

How to Save a Million Dollars Today

A new paradigm for purchasing contingent professional services in the Human Capital Market



Ideas for Today and Tomorrow

William G. Castellano

December 6, 2002

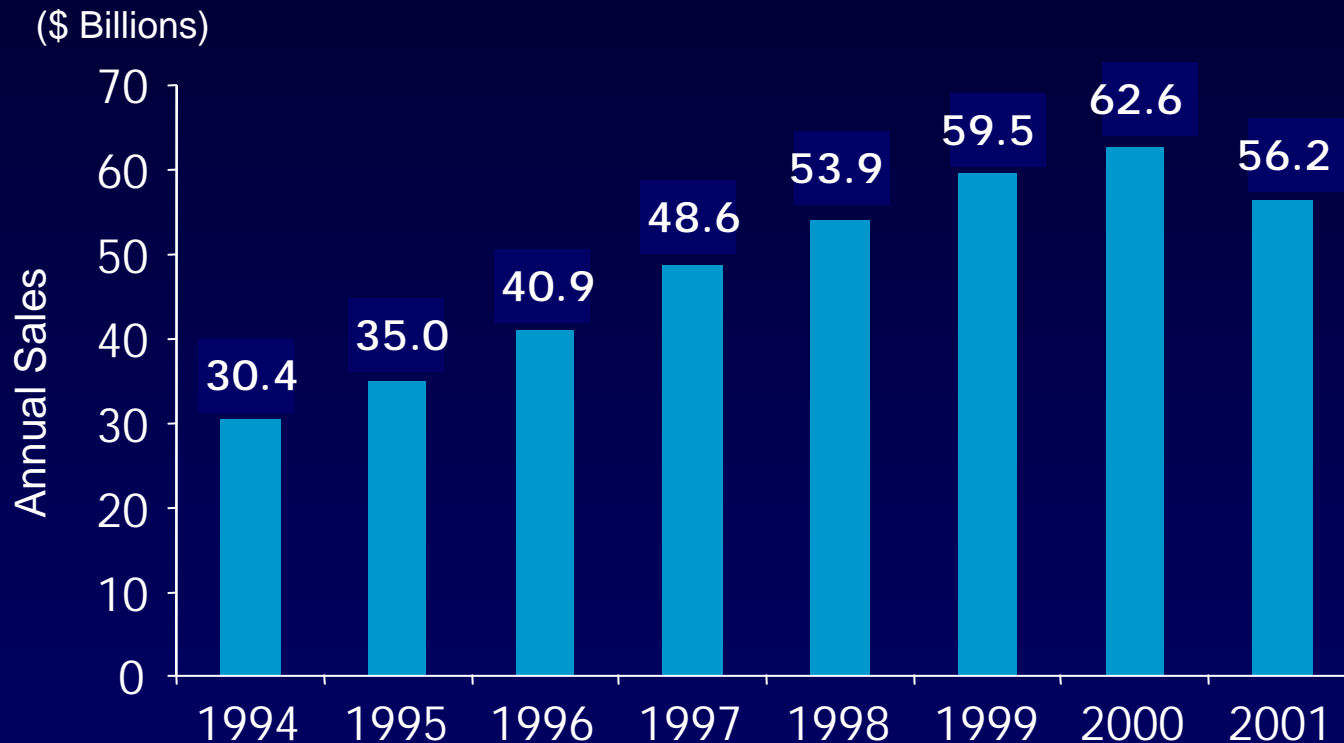
I. Introduction

- Contingent Human Capital Service Providers
- Total Spend
- Purchasing Managers Day in the Sun

Contingent Human Capital Service Providers

- Temporary Staffing Firms
- Consulting / Contractor Firms
- Payrolling Firms
- MSPs

Total Spend – Temporary/Consulting Staffing

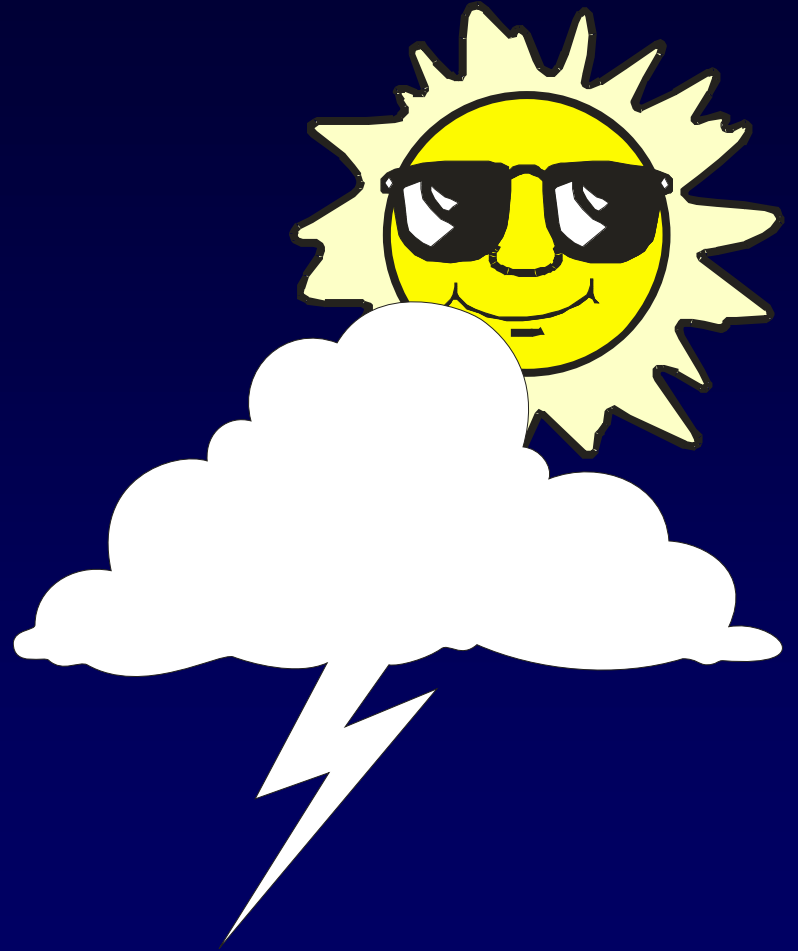


Note: Temporary staffing and consulting sales does not include direct hires, contractors, and corp. to corp arrangement.

