



THE DEFINITIVE GUIDE TO CONTINGENT WORKFORCE MANAGEMENT: *EVERYTHING YOU NEED TO KNOW*

A Comprehensive Guide to the
Contingent Workforce and
How to Manage it

contrax



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INTRODUCTION

The contingent workforce is growing at an exponential rate, with an increasing number of organizations using non-permanent workers to access a range of benefits from cost reductions, improved business agility and better access to talent.

In fact, according to Staffing Industry Analysts the average percentage of workers who are contingent is expected to grow to 24 percent in 2022, and to 29 percent by 2030.

As the use of contingent workforce grows, so does the importance of implementing a strategic contingent workforce management program for any business that uses contingent workers to augment their existing team of employees.

While the contingent workforce brings a huge number of benefits to businesses that use it – helping to address workforce shortages, reducing workforce costs and making it easy to scale up and down rapidly – it can also bring challenges and risks when managed ineffectively.

And managing the contingent workforce isn't easy.

It requires knowledge of the contingent category, an understanding of managing staffing agencies, and vendor management system technology that standardizes and automates processes.

To help your organization optimize its use of the contingent workforce, we've created this definitive guide to successful contingent workforce management. In this eBook we take a look at everything you need to know about the contingent workforce, and how to manage it successfully.

We hope this guide helps you to achieve your business goals.





WHAT IS THE CONTINGENT WORKFORCE?

The contingent workforce is made up of a range of non-employee workers who are hired by a business on an on-demand or project-by-project basis. These workers are typically sourced through a staffing agency, but they could also be hired directly through a direct sourcing model.

Contingent workers work for a business under a contract or temporary basis, and are therefore not considered employees of the company.

These workers are typically contracted for a specific project or predetermined period of time. Once this short-term engagement is complete, the contingent worker then either leaves the company for a different role or accepts a new contract - either for a new project or a new period of time.

It's estimated that in the United States, more than 40 percent of workers are now hired in "alternative work arrangements." This percentage is steadily rising, increased by 36 percent in just the past five years - and now includes workers of all ages and skill levels (Deloitte Insights).

In a study, Deloitte says: "The traditional employer-employee relationship is being replaced by the emergence of a diverse workforce ecosystem - a varied portfolio of workers, talent networks, gig workers, and service providers that offers employers flexibility, capabilities, and the potential for exploring different economic models in sourcing talent."

The contingent workforce includes:

- **freelancers;**
- **temporary workers (temps);**
- **independent contractors;**
- **consultants;**
- **and other non-permanent workers.**

The image shows two business professionals, a man and a woman, standing and working on laptops. They are both wearing dark suits over bright pink shirts. The man on the left is looking down at his laptop, while the woman on the right is looking towards him with a smile. The background is a blurred office or modern building interior.

HOW DO CONTINGENT WORKERS DIFFER FROM EMPLOYEES?

One of the most important things to keep in mind when building a contingent workforce is compliance. There are both local and national regulations that apply to contingent work, and businesses must ensure they comply with them to avoid breaking employment laws.

Unlike an employee that is employed directly by the company on a permanent employment contract and is on the company payroll, contingent workers are either provided to an organization by a staffing firm (and are employees of the vendor) or are hired by the company (either with or without the help of a staffing agency) on a project-by-project basis or for a specific period of time.

Workers in any of these relationships could be full time, part time, short term or long term. The number of hours they work has no bearing on whether a worker is an employee or a contingent worker, but instead it's the relationship they have with the company.

Typically contingent workers are not eligible for the same benefits that employees are entitled to, such as vacation time, sick pay bonuses or retirement benefits. Although this does differ depending on the category of worker.

T4 or W2 contingent workers sourced through staffing agencies may be entitled to benefits (but it's traditionally the staffing agency who provides these and not the hiring business).

Contingent workers who are self-employed and hired on a contract basis generally are not entitled to typical employee benefits, vacation etc. Classifying contingent workers correctly is an important process that mitigates the risk of misclassification or co-employment.

WHAT ARE THE BENEFITS OF A CONTINGENT WORKER?

The contingent workforce is a broad category, and can help businesses with seasonal demand, long-term projects, consultancy roles, and industry experience - allowing organizations to augment their existing employees with additional workers, new skills or specialized expertise.

Since the contingent workforce offers such a diverse range of skills, businesses can gain a number of benefits from improved flexibility, cost savings, the ability to access talent during workforce shortages and the business agility to scale up and down when needed. With that in mind, here are just a few of the top benefits businesses can realize from an effective contingent workforce strategy.



Cost Savings: The entire process of hiring an employee is an expensive one. In fact, it costs employers an average of \$4,129 and takes an average of 42 days to fill just one open position according to the Society for Human Resource Management (SHRM). A good contingent workforce program can significantly reduce an organization's workforce costs.



