A 5 step guide to Managed Service Provider (MSP) cost models.

Delivering a smarter way to work »

Enlisting a Managed Service Provider (MSP) to take charge of the supply of contingent workers in your organisation can be an excellent way of bringing this complex category of spend under control.

Contingent workers including temporary labour, contractors and interims are often engaged at line manager level using a variety of recruitment suppliers. This can leave you with a headline spend figure comprised of potentially thousands of transactions but with little or no breakdown of rate cost.

MSP's such as Comensura give you visibility and control of what you're spending on contingent labour and in doing so use their people expertise, process and technology to deliver a wide range of benefits, including:

- Direct and indirect savings
- Risk management
- Process efficiency
- Demand management and workforce planning.

Given that managed service providers can deliver savings, buyers often look to secure their services on a cost neutral basis and many 'first generation' buyers opt for gain-share pricing models – but are these best for your organisation? In this guide we provide insight on which MSP cost models may be best for you.

The 5 key steps cost models for staffing managed services

Step 1
Understanding your starting point

Step 2
Benchmark your current rates against those offered by the managed service provider

Step 3
Establish what you want from the managed service provider

Step 4
Decide which cost model is best for you

Step 5
Ask the MSP to provide their pricing proposals against your preferred cost model and act accordingly

Step 1 – Understanding your starting point

The first thing to bear in mind with contingent labour expenditure is that the majority of your total outlay is paid to cover the worker's wages and for PAYE workers, their statutory costs.

+ + +

The first thing to bear in mind with contingent staffing expenditure is that the majority of your total outlay is paid to cover the worker's wages and for PAYE workers, their statutory costs. For example, if your headline spend figure was £1m and average agency margins were 10%, the addressable cost – i.e. the amount physically paid to an agency as commission – would be circa £90,000. The remaining £910,000 would all be comprised of pay to the worker and other statutory charges.

In order to understand your starting point, we'd recommend that you carry out some analysis of your expenditure to establish:

- Pay costs
- Statutory on-costs
- Margin by job category

You may also wish to contact Comensura at ▸ enquiries@comensura.co.uk as we offer an audit service that estimates this breakdown of charges. In certain circumstances, we may provide this audit free of charge.

Step 2 - Benchmark your current supplier rates against those offered by the MSP

Once you have isolated the margin element and created an understanding of your addressable spend, ask a MSP to provide indicative margins that they would expect to procure at per job category.

The difference between their proposed margins and your current margins therefore represents the cash saving opportunity.

For example, if your current margin/addressable spend is £500,000, and the MSP believes they can reduce this to £250,000 then your estimated gross cost saving is £250,000.

At Comensura we calculate gross savings as part of our audit process.

Smarter simplifies processes

Step 3 - Establish what you want from the MSP

The majority of MSP's offer their service as a 'one size fits all' solution but providers like Comensura offer different options based around unique customer requirements.

We refer to this as our adaptive model. A MSP's physical delivery costs will vary dependent on the model required so it's important that you establish your requirements to avoid paying over the odds.

To help scope your requirements, we provide a free of charge 'white board' session which can be arranged via **enquiries@comensura.co.uk**

Step 4 - Decide which cost model is best for you

There are broadly speaking three cost models used by MSP's:

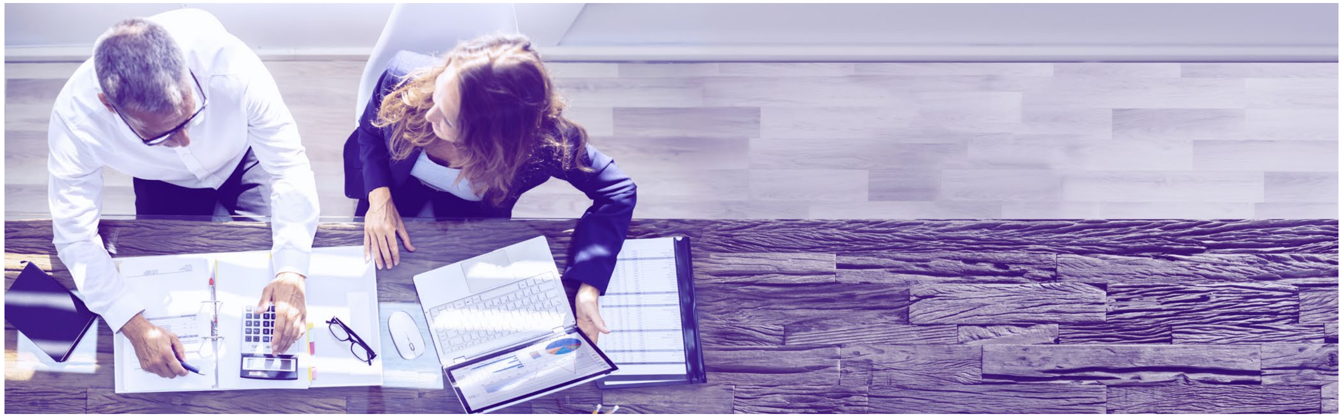
- A gain-share, where the MSP takes their revenue from a share of any savings delivered.
- A flat management fee where a fixed amount is paid to the MSP irrespective of volumes managed.
- A transactional management fee where the total cost varies dependent on the level of contingent staffing usage.