Source: American Staffing Association Quarterly Staffing Services

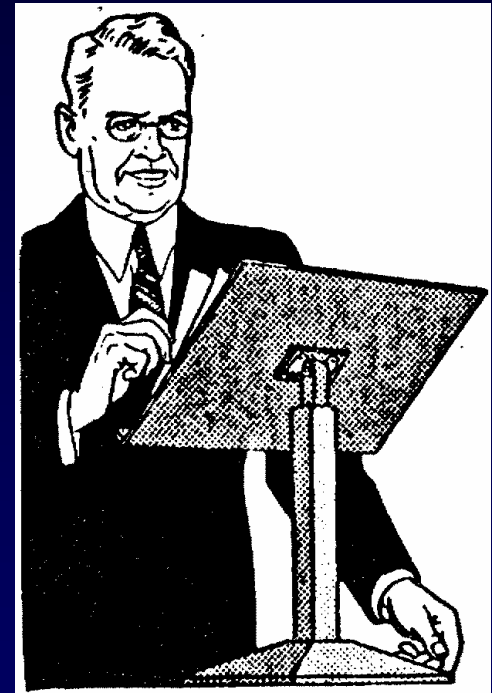
Purchasing Managers Day in the Sun

- Worst Recession Since the Depression
- Major Restructuring of Businesses
- Focus on Fixed Cost



II. Politics of Purchasing Human Capital Services

- Who is at the Table?
- Insource or Outsource?
- Vendor Assessment Minefield
- Contracts



Who Is At The Table?

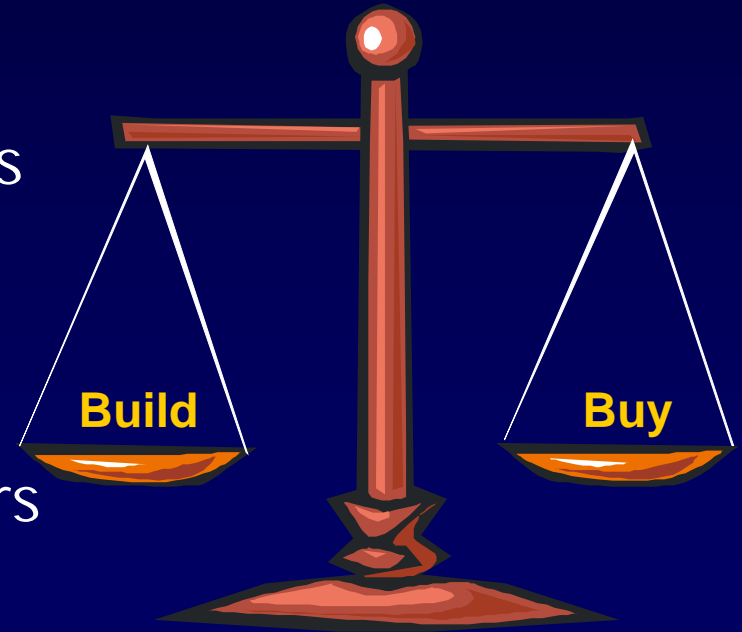
Consider Who is:

- Sponsoring the project
- Paying for the project
- Currently managing vendor relationships
- Has the most to gain and lose



Insource or Outsource?

- Build or Buy?
- What is the Corporate Culture?
- What are the Key Business Drivers?
- Need a Cost-Benefit Analysis
- Need Buy-In of Key Players



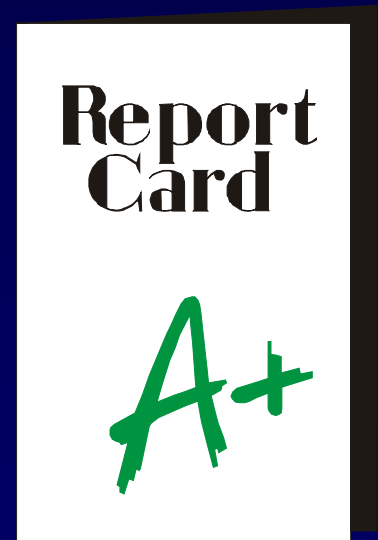
Vendor Assessment Minefield

- Align with Business Objectives
- Consensus on Criteria and Weightings
- Balance Quality with Cost
- One Size Never Fits All
- Consider Long-Term Relationships
- Buy In of Key Players



Contracts

- Legal / Compliance
- Risk Management
- Service Level Agreement:
 - Balance Quality, Cost and Speed
 - Meaningful Rewards and Penalties
 - Ad hoc Reporting Capability
 - Your Report Card

