

Ensuring value for money from your spend on temporary labour

1. Effectively managing the costs of supply into your organisation



Why should you read this guide?

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

We hope to provide you with useful insights and tips on how to better manage your recruitment suppliers in order to deliver better value for money. 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 temporary workers into large businesses.

To help you gain value for money from your usage of temporary workers, the key themes we cover in this practical guide are:

1. understanding the costs of supply – what elements constitute the total cost of a temporary worker?
2. managing temporary worker costs
3. managing supplier costs.

This practical guide is split into these three key themes. Our experience shows that paying attention to these can typically result in significant savings for most large businesses, regardless of their current approach or model to managing temporary labour usage.

In each section you will get practical tips to help you gain greater value for money. Plus, we've also included a checklist on page 11 that you may find a useful tool to help you assess your current approach to managing the costs of supply.

Further guides are available

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

1. **Supply costs (the subject of this guide)** - 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 temporary workers and implementing procedures for assignment authorisations, extensions and cancellations.
3. **Indirect costs** - your internal resources costs, including invoice processing, contract management and the cost of late or unfilled orders and the cost of unproductive workers.

Implement these hints and tips

 You could save between 5-20% of total spend on temporary labour*

*Dependent upon your current approach to managing spend on temporary labour.

1. The starting point: gaining an accurate view of your supply costs

In our experience, most large businesses know or have a high level overview of their total spend on temporary workers through financial reporting against specific budgets or cost codes. Unfortunately, very few have an easily accessible granular-level view of how total spend is broken down across their business, making value for money significantly harder to achieve.

When we start working with businesses, it can be surprising what information can be uncovered. For example, a business may have had agreed rates with recruitment suppliers, even through preferred supplier lists or master vendor contracts, and assumed they were being adhered to, but a detailed breakdown of spend, can often reveal hidden charges.

This guide will help so let's start by going back-to-basics and understanding the supply costs of a temporary worker. They can differ dramatically, depending on the type of role, but they typically breakdown into three main areas:

1 Temporary worker pay

This includes the temporary worker's hourly pay or salary, overtime, bonuses or other expenses, such as travel, accommodation or subsistence costs. Collectively, these can typically account for two thirds of the total cost of a temporary worker.

2 Temporary worker costs

This includes workers compensation, payroll tax, professional indemnity and public liability insurances. Plus, superannuation and the minimum obligation required by employers is set to gradually increase to 12% by 2020.

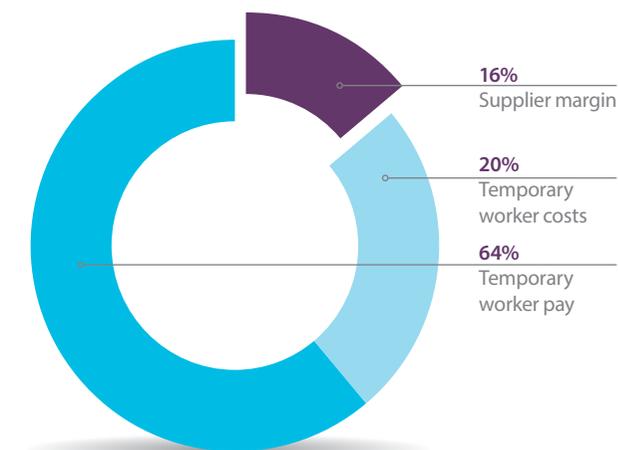
3 Supplier margin

This is the amount or fee your recruitment supplier will charge for them to supply you with a temporary worker. Typically this is through a **fixed hourly margin** or **percentage mark-up**. This can range from 4-50% of the total invoice cost, with higher pay rates or harder to fill jobs usually meaning that higher supplier margins are charged.

Gaining a clear breakdown of temporary worker costs from recruitment suppliers is sometimes challenging for businesses. All three elements of the supply cost will collectively total the **charge rate** of a temporary worker.

Let's move on to now look at how to gain value for money from temporary worker costs.

An example breakdown of the costs of supply



Definitions

Fixed hourly margin – a set amount of money charged per temporary worker hour.

Percentage mark-up – a percentage applied to the pay rate and charged per temporary worker hour.

Charge rate – the invoiced amount for a temporary worker excluding VAT.

*For Proprietary Limited Company Contractors a consideration for the temporary worker costs detailed above is usually built into the worker's pay rate.

2. Gaining value for money from temporary worker costs

To help you achieve transparency and cost effectiveness in terms of temporary worker costs, here are seven tips for you to adopt:

1 Know the pay rates

It sounds simple, but having an understanding of the pay rate of each temporary worker is an important first step. However, from our experience it is common for businesses to not have this information confirmed by their recruitment suppliers.

