Digital Procurement of Business Professionals

A White Paper

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Introduction

There are many thoughtful, informative documents about digital procurement kicking around these days, but most of them have to do with procuring goods (tables, chairs, lamps, and so on) not people. This white paper focuses on digital procurement issues and solutions as they relate to procuring consulting professionals.

What's the basic problem with procurement?

Companies managing large work forces face the following issues every day:

- The speed of business and the demand for skilled professionals is constantly Increasing.

- The market for skilled professionals is very varied.

- Retaining top-notch staff members is a challenge in today's increasing changing environment.

It's getting harder and harder to complete critical projects in a timely manner because of staffing challenges. The basic problem for most companies when it comes to procuring, retaining, and best employing their contingent workforce is they lack a tool that can manage the process.

This is especially true for large companies where the process is so complex they can only effectively manage it by dedicating large quantities of expensive resources to the task. These resources typically include large staffs and maybe one or more legacy software solutions that barely scratch the surface of automating the procurement process.

The rest of this document discusses in depth the problems facing companies that manage large workforces. Use this as a checklist when shopping for a digital procurement system. If the system you're looking at doesn't solve all the problems that follow you may want to consider continuing your search.

Opportunities Lost in Today's Procurement Process

The inefficiencies in today's professional services procurement process often result in lost opportunities to secure and retain scarce talent. This loss puts any project's chances for success at risk. Considering that well qualified and trained technical professionals are always in demand, it is crucial for organizations to operate at their highest efficiency when it comes to securing talent.

Here are some of the current problems facing companies:

Vendors and companies do not partner effectively – Staffing and then executing key projects is a critical function in all companies. But securing quality talent is not a battle a company or vendors can wage alone. They both must take an active role.

Vendor Role - Vendors play a critical role in supplying qualified candidates quickly in response to a company's needs. When a hiring company identifies a need and then passes a requisition on to its vendor community, it is the responsibility of the vendors to supply candidates that match the skill requirements of the requisition. All too often though, vendors submit candidates to hiring companies who either do not have the skills specified, or their level of proficiency is unacceptable for the position.

Company Role - The organization doing the hiring needs to make sure it provides vendors with sufficient information so the vendors can successfully perform their jobs. Once a vendor submits a viable candidate to a company, the company needs to respond in a timely fashion, or risk losing the candidate to someone else. Any delay in the process, by either side, may result in the best talent finding a position elsewhere. Clear and timely communication is critical to making the process as efficient as possible. Unfortunately some of the procurement solutions currently on the market may actually aggravate this situation.

Retaining the best talent is difficult – Securing the best talent is not the only objective of a company. Retaining this talent is just as important. Industry estimates place the time required for a new consultant to reach the productivity level of an existing consultant at four weeks –longer in more specialized environments. You lose this investment in training whenever a consultant leaves your company. A procurement solution must help you improve your company's employee retention rate.

Lack of information about engaged candidates – Many organizations that use large amounts of contract professionals retain limited institutional knowledge about those professionals. More often than not, the vast size of an organization makes it nearly impossible to collect and share meaningful information about contract professionals.

Organizations realize the value of "knowledge management" for full time employees, but many have no facility for collecting this information for contract employees. Existing systems may have the ability to capture billing information and titles, but finding out what specific skills, training, experience, and knowledge their contract labor pool posses is typically problematic. Not being able to access information about existing contract employees results in redundant efforts, lost time, and lost opportunities.

Slow approval process – Most companies require some sort of managerial and/or financial approval before processing a purchase order for a new position. Even after that initial PO is approved, some organizations require even more approvals before a requisition for new contractor talent is forwarded to the staffing vendors. Once again, this represents wasted time, lost candidates, and lost opportunities.

Dollars Lost in Today's Procurement Process

What economic problems do companies encounter most often when procuring business professionals and what improvements can they realize by optimizing their procurement process? There are many, as described below:

Volume discounts – Many corporations know to negotiate volume discount clauses into their contracts with vendors. The clauses typically specify a percentage discount the company receives when they spend a certain amount with a particular vendor. Purchasing has done their job by negotiating such clauses into the agreement, but unless the company actually harnesses their purchasing power and concentrates their spend, they won't realize the savings. A centralized procurement system lets a company steer hiring managers towards Preferred vendors and track spending levels with those preferred vendors in a more timely fashion. With an effective partnership with Prime vendor's, purchasing / vendor relations staff get a better chance they need to take full advantage of volume discounts.

Prompt pay discounts – Vendors are often willing to offer discounts to companies if the companies commit to paying invoices in an expedient manner. Of course, for a vendor, an expedient manner can be any duration less than the time companies typically take to pay vendors now. In fact one company describes the terms it uses to pay consulting vendors as *net never*. These prompt pay discounts have to be managed efficiently to ensure the process is working correctly.

Typically vendor invoices need to go through multiple levels of approvals and invoice reviews are rarely a priority. A truly automated system might even create the invoice automatically every month, by capturing consultant rate and time card information, interfacing with the company's AP system, and generating a payment for the vendor's service. The ideal automated system would also calculate the early-pay discount.

