



Part 3: Practical Guide

# Ensuring value for money from your spend on contingent labour.

Effectively managing indirect costs.



# This practical guide is for procurement and human resources professionals with responsibility for managing their organisation's usage of contingent workers.

We hope to provide you with useful insights and tips on how to control your recruitment spend by managing the indirect costs of contingent labour. We will do this by sharing with you some of our extensive experience in the procurement of services and approach to managing the supply of contingent workers into large organisations.

To help you gain greater control of your indirect costs of contingent labour, the key themes we cover in this practical guide are:

1. contract management costs
2. transaction processing costs
3. opportunity costs

Our experience shows that paying attention to these issues can typically result in significant time and resource savings for most large businesses, regardless of their current approach or model to managing contingent labour usage.

In this guide we define the three main areas of indirect costs and provide checklists and calculations for you to quantify them. We have also included some practical steps you can take as well as a **checklist** that you may find useful to help you assess your current approach.



## Further guides are available:

This is part two in a series of three guides that cover the main cost areas of contingent workers:

### 1. Supply costs –

the amount charged by recruitment suppliers including pay rates, fees and other costs.

### 2. Demand costs –

costs related to the internal demand from hiring managers for contingent workers and implementing procedures for assignment authorisations, extensions and cancellations.

### 3. In direct costs (the subject of this guide) –

your internal resources costs, including invoice processing, contract management and the cost of late or unfilled orders and the cost of unproductive workers.

# The starting point: what are indirect recruitment costs?

In the context of contingent labour, indirect costs are not directly accountable to the costs of contingent recruitment, such as the cost of the contingent worker (their wage or salary) and the recruitment agency's margin.

There are three types of indirect costs:

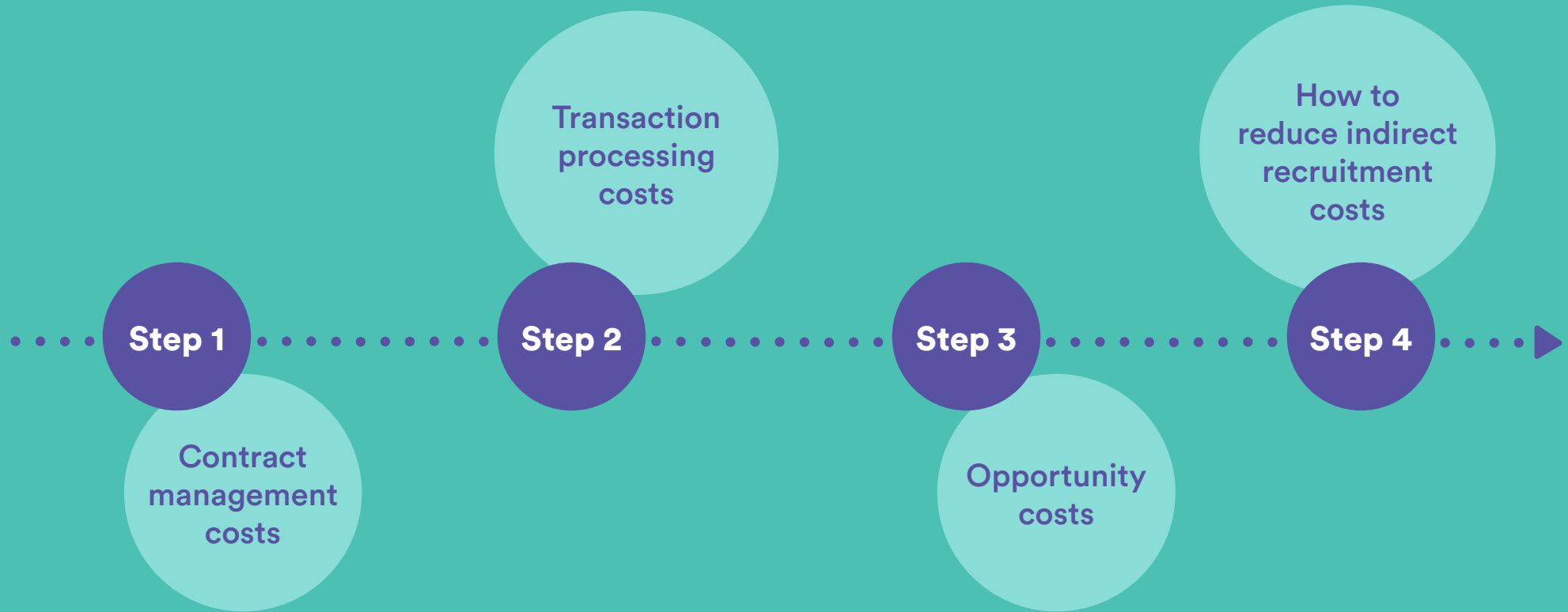
1. **Contract management costs** – which are the resource costs associated with managing the use of contingent labour and recruitment agencies.
2. **Transaction processing costs** – which are regular recurring resource costs associated with transaction handling, such as the time taken to brief recruitment agencies, shortlist candidates, review and approve time-sheets, process invoices, reconcile invoices, manage queries and pay recruitment agencies.
3. **Opportunity costs** – which result from inefficiency or a need to undertake a task again, such as a worker not being as productive as required or a worker leaving an assignment earlier than planned.