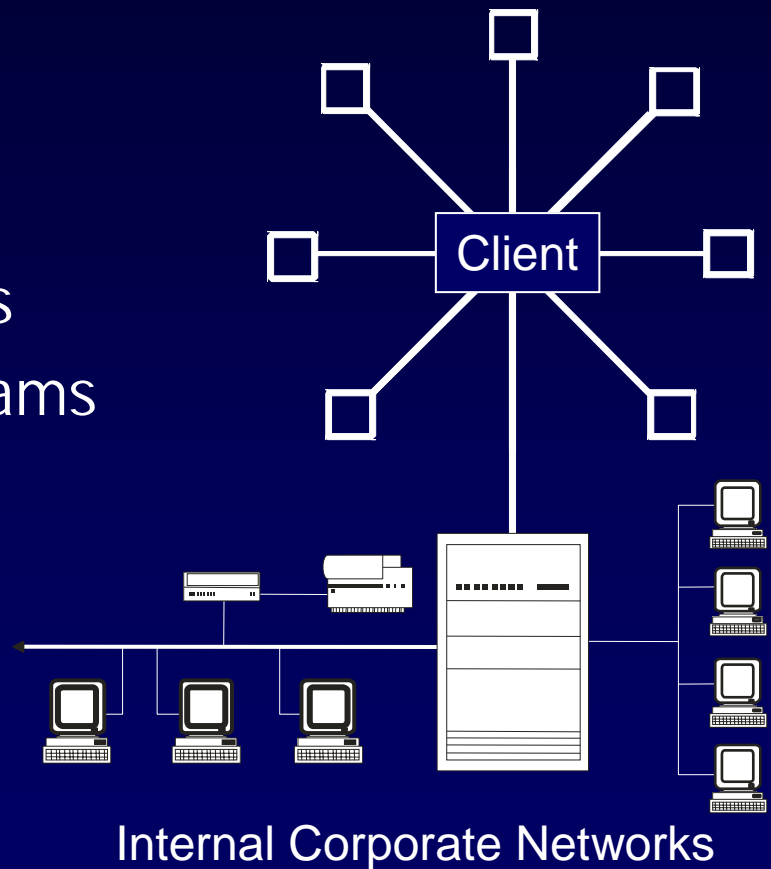


III. Evolving Human Capital Market

- New Tools and Programs
- Workforce Trends
- Six-Sigma

New Tools And Programs

- Rapidly Changing Technology
- Master Vendor Programs
- Managing Vendor Programs
- Payrolling



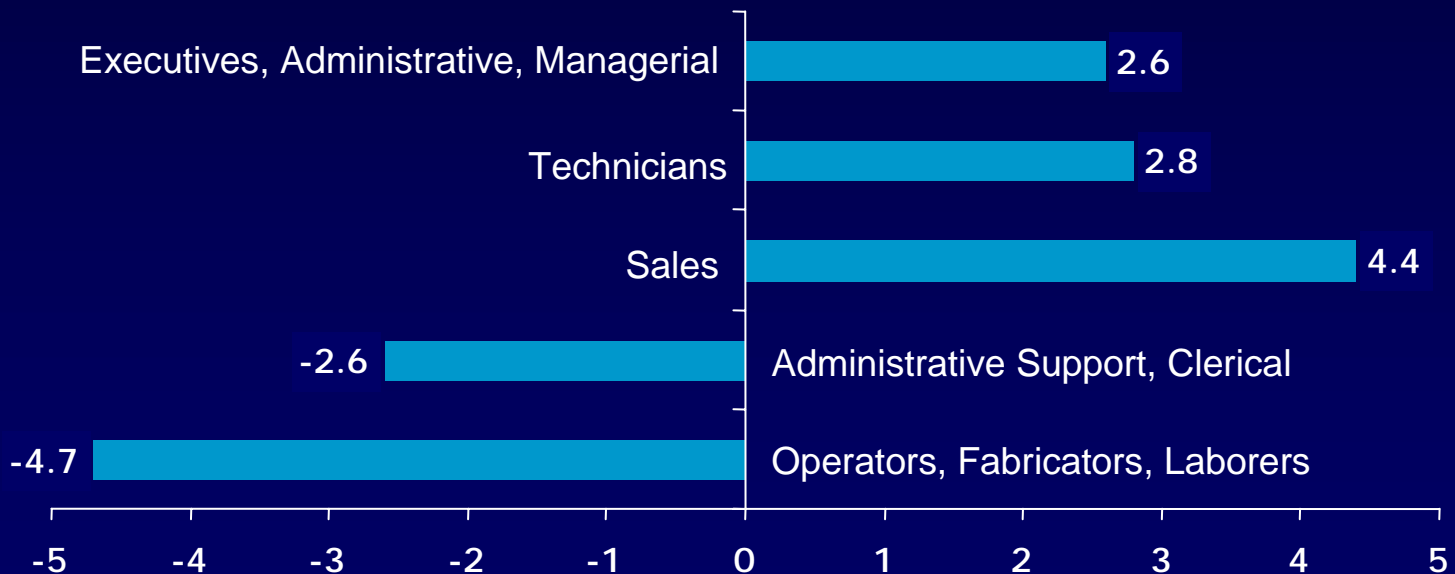
2001 Census Population Survey Flexible Workforce Composition

	% of Workforce	Total Workers
Independent Contractors	6.4%	8.6M
On-Call Workers	1.6%	2.1M
Temporary Employees	.9%	1.2M
Contractors	.5%	.7M
	9.4%	12.6M

Note: Excluded are self-employed individuals who are incorporated representing 5% of the workforce and PT workers representing approx. 14% of the workforce which would increase the total to 28.4%.

