	8,200	1,452
Recruit Staffing	Engineering, technical, IT	Tokyo, Japan	5,974	NA
USG People	Large companies active in the public and transport sectors	SK, Netherlands	6,322	NA
Hays	Accounting and finance, construction and property, IT, sales and marketing and education to oil and gas and healthcare	London, England	7,988	NA
Robert Half International	Accounting, legal, technical, finance, creative, clerical, administrative	Menlo Park, CA	11,300	482
Temp Holdings	Clerical, technical, finance, creative, clerical, administrative	Tokyo, Japan	5,061	NA

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Category Solution: Financial Services — Client A

Client A is a \$50 billion financial-services company that provides retail and commercial financial products and services through its regional banking offices. The corporate human resources organization has responsibility for all of the organization's temporary staffing needs. For more than 10 years, the HR team maintained a relationship with a third-party supplier to manage day-to-day operations of its temporary staffing program. The annual spend for this category was approximately \$3 million, with the majority of positions being clerical and administrative. The incumbent supplier managed 95 percent of the organization's temporary staffing needs.

Over the years, Client A's corporate procurement team had planned to review the temporary staffing category. However, competing priorities and resource constraints did not allow it to conduct a rigorous competitive bid. When the chief procurement officer brought in Denali Sourcing Services as its partner, the temporary staffing category gained priority, and the Denali team provided the strategic sourcing resources to manage and lead the initiative.

Denali's recommendation was to conduct a comprehensive strategic sourcing initiative for temporary staffing. A full competitive review would help the project team understand how best to manage this category going forward. Because of the decade-long relationship with the incumbent, the corporate HR team was initially hesitant to consider other suppliers and reluctant to deploy a competitive sourcing project. Denali's team explained that decisions would be made only with the project team's input and that the incumbent would have full competitive consideration.

Prior to issuing the competitive request for proposal (RFP), the Denali team conducted a deep-dive spend assessment and rate analysis. The objective was to understand leading cost

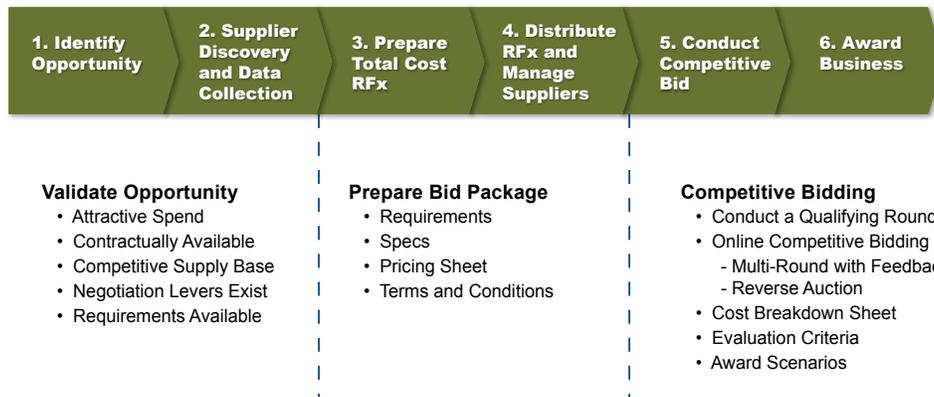
drivers within the existing program. The team also led supplier discovery efforts to identify new staffing providers to include in the sourcing review. The RFP was issued to multiple suppliers, both national and regional, whose service capabilities were similar to the incumbent's. The pricing section was designed to collect two scenarios for the markup rates: 1) blended markup and 2) state-specific markup. Additionally, suppliers were required to provide the markup-rate breakdown, including statutory requirements, overtime and holiday pay, profit, and overhead. By requesting the rate breakdown, the evaluation team was able to better understand the cost buildup that the suppliers would assume for markup rates.

Upon completion of the RFP, the Denali team conducted a cost analysis and, in partnership with Client A's project team, completed a scoring evaluation to rank participating suppliers and determine the down-selected suppliers for in-person presentations. Upon completion of these meetings, the Denali team led multi-round negotiations with finalists.

Throughout the competitive sourcing process, the HR team engaged in discussions with many internal customers across the business units to gauge their satisfaction with the current supplier and temporary staffing program. The HR team learned that many internal customers were unhappy with the level of service and customer support from the incumbent. Additionally, the results of the RFP demonstrated that the incumbent was no longer price competitive and, in fact, had been charging a sizeable markup premium with no adjustments to its rates for many years. In the end, when negotiations were complete and the process was reviewed, the client team decided it was time to switch partners and go with a new provider.