Faster hiring times: The contingent workforce dramatically reduces time-to-hire, with workers that can be placed into a business at a moment's notice.



A completely scalable workforce: Since contingent workers are sourced as-and-when needed, businesses are able to quickly scale their workforce up and down when required. This is particularly important for organizations that experience huge seasonal swings in demand or have multiple projects with finite timeframes.



Acquiring top talent: There has long been a skills gap within the workforce, and that has left the competition for talented workers being more competitive than ever before. The contingent workforce provides organizations with a new avenue to access skilled, experienced and specialized talent.



Improved business agility: The contingent workforce empowers organizations to build an agile business strategy, in which workforce requirements can be assessed on an ongoing basis. Contingent workers give businesses the agility they need to change their workforce rapidly, depending on current market conditions, business demand and workforce requirements.

HOW TO POSITION YOUR BUSINESS AS AN 'EMPLOYER OF CHOICE' FOR CONTINGENT WORKERS

While the contingent workforce gives businesses more opportunity to access talented workers and gain a competitive edge over their competitors, there is also increased competition for these non-permanent workers.

As the number of contingent workers increases, the percentage of organizations using non-permanent talent is rising even more. As a result, companies who source the best contingent workers for their needs and beat their competitors to these workers will have to position themselves as “employers of choice” for the contingent workforce.

By doing so, organizations will be able to better retain contingent talent and re-engage workers again and again as they are needed, reduce turnover within their contingent workforce program and be a more appealing proposition to new contingent workers they haven't worked with before.

Becoming an ‘employer of choice’ is all about positioning your brand as an employer that contingent workers want to work for.

When businesses improve how they engage and satisfy contingent workers, they'll not only benefit from being able to re-engage talented workers in the future, but also from word-of-mouth marketing that promotes the organization to other contingent workers.

To position themselves as an employer of choice, businesses will focus on:

- **Building a company culture that helps attract, and retain, both employees and contingent workers.**
- **Make sure your contingent workforce program considers candidates experience and employment branding. Companies often focus on this for permanent hires only.**
- **Recognize the contribution of non-employee workers.**
- **Build long-term relationships with contingent workers, shifting away from the mindset that contingent workers are temporary solutions that can be forgotten about after their contract is up.**
- **Offer non-employee workers future contingent opportunities.**



WHAT RISKS COME WITH A CONTINGENT WORKFORCE?

All business operations involve an element of risk, and the contingent workforce is certainly no different. When the right strategies and processes aren't implemented, risks can run rampant within your organization, and they can have a serious impact on your bottom line.

When it comes to the contingent workforce, many organizations simply don't have the visibility into, or control over, their contingent workers to understand what their risks are.

The top five contingent workforce risks:

1. **Misclassification or co-employment**
2. **Vendor performance**
3. **Security risk**
4. **Program visibility**
5. **Financial risk**



Misclassification or co-employment: One of the most common risks when it comes to hiring contingent workers is misclassification or co-employment. Falling foul of employment laws could result in back taxes, hefty fines and penalties for your business.



Vendor performance: The staffing agencies you partner with are crucial to how successful your contingent workforce program is. Without data and insights into vendor performance, you'll have no idea how these vendors are performing. It's likely that this will result in low workforce quality, slow hiring times and your business overpaying for talent. To ensure ROI from your staffing agencies, organizations need insights to see how they're performing and how program results can be improved.



Security risk: Your contingent workforce program should have a set of processes in place to engage, manage, onboard and offboard contingent workers successfully. Without those processes, your organization is vulnerable to the loss of intellectual property, trade secrets, competitive data and even security threats on your network. All contingent workers should be vetted properly before joining your organization.




A lack of program visibility: If you don't have an effective contingent workforce management program in place, it's likely that your business has no visibility into its contingent workforce. This lack of transparency gives you no insights into rogue spend, with hiring managers sourcing and hiring contingent workers independently - without using the requisite screening, quality control, preferred contractual terms, and predetermined rates that are part of your vendor agreements.



Financial risk: When organizations don't have effective management processes and documentation methods in place, they lose visibility and standardization across their contingent workforce program. This results in hiring managers sourcing workers from staffing agencies with their own rules and their own rates, resulting in no centralized program and rogue spend running through your contingent workforce.

These risks all stem from a lack of visibility and control over your contingent workforce. Thankfully, that can be changed when you implement a strategic contingent workforce management program.



WHY IT'S CRUCIAL TO BUILD A CONTINGENT WORKFORCE MANAGEMENT STRATEGY

To successfully mitigate the above risks, a strategic contingent workforce management program is necessary.