Consistent rates across the enterprise – If there is a lack of a centralized procurement process, plus the frenetic rate at which companies are engaging business professionals, equals rate inconsistencies across the company. Hiring managers who interface with vendors often negotiate rates on a perengagement basis. Unless the hiring manager has been especially diligent about keeping records of past engagements, and networks with all the other hiring managers who are hiring similar consultants, it is almost impossible to insure consistent rates.

These hiring managers are line managers, business unit managers, project managers, application developers, etc., so they typically do not have the time to partner with vendors. Consequently you may see rate variations of 10-20% for the same individual within the same organization. More efficiently is gained by having a partnering relationship with a few select vendors.

Total Integration with financial systems – Would you install an HRIS that did not integrate with your financial system? How about a business analysis tool that did not talk to your GL? Of course not. In today's environment if your systems do not talk to each other, you don't have a total solution. Maybe you can find the candidates, but do you really want to maintain dual approval hierarchies - one for your goods system and one for your contract help? A procurement tool that integrates completely with your existing systems takes more steps out of your company's process and lets you put your resources to work on more strategic tasks.

Improve cycle time - In the 1970's, companies embarked on an all out effort to capture the money tied up in unproductive areas of their business, such as inventory, raw materials, and works in process. Today, companies again face similar problems. For example, how much money do you have tied up in unfinished projects because you can't get the appropriate staffing resources you need? Studies show that over 50% of IT projects are behind schedule or postponed due to human resource constraints. If it currently takes you four weeks to engage a resource, and automating the process cuts that amount in half, you've recaptured the value of the capital tied up in your work in process.

QC/Retention - How much does a bad hire cost you? What is the value of retaining a consultant that is already familiar with your business? The answer to both of these questions is "more than you think". In the first case, the bad hire not only costs the rate you pay for him or her, which is pure waste, but also the cost of rework, project delays, time wasted in having to hire again, and a disruption to the rest of your project team. It commonly takes four weeks for a consultant to become 100% effective. If you can retain and re-deploy a consultant, you avoid the initial costs associated with training a new hire and get a four-week jump on finishing your next project!

Hidden cost of risk – A potential issue facing organizations that are using contract staffing is co-employment. Briefly, co-employment occurs when contract employees gain rights that are typically accorded only to full time hires. When this happens, suddenly you're faced with unexpected liabilities for benefits, intellectual property issues, breaches of confidentiality, damage or loss of property, and damage to the corporate image. Utilizing a relationship with a small number of select vendors that can incorporate business rules and procedures into a formal agreement can ensure your company isn't entering into a risky situation such as co-employment.

Solving your procurement problems

One possible way to solve your procurement problems is to do whatever you are doing now, just do more of it and do it better. Hire more purchasing people or vendor management staff, train your hiring managers to work more effectively with vendors, implement more rules and policies. This is commonly known as the work harder, faster, smarter solution.

Another solution is to use one of the public job boards or portals that offer staffing Services directly, with no intervention from the vendor. You are now doing digital procurement just by virtue of using the web, but have you solved any of your problems? Unlikely. In fact, you may have made them worse.

In an effective relationship with your staffing vendor, they provide a value-added service to you. They locate professionals, screen them, check their references, and test them. They may also perform administrative functions involved in employing contract staff. If you cut them out of the equation, you assume responsibility for doing those tasks yourself. Most companies are trying to focus on their core competencies, not trying to become expert at everything. If you are counting on the web to solve all of your procurement problems you may be in for a surprise: digital procurement for people is not the same as digital procurement or office supplies.

With people, every purchase is unique, quality varies dramatically from person to person and, supply is limited. With goods, you don't need to sell them on what a great opportunity your company presents. It's also unlikely that some key project will be delayed because a desk lamp is unavailable. Not so with people.

Still another solution, which much companies use, is to outsource all non-strategic functions including procuring people. There are several variations and different names for this solution ("vendor on premise" or "managed staffing services"), but typically they involve contracting out the entire vendor management function.

The advantage to this solution is clear: it's no longer your headache. The disadvantages vary by solution and may not be as clear. If the vendor's systems are no better than yours, you have not achieved any efficiencies or cost savings. If the vendor on premise is bidding on the same projects as your other vendors, you most likely have created a conflict of interest – the proverbial fox guarding the hen house.

The ideal solution would address all of the issues discussed in this document and give you the flexibility to either run the procurement process yourself or outsource it to a third party. Either way, you would realize the benefits of an end to end procurement solution that automates the entire process and integrates with your existing or future systems. You would gain increased control over your vendors, at the same time delivering value to them (they can also benefit from automation). An automated procurement solution would not replace people in the procurement process, but free their time for more productive, meaningful activities.

Last and in this case least, there is the age-old solution of doing nothing. Continue to live with the current manual processes… after all, it was good enough for granddad's generation. But if you decide on the "do nothing" approach, just hope that your competition does the same thing, because if they fix this problem and you do not, you will have much bigger problems to worry about.

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