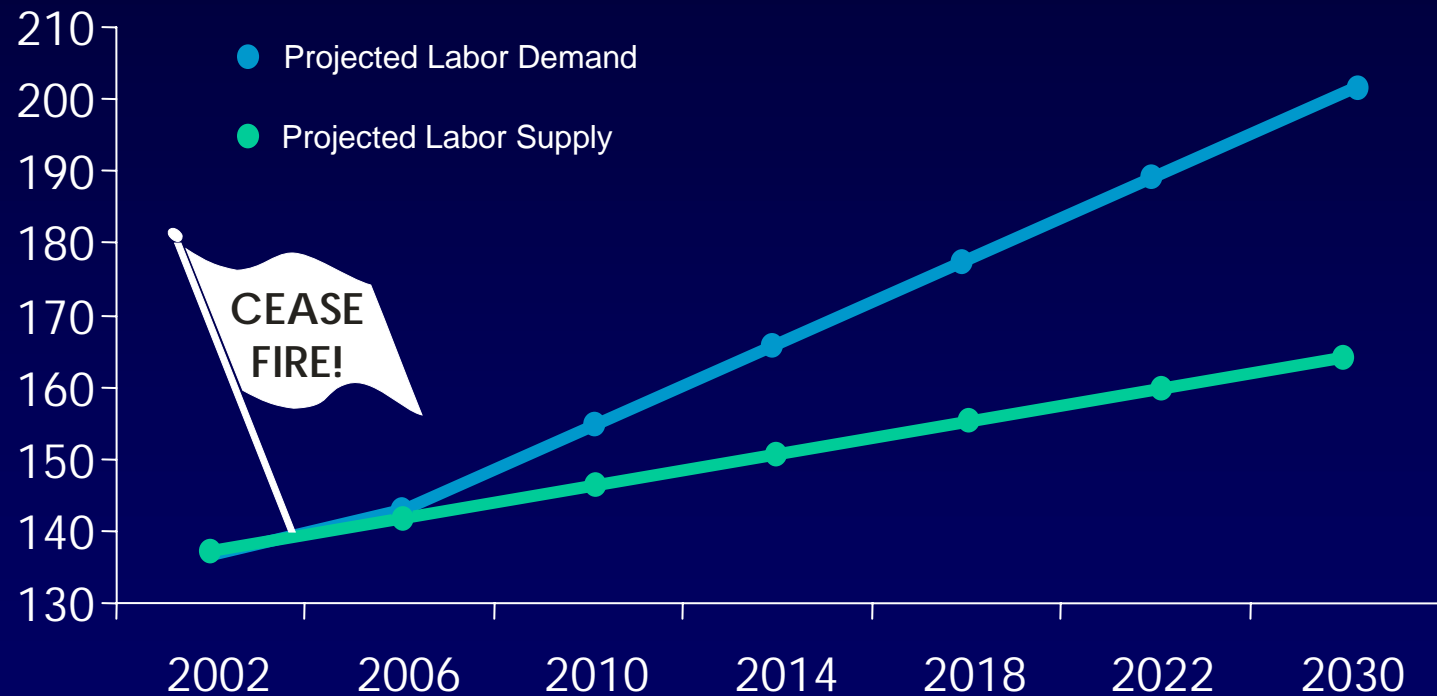
More Highly Skilled Flexible Workforce

2001 Census Population Survey
Percentage Point Difference Between 1999 and 2001



War for Talent

Labor Demand Will Outstrip Supply Beginning in 2006

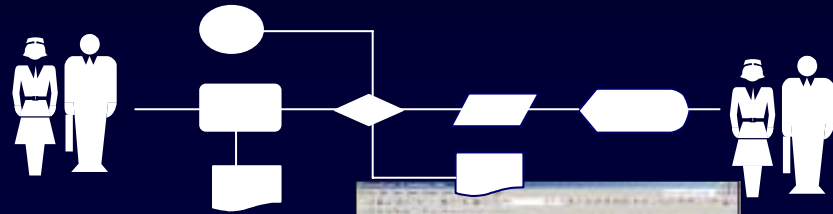


The gap for highly skilled workers will be even greater!

FlexCorp Systems

Source: Employment Policy Foundation

Six-Sigma



- Business Processes Redesign

- Human Capital Acquisition Process

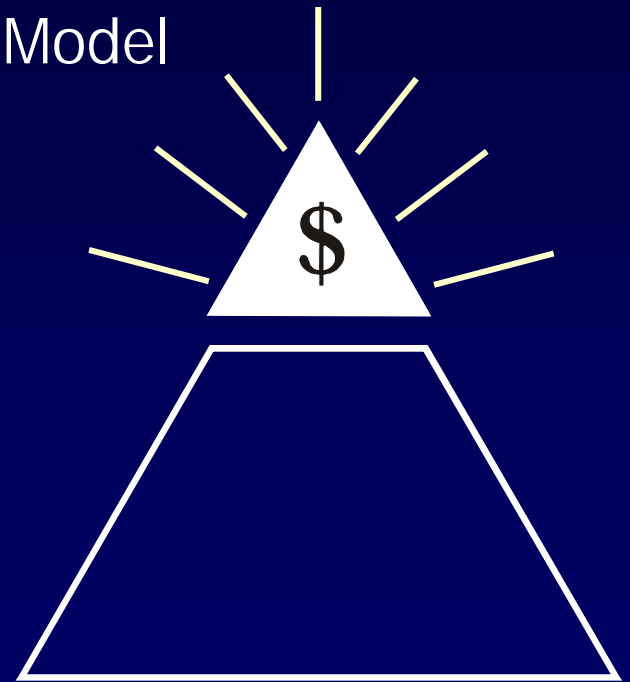
- ■ Temporary / Consultant Process
 - Payrolling Process



- Great Area to Make Significant Savings

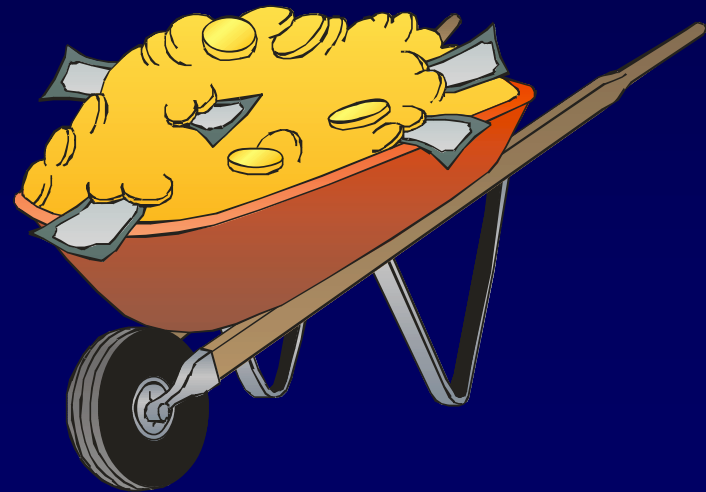
IV. Additional Cost-Saving Opportunities