“ Do we understand the contract management costs in our business? ”

“ Do we understand the transaction processing costs in our business? ”

“ Do we understand the opportunity costs associated with contingent labour in our business? ”

# The 4 key steps for ensuring value for money.



# Step 1 – Contract management costs.

According to the Aberdeen Group, contract management is:

*“ the process of systematically and efficiently managing contract creation, execution and analysis for maximising operational and financial performance and minimising risk.”*

If you spend a significant amount of money on contingent labour, you should aim for centralised visibility over what is being spent, with whom and for what reason. If you don't, your expenditure will be very hard to control, difficult to account for and you will have increased contract management costs.

The contingent labour category is in many ways unique. It can, and is increasingly procured centrally yet the purchasing of contingent workers is almost always done on an ad hoc, or 'spot purchase' basis. Workers are engaged as and when needed by hiring managers for varying reasons.

This increases the likelihood of varying:

- contingent worker pay rates
- contractual terms with recruitment agencies in areas such as agency margins, payment terms and service levels.

This creates challenges to understand and control contract management costs. Contract management in contingent recruitment is typically managed in one of four ways:

1. By the hiring managers across your business who 'spot purchase' contingent workers and engage with recruitment agencies
2. Through a dedicated internal agency, who may also recruit contingent workers for the business and manage re-deployment
3. Through a Contract Manager or Resourcing Manager employed by your business
4. Through an external organisation, such as a Managed Service Provider



# Step 1 – Contract management costs (continued)

## 1. By hiring managers across your business

It is likely that your contracts with staffing agencies are also being managed on an ad hoc basis. Contract management by the individual hiring manager will add to your overall cost of contract management. Your hiring managers will be less experienced at undertaking this role and while this arrangement does not carry a fixed operating cost, it does require significant amounts of productive time. It is also likely to result in higher margins, variable pay rates, uncontrolled demand, limited visibility and risk which will result in higher costs overall.

## 2. Through a dedicated internal agency

It is likely that in this scenario contract management is centralised within a single function. Fixed operating costs are easier to determine but the internal agency team are less experienced at undertaking this role and it does impact their productive time.

## 3. Through a Contract Manager

Determining the contract management cost in this scenario is easier as there is likely to be a fixed operating cost.

## 4. Through an external organisation, such as a Managed Service Provider

An MSP will manage the range of contract management functions for your business. Plus, the costs of contract management should be easier to quantify. In our MSP, our contract management costs are proportionately lower as we spread these over our total customer base.



# Step 1 – Contract management costs (continued)

## Checklist:

- Who agrees rates and terms with recruitment agencies?  
How much time is spent doing this?
- Who deals with the hiring manager and agency queries?  
How much time is spent doing this?
- How are disputes managed?  
How much time is spent on managing them?
- How much time is taken to track expenditure and financial commitment?
- How long does it take to produce detailed management information?
- How much time is spent on auditing agencies for compliance?
- How much time goes into supplier relationship management?

## Calculating the costs:

- For each stakeholder identified, divide their annual salary by 1,740 to establish an hourly rate.
- Multiply the hourly rate by the total amount of hours spent on each task, or the time that would have to be taken if the tasks are not being carried out at present.
- Multiply by the number of times the tasks are carried out.
- Add together to create the total cost.

1

2

3

4

## Step 2 – Transaction processing costs.

There are a number of tasks, actions and processes associated with acquiring contingent labour which require resource time. The greater the reliance on manual processing, the greater the transactional processing cost of an employee's productive time.