Organizations that don't develop an effective contingent workforce management program or implement technologies (such as a Vendor Management System) to manage that program are simply unable to gain the required visibility and control over their contingent workforce to reduce risk.

The problem is, building an effective contingent workforce management program isn't easy. It requires expertise in the contingent category, technology, and the right resources in place. Here at Contrax, however, we find that a large number of organizations (particularly those with smaller volumes of contingent workers) don't have an "official program" in place.

When a business has no contingent workforce management program implemented, they suffer from a lack of standardized processes that results in hiring managers engaging staffing agencies on their own terms and at their own price.

This results in a complete lack of control and visibility over where money is being spent and what workers are being hired by the organization - resulting in rogue spend that runs rampant throughout the business.

When a contingent workforce management program is successfully implemented, the opposite occurs. Businesses gain full visibility and control into both their contingent workers and their staffing agencies.

With an effective contingent workforce management program, companies can:

- access top talent more effectively, and faster;
- reduce costs and improve their bottom line for a contingent workforce program that delivers better ROI;
- mitigate risks within their program;
- automate processes so internal teams have more time to focus on core competencies that improve business profitability;
- as well as build standardized processes and rates that all hiring managers can follow and adhere to.

THE KEY DRIVERS OF A SUCCESSFUL CONTINGENT WORKFORCE MANAGEMENT STRATEGY

Are you ready to build a contingent workforce management program that delivers true ROI for your business? There are five key drivers that dictate a successful program, they are:

- Cost
- Vendor management
- Compliance
- Process
- Risk

Let's look at each of those in a little more detail.



COST

One of the core components of any contingent workforce management program is to reduce spend. There are numerous places in a contingent workforce management program where invisible costs can creep in and affect a company's bottom line. These include inconsistent rates being paid for contingent workers, inconsistent markups being paid to staffing agencies, poor processes that lead to wasted time (and therefore company money), as well as paying higher than market rates for contingent workers.

A properly implemented program will fix these issues by improving visibility and standardizing processes. Businesses will be able to see exactly where they are wasting money, and improve their processes so that all hiring managers are paying predetermined rates to vendors and workers.

VENDOR MANAGEMENT

Staffing agencies are a fantastic resource for achieving workforce targets, but managing a number of vendors can be time-consuming and complex. If a business isn't optimizing vendor management, then it's unlikely they're getting ROI from their contingent workforce program.



A successful contingent workforce program will improve vendor management through process standardization and performance reporting. Your organization will gain the insights you need to improve how you manage your staffing agencies.

COMPLIANCE

There are a number of things that fall under the compliance category when it comes to the contingent workforce, including the classification of your workers, safety and security policies, as well as internal compliance with your own standardized processes and rates.

A well-executed program will ensure that your business has full visibility into all of these compliance factors, and that all people involved in contingent workforce management are following compliance processes.

PROCESS

There's no denying it, contingent workforce management is complicated. It requires a huge amount of data points, a wide number of vendors and complete visibility into all decisions. To achieve this, contingent workforce management processes must be seamless.

An effective contingent workforce management program will allow your business to implement proven and effective processes that make managing your contingent workforce not only easy, but strategic.

RISK

Contingent workforce management risk comes in a number of shapes and sizes, whether it be the risk of misclassifying your contingent workers, the risk of inefficient processes that lead to a lack of program visibility or the risk of vendors underperforming without your knowledge.

A contingent workforce management program will mitigate those risks by improving program visibility, ensuring vendors are performing as expected and setting standardized processes for internal teams to follow.



CONTINGENT WORKFORCE MANAGEMENT METHODS: IN-HOUSE AND OUTSOURCED

Despite the importance of a contingent workforce management strategy, only 9 percent of companies in the Sapient Insights 2020-2021 HR Systems Survey believed they were “excellent” at managing gig or contingent workers, while 17 percent said they were “poor” at managing that segment of the workforce.

So, how exactly can businesses implement successful contingent workforce management programs?

Traditionally, companies have managed their contingent workers and staffing agencies with no real program in place. Instead, they use spreadsheets and fragmented processes across their entire organization.

We can tell you one thing, this management method will certainly lead to rogue spend that impacts your bottom line and result in a lack of visibility that leads to poor workforce quality and subpar vendor performance.

Organizations that want to address this issue have two options, they can either improve how they manage their contingent workers and staffing agencies in-house, or they can outsource this management program to a third-party with expertise in the contingent category.

Outsourced Contingent Workforce Management Options

There are two primary methods that organizations use to outsource their contingent workforce management program, an MSP or a master vendor program. Let's take a look at each of those in a little more detail.