- New Cost Saving Strategies
- Revolutionary Cost Saving Model
- Savings Example

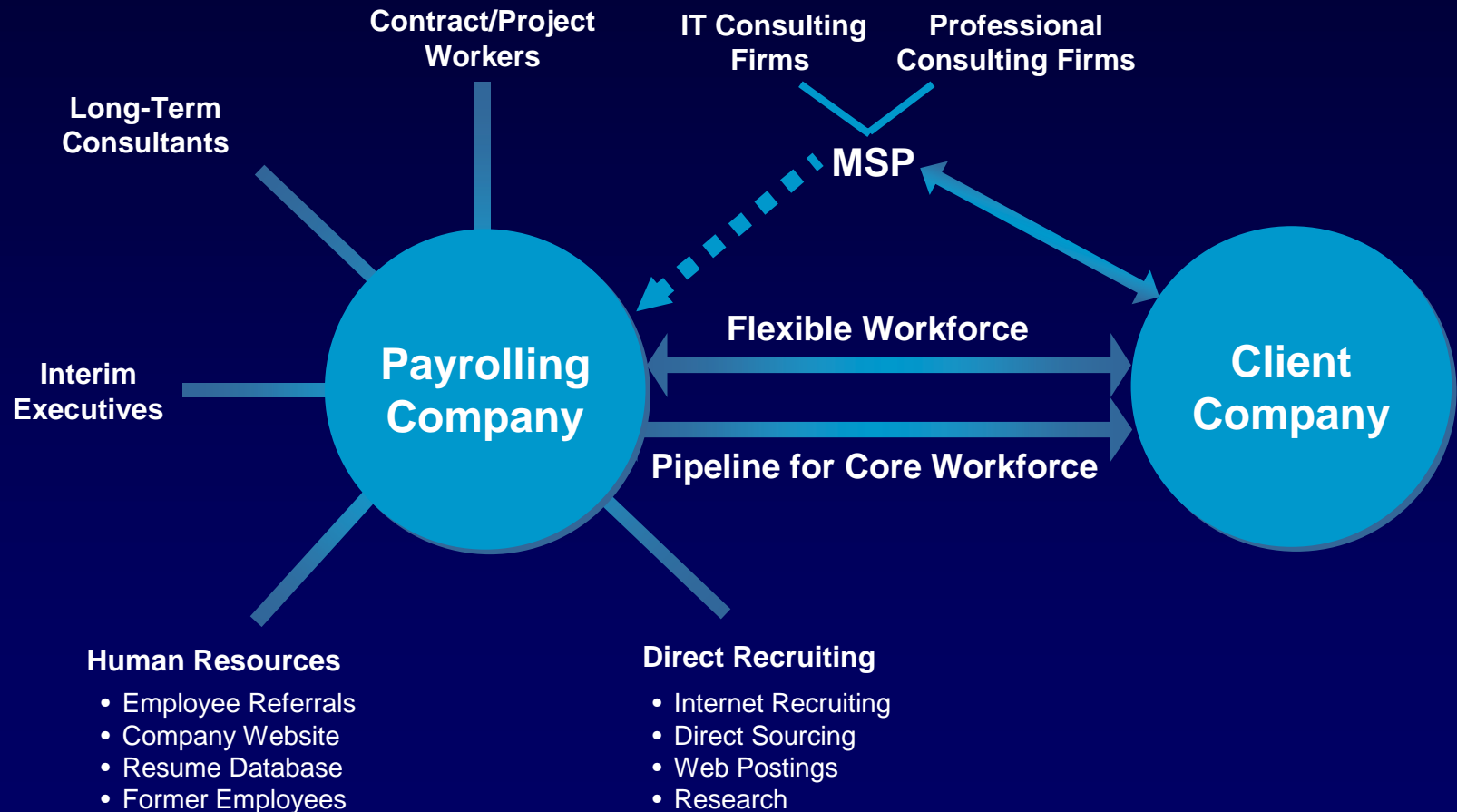


New Cost Savings Strategies

- Breakout Payrolling Services
- Manage Payrolling Costs
- Direct Sourcing Strategy



Revolutionary Cost Saving Model



Manage Payrolling Cost



Traditional

Mark-Up Pricing

Wage + Markup (20% - 60%)



NEW!

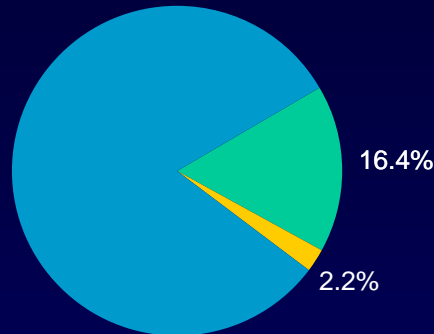
Cost-Plus Pricing

Wage + Taxes + Fixed Fee

Cost Comparison

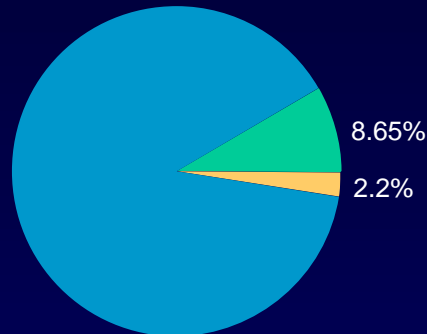
Based on \$75/hr., 35hr. workweek, applying NY & Federal Tax Rates and a \$3000 Flat Fee