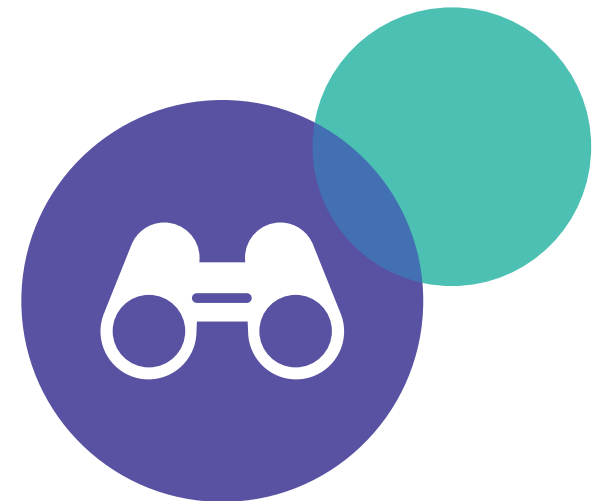
Some processes are easier to analyse than others, such as:

- the time taken to create a job specification for a contingent worker including any internal sign off
- the time taken to brief recruitment agencies on the contingent role(s)
- the time taken to review and approve contingent worker timesheets
- the time taken to review, approve and pay invoices from recruitment agencies.

Other areas are harder to quantify and are quite subjective, such as:

- the time taken to shortlist candidates from a longlist of all that applied
- the time taken to select a contingent worker is role and circumstances specific. It could take a single phone call to appoint a contingent worker or be through a multi-stage selection process including testing, interviews and other assessments
- 're-work' activity, for example having to request a new shortlist of candidates if the list doesn't provide any suitable candidates.

Significant efficiencies can be made through automating transactional processes – timesheet creation and approval as well as invoicing consolidation being the simplest to implement, so it's worth assessing the associated resource costs per Full Time Equivalent (FTE) employee to create the business case. Remember to map out the expected automated process to show the anticipated reduction in inputs.





## Step 2 – Transaction processing costs (continued)

Use the checklist and calculating your costs sections below to give you greater insight into the transactional processing costs across your business.

### Checklist:

- How many contingent vacancies are issued per annum?
- How long does it take to create a job specification?  
Who is involved?
- How much time is taken to brief recruitment agencies?  
(include meetings as well)
- How much time does it take to review and approve a time-sheet?
- How much time is taken by the respective parties to match, batch, code, review, approve and pay invoices from recruitment agencies?

### Calculating the costs:

- For each stakeholder identified, divide their annual salary by 1,740 to establish an hourly rate.
- Multiply the hourly rate by the total amount of hours spent on each task, or the time that would have to be taken if the tasks are not being carried out at present.
- Add together to create the total cost.



## Step 3 – Opportunity cost.

According to the Oxford Dictionary, opportunity costs are:

*“The loss of other alternatives when one alternative is chosen.”*

From a contingent recruitment perspective, it's the activities that could have been undertaken had you not needed to focus on recruiting activity. These opportunity costs have to be taken into account when looking at contingent labour usage to demonstrate potential risks to your business.

Given the 'what if' nature of an opportunity cost it's important to identify things that can go wrong when using contingent labour to establish the cost to the business. You can then establish whether there is a business case for doing things differently.

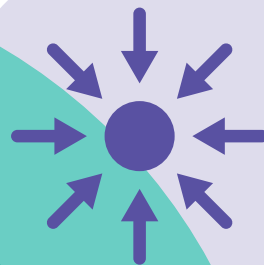
Costs to consider include:

- the time taken to replace a contingent worker who leaves an assignment early
- the shortfall in productivity where a poor hire has been made and any additional time spent on 'making good' the hire, either through additional training or replacing the contingent worker with another
- the time taken to manage urgent contingent staff bookings
- the impact on productivity generated when bookings aren't filled (on time or at all).

Having access to detailed, accurate management information is essential if you want to address these opportunity costs.

Increased productivity has obvious benefits, which can easily be quantified. Conversely, reduced productivity impacts business performance.

If you know how often urgent bookings are made and for what reason, you can start to plan for their likely occurrence and avoid the pitfalls and resource time committed to panic buying.



## Step 3 – Opportunity cost (continued).

Use the checklist and calculating your costs sections below to give you greater insight into the transactional processing costs across your business.

### Checklist:

- Ask a hiring manager how long it takes a contingent worker to become fully up to speed with a role, and what percent effectiveness they carry prior to this point.
- Ask a hiring manager what percentage effectiveness a poor contingent hire delivers
- How much time is spent filling an urgent role?
- What is the impact where bookings aren't filled?