Managed services provider (MSP):

An MSP is a third-party contingent expert that will assume responsibility for a company's entire contingent workforce management program. They'll be responsible for all things related to the program, from implementation and engaging vendors, to hiring contingent workers, onboarding and billing. The aim is to take away the strategy and ongoing management burden of a contingent workforce away from the actual business itself.

Master vendor program:

Similarly to an MSP, a master vendor (or prime vendor) is a way to outsource a company's contingent workforce program. However, it isn't as complex as a full MSP program, and organizations can pick and choose which aspects of the program they'd like to outsource to the master vendor. A master vendor typically works with its own network of pre-approved staffing agencies to fulfill a company's workforce requirements.



In-House Contingent Workforce Management Options

With the appropriate resources, time, money and contingent category it's definitely an option for some organizations to manage their contingent workforce program in house, but the key is to use a vendor management system to underpin the entire program.

A vendor management system acts as a system of record for a company's entire contingent workforce program in one centralized platform, giving them complete visibility and control over their contingent workforce.

VMS software also automates all processes associated with managing the contingent workforce, from sourcing vendors, engaging contingent workers, onboarding, time entry and approval, analyzing vendor performance and making payments.

A VMS is used both by companies managing their contingent workforce internally, as well as to augment an MSP program.

According to the Staffing Industry Analysts' 'Workforce Solutions Buyer Survey: 2020 Americas Results', 84 percent of companies have experienced cost savings with Managed Services Providers (MSPs) and 76 percent have seen savings with a Vendor Management System (VMS).





LOOKING TO OUTSOURCE YOUR PROGRAM?

TOP THINGS TO CONSIDER WHEN CHOOSING A CONTINGENT WORKFORCE MANAGEMENT PARTNER

For businesses that don't have the resources to effectively manage their contingent workforce in house, outsourcing either all, or some, of their contingent workforce management program can help them gain complete control of their contingent workforce.

With that in mind, here are the top five questions to ask when choosing your outsourced partner.

Do they have customizable programs that suit your unique requirements?

Outsourced MSPs and master vendor service providers all offer different levels of services, with some designed specifically for large enterprises. Look for an outsourced contingent workforce management expert that offers scalable services depending on your company's specific workforce requirements.

Do they help you with VMS implementation?

When you partner with an MSP they should always suggest a VMS for your business to implement - VMS software underpins the entire program. Make sure to work with an MSP who hears your company's unique needs, and then suggests an VMS that works specifically for your processes. In most cases, the easier a Vendor Management System is to use the more effective it is for your team.

What is the size, and location, of your potential outsourced partner?

Your outsourced contingent workforce management expert's location and physical footprint dictates how well they can support customers across multiple time zones and borders, so you'll want to find out what facilities they have and what capabilities are available. An outsourced partner is an extension of your business, so you want to work with someone that is transparent and easy to access. You should also consider the match with your size of program, ensuring you are a priority of the MSP, even if you have small to medium spend.

What is their depth of expertise?

The better an outsourced provider understands your market and unique needs, the more likely they are to help you achieve your workforce goals. When choosing your contingent workforce management partner, try to gain insight into how well they understand your requirements and what expertise they have had with similar clients before. This should include understanding of your job categories, their geographic footprint, the size of their vendor marketplace and the previous contingent workforce volumes that they have managed.

Do they offer reporting capabilities?

To ensure both your organization and partner are working together to drive real, tangible results within your contingent workforce management program, it's important that there's a system in place to measure and report successes. Make sure your partner is able to keep your business updated with KPIs that show progress within your contingent workforce program - such as improved workforce quality or reduced spend.





CONCLUSION

The modern world has changed dramatically in the past few years. Technology has reshaped how work gets done, people interact and communicate in different ways and the work-life balance has become an area of focus for employers and workers alike.

The result? The traditional employee-employer relationship has changed significantly. Many workers are now taking contingent roles instead, as it gives them greater flexibility and better fits their personal lives, and organizations are also increasingly turning to the contingent workforce for improved ROI.

The contingent workforce brings organizations some fantastic benefits, from improved business agility, cost savings, filling skills gaps, easier and faster hiring, and the freedom to trial new skills and approaches.

Yet these benefits cannot be realized unless companies implement a truly effective contingent workforce management program. Doing so is the only way that today's businesses will get the most out of the modern workforce.



CONTACT

Contrax is a powerhouse of industry leading knowledge in contingent workforce and staffing agency management. Our executives have the deepest contingent workforce, SOW program and procurement experience in North America.

With a range of solutions - including managed services provider programs, vendor management system advisory and master vendor models - Contrax works closely with a broad range of organizations to ensure they are able to better manage their externally-sourced contingent workforce program and strategically manage their staffing agencies.

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