Cost-Plus Pricing



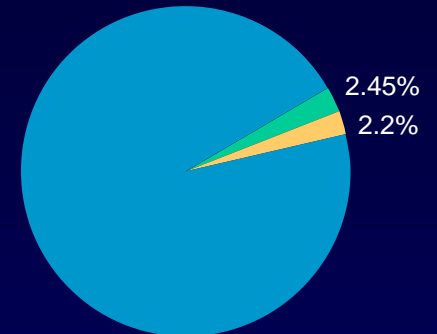
Week 1-3
Total Cost % = 18.6%

Wages



Week 4-33
Total Cost % = 10.85%

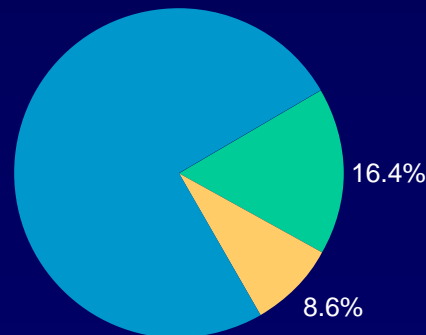
Taxes



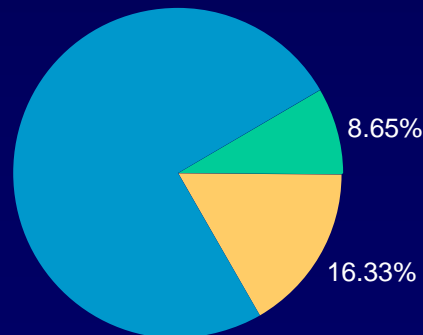
Week 34-52
Total Cost % = 8.65%

Fee

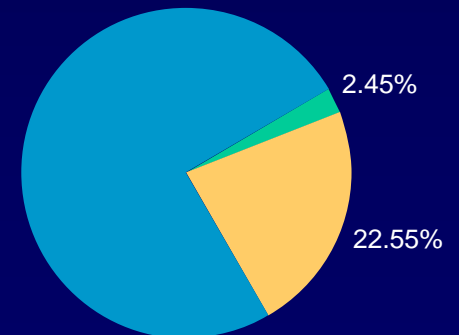
Mark-Up Pricing



Week 1-3
Total Cost % = 25%

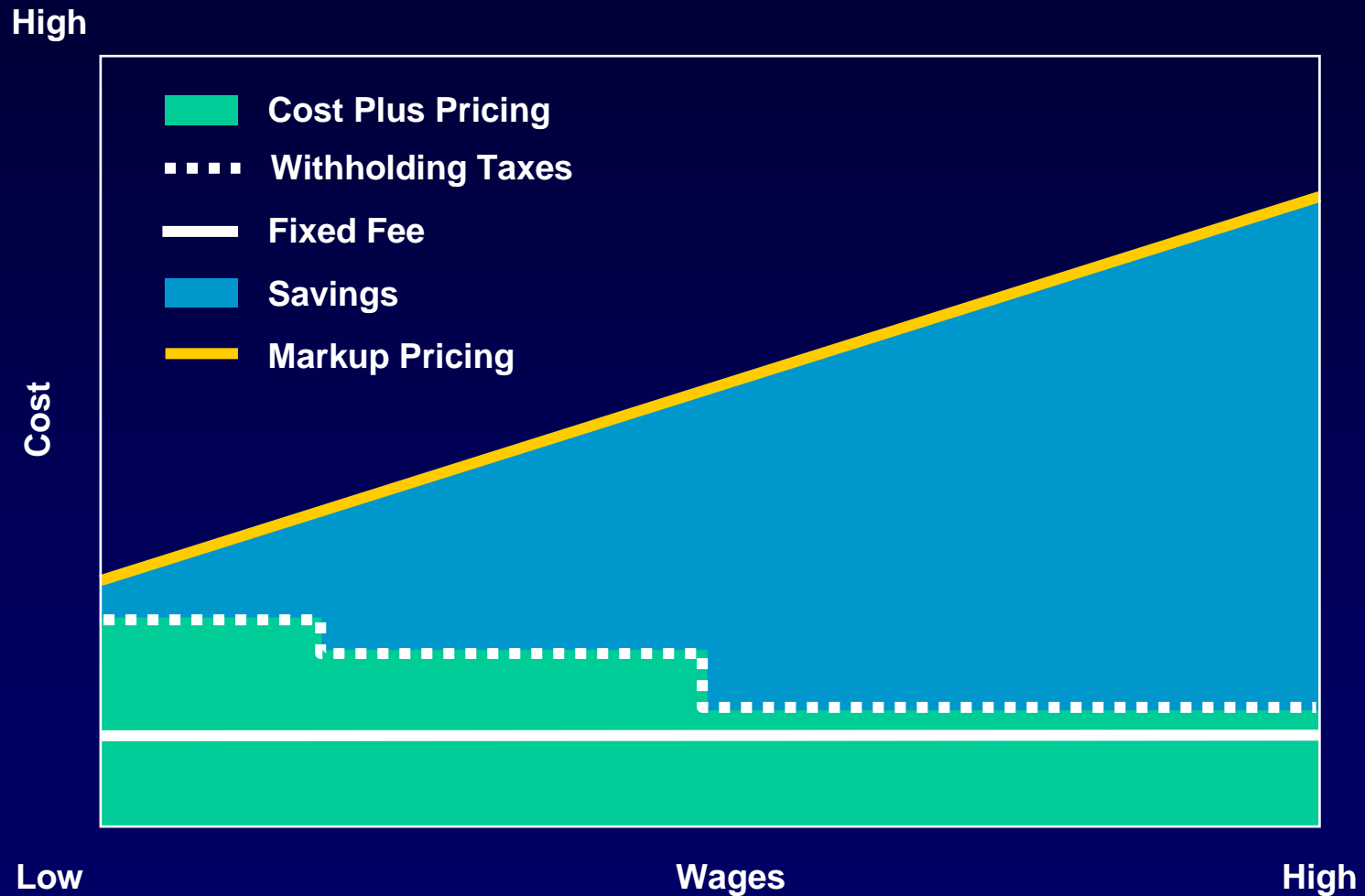


Week 4-33
Total Cost % = 25%



Week 34-52
Total Cost % = 25%

Fixed-Fee Pricing = Major Savings



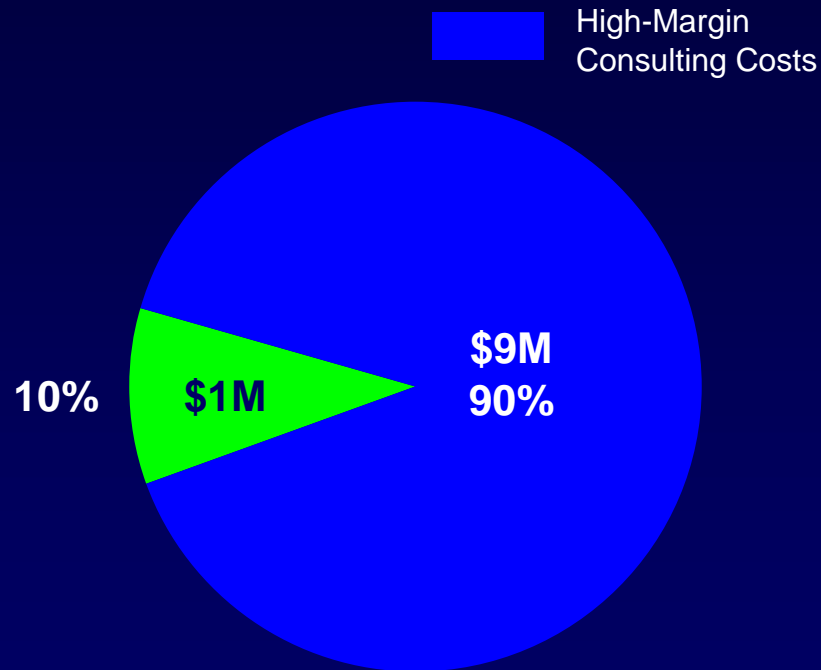
Savings Example

- A Global 1000 firm can directly recruit Flexible Workers for 10% - 20% of IT and professional consulting needs.
- The cost to recruit and payroll can be 50% less than the average cost of using a consulting firm.
- A company spending \$100 million in consulting fees can achieve savings from \$5 million to \$10 million.