### Calculating the costs:

- Take the full cost and length of an assignment. Minus the cost and time usually associated with getting the worker up to speed. Multiply the percentage effectiveness of the worker over the relevant periods. Subtract this sum from the 100% effective cost to establish the wastage cost.
- Ask the hiring manager how much of their time they spend on managing an urgent booking request



## Step 4 – How to reduce indirect recruitment costs.

Once you've established what your indirect costs look like, try and look at ways of establishing whether they deliver value for money, or if savings and efficiencies can be made.

If your business is heavily reliant on manual processing then look at ways and means of improving costs and efficiency through the use of technology.

### The business case for technology:

- Provide a central record of agency rates
- Provide a central record of terms and conditions in place with agencies
- Provide a single point of order for agency requirements, and a distribution mechanism for orders to approved agencies
- Hold standard job information
- Managing internal authorisation procedures
- Apply organisational codes against user profiles

- Provide an audit trail for dispute and queries
- Produce detailed management information
- Process time-sheets electronically
- Consolidate all approved time and expense records into a single weekly electronic statement or invoice
- Manage agency auditing



# Step 4 – How to reduce indirect recruitment costs (continued).

## Formalising contract management

If you were to ask all of your hiring managers to provide you with detailed information on workers engaged, full breakdown of rates, signed terms and conditions, productive time spent on negotiations and queries, it is unlikely that you would receive a comprehensive response.

Decentralised contract management often creates risk and excessive cost but most importantly is an ‘unknown’ factor which many businesses find uncomfortable.

The introduction of a dedicated Contract Manager via an internal resource or through a managed service will enable your business to take control of this unknown factor and will undoubtedly help to control costs better.

If you are looking to compare costs of an internally provided service and an externally provided service, or evaluate

each for the efficiency gains that they bring, you must assess each function on equal terms. Examine the total cost of each, and the outputs that they create.

If you have an internally provided service, it should be measured by the same KPI’s that you would put in place for an external provider.

## Managing opportunity costs

Establishing a detailed understanding of your contingent workforce is essential if you are to first understand opportunity costs, and then address them.

The easiest way to access this detail is by interrogating management information. As detailed on this page, introducing technology that covers the majority of transactional processes will enable you to access this information far quicker. Plus the information will be more credible as it will have been collected in a consistent manner.



# Can Comensura undertake the hard work for you?

We hope that this guide has provided a significant number of insights and practical tips that will enable you to achieve greater value for money from your recruitment supply chain. You may feel comfortable addressing all of these issues internally but Comensura can undertake all aspects of this on your behalf.

Our discovery audit is a no-obligation service that could enable you to gain a greater understanding of your organisation's current approach to authorising the usage of contingent labour as well as investigating contract management, transaction processing and opportunity costs.

[www.comensura.com/solutions](http://www.comensura.com/solutions)



# Checklist

## Reviewing processes for existing assignments

1. Complete this checklist by reading each scenario and ticking the most appropriate statement - A, B or C.

2. Once complete, count up your scores and enter it into the totals sections

3. Then read the appropriate statement based on whether you mostly scored A, B or C.

### Your scores:

**Mostly A's** - there are lots of good things you are doing so there is a chance to focus on the few areas where you may be missing out on opportunities.

**Mostly B's** - there is room for improvement and possibly a need for greater processes to improve your approach to managing internal demand.

**Mostly C's** - your business may be in need of a fundamental review of the way it manages your internal demand for contingent labour.

	A: Agree	B: Somewhat agree	C: Don't agree or not sure
<b>In general</b>			
Our workforce plans set out the resourcing requirements of each business unit			
We have documented processes for the recruiting of contingent workers			
We know the indirect costs of recruitment in our business			
Our organisation's hiring managers understand the indirect costs of recruitment			
<b>Contract management</b>			
We have a dedicated Contract Manager that works with our chosen MSP or recruitment agency supply chain			
We have an audit and compliance checking process to ensure that all recruitment agencies and the workers they supply are vetted			
<b>Ordering and selecting contingent workers</b>			
Our managers are training on how to effectively brief recruitment agencies			
We have a defined briefing process for contingent workers			
We have documented procedures and defined processes for the ordering of contingent workers			
Our managers are trained on shortlisting, interviewing and selection techniques, including knowing what compliance items are required for each role			
We have documented procedures and defined processes for approving contingent worker time sheets in a timely manner			
We have a low level of contingent worker timesheet error rate in our business			
<b>Invoicing</b>			
We have consolidated invoicing from our recruitment agency supply chain			
We have a low level of invoice error rate from our recruitment agency supply chain			

# 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.

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