To help you choose which model is best for you, we've provided a summary of each option below. Note that the models could be combined, for example a flat management fee plus an adequately adjusted gain-share arrangement.

Gain-share

A gain-share model means that you do not pay any more than what you are paying at the moment for contingent staff for the MSP's service, and you take a share of any savings delivered. The gain-share model places all risk with the MSP so understandably this will factor into the cost model offered.

For example, if the gross saving is £250,000 as above and the gain-share offered is 50/50, your net savings will be £125,000 and the MSP will receive £125,000 to cover their cost of service.



Flat management fee

If you are confident that the MSP will deliver their stated level of savings, then you may wish to consider a management fee model. The management fee provides certainty of income for the MSP to cover costs and therefore there is no need to factor in risk costs, so may work out as better value than a gain-share.

For example if the gross cost saving is £250,000 as above and then management fee equates to £100,000, then net savings will equate to £150,000.

MSP's would normally expect to bill for this option weekly, monthly or quarterly.

Transactional management fees

Again, if you are confident that the MSP will deliver their stated level of savings, you may wish to consider a transactional management fee. This could either be applied as:

- A percentage fee applied to agency charge rates
- A fixed pence fee applied to agency charge rates

You will need to understand your estimated total annual hours from your audit to assess the total cost of fixed pence fees. For example, if you transact an estimated 500,000 hours per annum, then a 20p management fee will provide £100,000 in revenue for the MSP.

Smarter saves money

Pros and Cons of a Gain-share model

Pros

- Incentivised to deliver savings
- Guaranteed cost neutral and therefore an attractive internal business case

Cons

- Your share of savings may be reduced as the MSP seeks to cover their risks
- Baselines for savings can be difficult to understand

Pros and Cons of a Flat Management Fee

Pros

- Easy to calculate
- Flat fees will deliver greater value if your contingent staffing spend goes up
- MSP not disincentivised if spend goes down

Cons

- The model does not incentivise the MSP to deliver savings
- A flat fee could work out as more expensive if your contingent staffing usage goes down (as a percentage of the total)

Pros and Cons of a Transactional Management Fee

Pros

- Easy to calculate
- Total paid relates directly to overall usage

Cons

- The model does not incentivise the MSP to deliver savings
- MSP income only increases if usage increases

Step 5 - Ask the MSP to provide their pricing proposals against your preferred cost model

Once you have decided on which cost model is most appropriate for your business circumstances and indeed on the type of MSP model that is right for your business, meet with an MSP to discuss your requirements and ask them to provide a pricing proposal.

Meeting with the MSP is a must – it allows the MSP to understand your requirements properly and to price accordingly. MSP's may be reluctant to price for a requirement without having met with you.

For further information, please contact
▸ **enquiries@comensura.co.uk**

Who should I get in touch with?

Please contact:

Aaron Wawman

Sales Director

aaron.wawman@comensura.co.uk

07773 672569

REGISTERED ADDRESS: 800 THE BOULEVARD, CAPABILITY GREEN, LUTON, LU1 3BA.

About Comensura

Comensura is obsessive about delivering a smarter way to work for customers with complex resourcing requirements. We give them access to the contingent and permanent labour they need through a network of specialist recruitment suppliers. Our independent approach helps them resource all their staffing requirements, with efficiency and control at every step.

Comensura is a supply management specialist who manages the supply of temporary, permanent and consultant labour into large organisations in the public, private and not for profit sectors.

Comensura Limited, a wholly owned subsidiary of Impellam Group Plc.

Comensura Ltd, 800 The Boulevard, Capability Green, Luton LU1 3BA