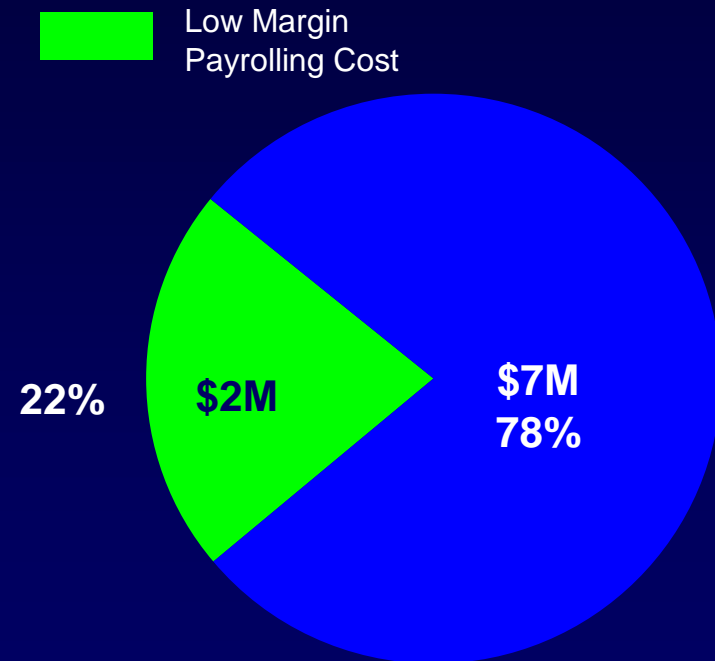
Shift High-Margin IT and Professional Consulting Costs To Low-Margin Payrolling Program

Before Direct Sourcing Strategy



Total Cost \$10M

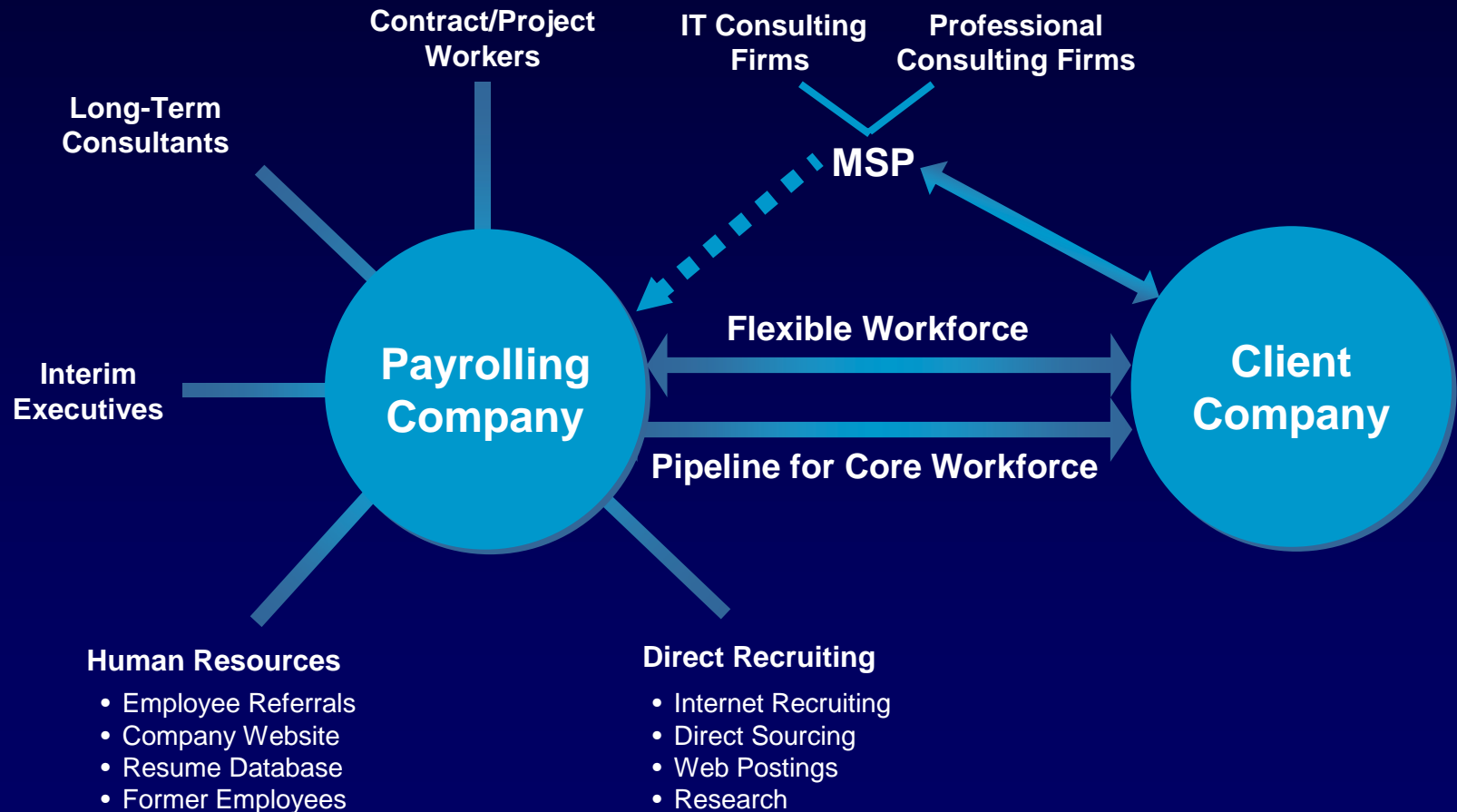
After Direct Sourcing Strategy



Total Cost \$9M

↑ Payrolling \$1M = ↓ Consulting Cost \$2M = \$1 Million Savings
FlexCorp Systems