Result: 10 percent annual savings were achieved, realizing \$1 million in savings over three years of contract.

Financial Services - Client followed Traditional Strategic Sourcing Process



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Category Solution: Technology Manufacturing Company — Client B

Client B is a large technology-manufacturing company that has approximately \$1 billion in total revenue, along with \$150 million of addressable indirect spend. The majority of its temporary staffing personnel function in clerical, administrative, and engineering roles. Client B brought in Denali Sourcing Services to rationalize its supplier base and conduct an RFP for its temporary staffing program.

From the start of the engagement, the key stakeholder — human resources — was reluctant to conduct a competitive bid process with its incumbent supplier. Two years prior, Client B's HR department had bid out the category, so it remained confident that the incumbent provider's rates remained current and competitive. There were concerns about disrupting current relationships and day-to-day staffing. Additionally, the department had resource constraints and didn't think it would have time to provide the necessary support during an RFP process, including evaluating suppliers and listening to oral presentations.

Nevertheless, recognizing the benefits of acting this year, Denali developed an alternative project plan. From past experiences, Denali knows that this category carries significant savings potential and that even a one-year delay would represent a lost opportunity to the client. As part of the analysis, Denali conducted a market review employing several available tools, including Denali Intelligence reports. Further review of market conditions indicated a down-turn economy with higher unemployment rates, which also meant an increase in supply and ultimately favorable pricing and leverage for corporations to renegotiate their programs.

Denali reviewed Client B's spending on temporary staffing and recommended an RFP process. However, once Denali understood the client's concerns, it was mutually agreed upon to negotiate with incumbents rather than execute an RFP — with one caveat: the negotiation had to maintain a consistent internal process and establish a quality temporary workforce at a reduced overall cost.

Denali's next step was to analyze Client B's current rates and benchmark them against available market information, which was challenging without RFP data. Denali determined client-specific levers and identified cost drivers, focusing its data analysis on the following:

- Supplier mix/ratio
- Markup
- Pay rate
- Long-term employee discounts
- Volume discounts
- Contingent staffing vs. payrolled resource mix
- Overtime

After a comprehensive analysis, Denali determined that 90 percent of the temporary staffing spend was primarily distributed among three companies and made the recommendation to focus negotiations on these suppliers. Of the three, one (a major nationwide temporary staffing provider) accounted for 80 percent of the spend. This company offers a broad variety of resources and has a good reputation in the industry; hence, it was critical to the success of this project that this provider be willing to negotiate.

The incumbent providers were informed of the CFO's initiative to reduce cost across categories by at least 15 percent and were grateful for the opportunity to provide a proposal.

During the analysis, Denali discovered a trend: the majority of temporary employees work for Client B for more than 12 months, sometimes closer to 24 months. Denali recognized that this would be an opportunity to push this particular cost driver, since margins increase the longer a resource works for a particular client, and most temporary staffing agencies recoup their onboarding cost after 12 months. Therefore, Denali was able to negotiate a tenure discount in which resources would move to the lower payrolled rate after 12 months.

Denali decided not to actively pursue the overtime rate, as it is not a significant cost driver and can be controlled by corporate. While overtime is usually one of the first items that suppliers offer to reduce when cutting expenses, most companies get distracted by a 20 percent markup drop for overtime, which is typically less than one percent of overall spend and doesn't necessarily affect overall savings.

With Client B, Denali was able to accomplish the following:

- Reduced markup across all categories (5 percent)
- Reduced markup for payroll employees
- Reduced pay rate on all new hires (10 percent)

- Locked in tenure discount so that once employees work for Client B more than 2,080 hours, they are treated as payroll employees (applying the lower payroll markup)
- Reduced overtime markup

Result: On a historic annual spend of \$4 million, Denali achieved 12 percent in savings over a two-year contract with the primary supplier.