Revolutionary Cost Saving Model



Contingent Staffing Strategy in a Cost Cutting Environment



Patricia C. Davidson

December 6, 2002

Agenda

- Background
- Issues
- What to understand
- How to manage this complex environment
- Key success factors

Corporate Environment

- Major financial services firm in NYC
- 17,000 employees worldwide
- 8,000 employees in NYC
- 2,000+ contingent staff worldwide
- \$250mm contingent expense worldwide

How did we get there

- Strict staff headcount controls imposed a few years earlier

Issues

- Too many contingent staff
- Too long on our books
- Numerous 1099's
- Annual IRS audit liability
- Annual NY State audit liability
- Employee liability concerns
- Too many vendors
- High vendor margins

However, because contingent...

- No corporate headcount data
- Sketchy expense information
- No performance data
- Lacked the same fiscal discipline as full time staff
- Local procurement practices utilized

Many firms share this scenario

- If not, there may be a need for contingent staff
 - Short term skill needs
 - Staff reductions quicker
 - Eliminates need for severance expenses

How to manage this complex environment

- Understand the vested interests
 - Financial Department
 - Business Managers
 - HR Department
 - The Consulting Vendors
 - Purchasing Department

Consultants (Contractors) Only

- Time and Materials Focus
- Fixed Price Contracts should be legitimized by the RFP and bidding process

Compelling Control Actions

- Reduce the number of vendors
- Roll back rates
- Eliminate, or scrutinize, 1099's
- Eliminate long term contingent staff
- Develop reliable data reporting mechanisms
- Understand vendor cost structures
- Establish a cost plus vendor relationship

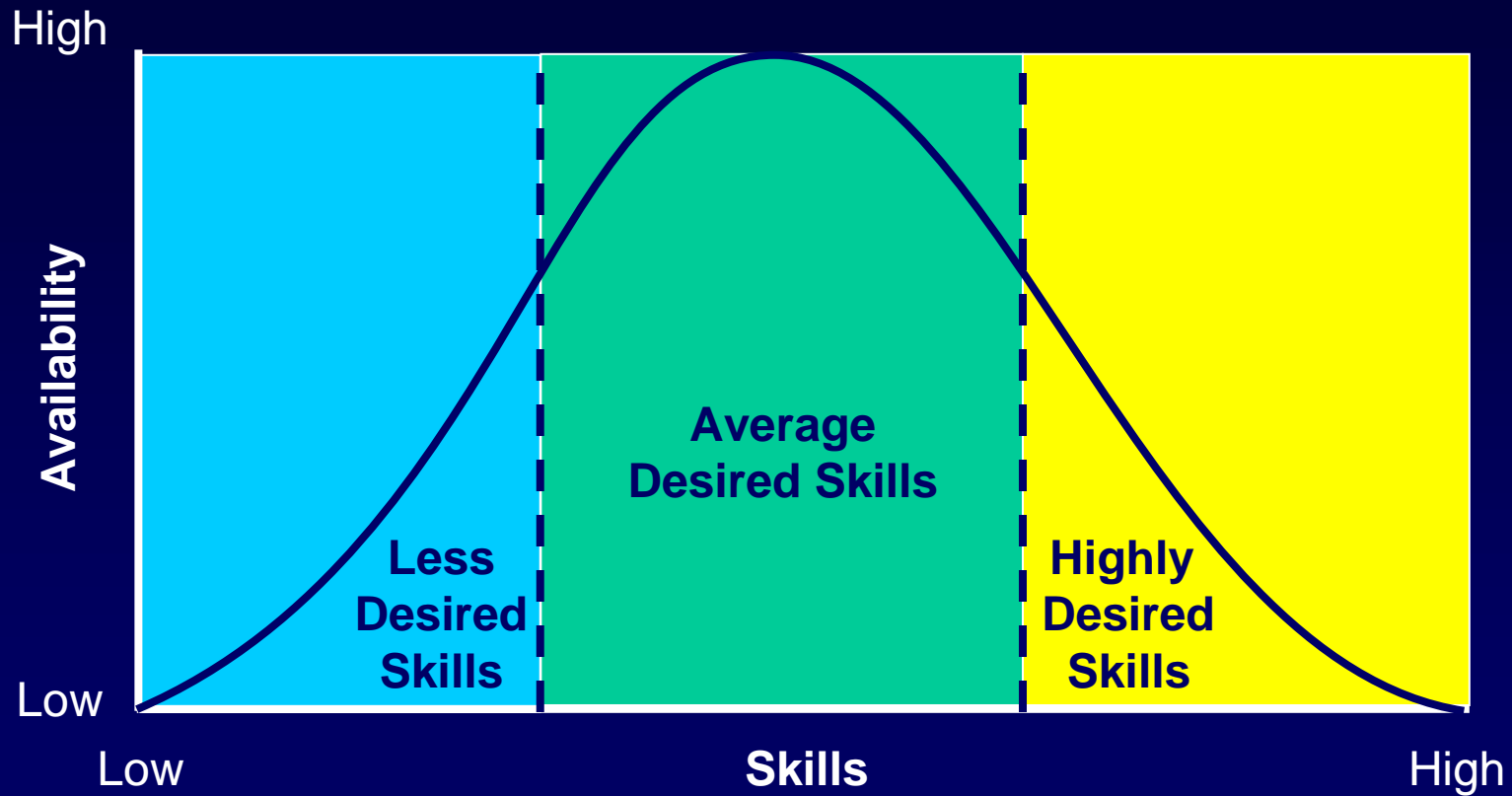
Vendor Cost Structures

- Recruiting Costs
- Base Salary
- Statutory Costs
 - FICA
 - Medicare
 - SUI
- Administrative Costs
- Profit Margins

Utilize a Cost Plus Vendor

- Migrate 1099's
- Use for your own recruits
- Migrate long term consultants, if not hired directly

Skill Life Cycle Graph



Key Points for Success

- Senior management support is an imperative
- Gain support of key vendors