Technology Manufacturing - Client followed a Tailored Sourcing Process

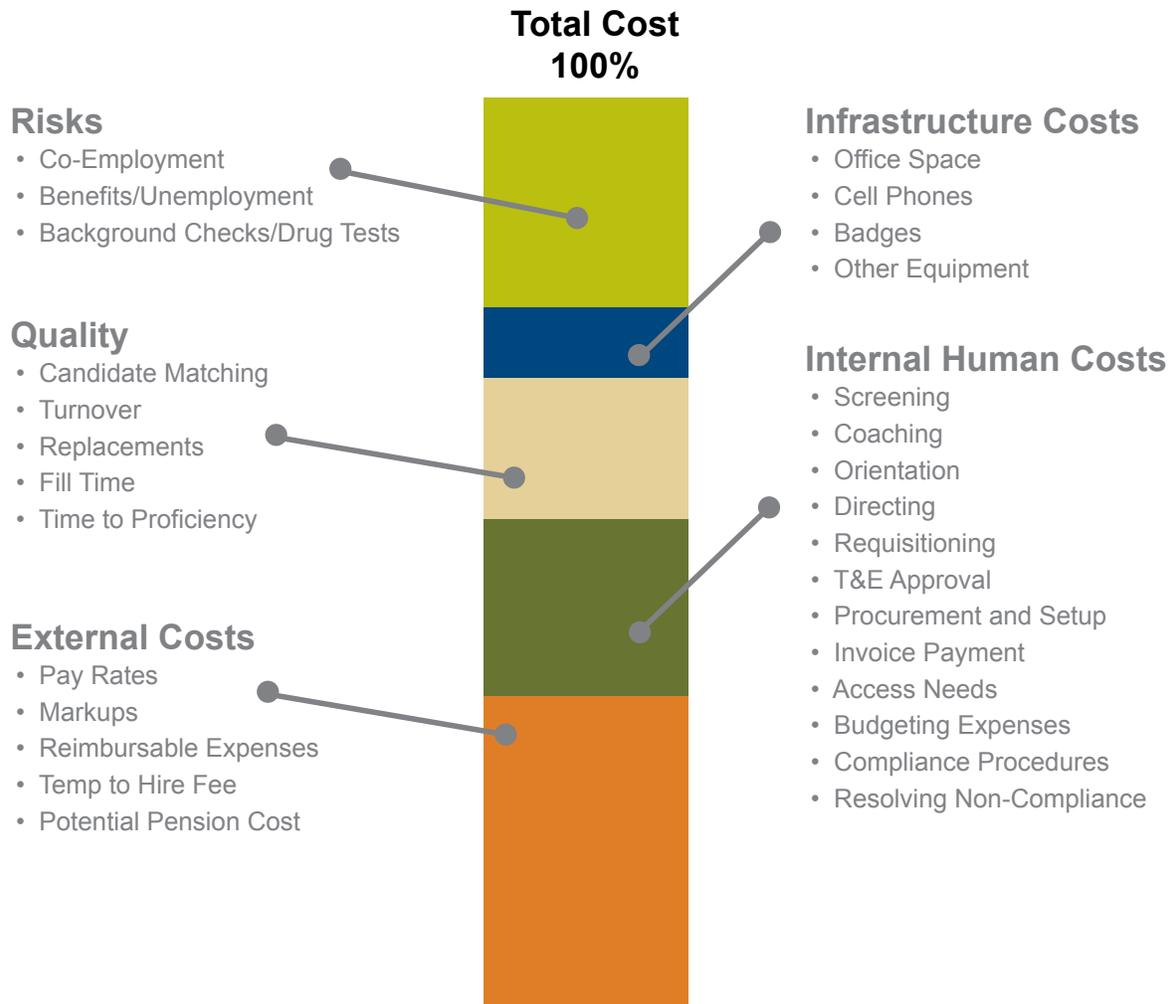


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Best Practice: Examining Total Cost of Ownership

When executing a sourcing project or negotiating contracts around the temporary staffing category, the recommended strategy is to consider the total cost of ownership (TCO). If the organization doesn't have a total cost view — or example, overtime as a small piece of overall spend — it could find itself chasing areas that have little impact or miss opportunities to address areas that could result in more significant savings. The following graphic depicts the total cost breakdown for this particular category.

Contingent Staff TCO Example



Conclusion

This whitepaper highlights the realized savings of executing tailor-made solutions that best fit the needs of the client organization. Through its comprehensive strategic-sourcing methodologies, Denali Sourcing Services was able to partner with skeptical internal stakeholders and identify and deliver cost savings. The result for both client organizations was that each was able to effectively implement a comprehensive category-management process that measurably reduced bottom-line costs.

About Denali - A WNS Company

Denali, a global sourcing and procurement solutions provider, is now a **WNS** (Business Process Management leader) company. Denali – A WNS Company supports Global 1000 companies by offering an array of best-in-class procurement solutions, including Category Management, Analytics, Strategic Sourcing and RFx Management, Supply Market Insights, Contracting, Supplier Management and Procure-to-Pay. With a team of more than 2,000 procurement specialists worldwide, we have helped our clients source and procure more than USD 75 Billion worth of materials and services across direct and indirect spend categories. For more information, you can visit us at www.denaliusa.com. You can also contact us directly at **844.633.6254**.

[Click here](#) for a free temporary staffing opportunity assessment or to find out how Denali - A WNS Company can help you realize savings in your temporary staffing category.