In large businesses, a departmental or business unit view, rather than a consolidated organisation-wide view can also exist. Without this overall view, it is almost impossible to assess whether your pay rates are at a consistent level across your business.

Knowing the pay rates will enable you to identify anomalies, and therefore create opportunities to reduce recruitment spend without reducing the number of temporary workers.

2 Control and fix the pay rates

It is important to ensure that certain groups of workers, especially those performing similar tasks, are on equal pay rates.

A consistently applied pay rate will remove fluctuation, reduce the likelihood of wage inflation – where workers demand higher pay rates because of how others are paid – and deliver the potential to achieve some ‘quick-win’ savings.

Once you’ve done this, communicate the fixed pay rates to your line managers.

3 Review temporary worker pay rates at the same time as your permanent workers

It is advisable to review temporary worker pay rates at the same time as your permanent workers. Typically, most businesses review permanent worker pay once per year. Aligning temporary and permanent worker pay rate reviews saves time and ensures consistency.

4 Carry out regular pay rate benchmarking

Regularly comparing your temporary worker pay rates against the local employment market is important. For each role, there are a variety of ways you can do this:

- Search for similar temporary worker job roles in your area on recruitment agency websites, local job boards (such as those run by your local newspaper) and national job boards. For niche roles, also check specialist job boards
- Contact your local Job Services Australia
- Contact local competitors to enquire what pay they offer for a similar temporary vacancy
- Contact local recruitment agencies to enquire if they have a salary survey that is targeted for your area and is representative of the current jobs market.

Pay rate benchmarking activity will enable you to confidently claim that the pay rates are comparable with the local market and you are gaining value for money.

Legislation matters

Throughout this section, it is critically important to ensure that these tips are applied in a way that ensures you comply with any relevant employment legislation.

2. Gaining value for money from temporary worker costs

5 Blend benchmarking with your employer brand strategy

In addition to benchmarking, it is also important to understand your **employer brand** and strategy to attracting and retaining both temporary and permanent workers.

In terms of temporary worker pay rates, it may mean that offering a higher pay rate than competitors will attract and retain a better calibre of worker. This can deliver value for money because better workers, that stay longer will be significantly more productive. For roles where there is a shortage of labour in your local area, it may be prudent to pay higher than your competitors so vacancies don't go unfilled.

The challenge to achieving value for money is truly understanding the local jobs market and offering the right pay rate to match your businesses employer brand strategy.

6 Put authorisation processes in place for pay rate increases

Based on tips 4 and 5, it is inevitable that there will be instances where an uplift of a pay rate is required, such as for niche roles or where there is a low level of candidate availability in your local labour market.

To achieve value for money, it is important to manage this effectively through robust and communicated approval processes. In this way, you can ensure appropriate authorisation is received before any recruitment activity takes place.

7 Standardise temporary worker expenses

From our experience, expenses such as travelling costs, accommodation, food and subsistence can be a hidden and potentially considerable increase on total cost. It is recommended to agree and implement a standardised expenses policy and enforce this with your recruitment suppliers. In this way, expenses are only paid to the agreed rates and items.

Definitions

Employer brand – A set of attributes and qualities, often intangible, that makes a business distinctive, promises a particular kind of employment experience, and appeals to those people who will thrive and perform best in its culture.

3. Gaining value for money from supplier costs

To help you achieve transparency and cost effectiveness in terms of supplier costs, here are seven tips for you to adopt:

1 Review and standardise supplier margins as far as possible

Whether you have a single recruitment agency or a whole supply chain, we recommend you aim for a standard margin for each job category. This approach simplifies procurement and reduces overspend on supplier fees. Communicating with your suppliers and re-procuring them to standardised margins will deliver some 'quick-win' savings.

For large businesses operating in multiple locations this adds complexity but is still achievable so long as careful consideration is given to:

- The diversity of roles across the business
- The availability of candidates in each local labour market for each job category
- The level of candidate mobility: for example, IT professionals are typically more likely to travel further (or relocate) for roles when compared to office-based administrative roles
- The level of competition that exists between recruitment suppliers in each labour market. The fewer the suppliers, the less likely you will be able to negotiate standardised rates
- Your total spend by job category - so you can look to negotiate a better price with recruitment suppliers.

2 Ensure you know how supplier margins are calculated

It sounds simple, but we find that some businesses don't understand how supplier margins are calculated. Making sure you know this can deliver 'quick-win' savings.

The graph opposite shows a simple example of the impact on supplier margins based on different calculations.

In example 1, the supplier's percentage mark-up is 10% of the pay rate, or \$2.00. Adding the \$3.96 contribution for temporary worker costs, gives a total charge rate of \$25.96 per hour.

In example 2, the supplier margin of 10% has been applied to the pay rate plus temporary worker costs (or 10% of \$23.96). In this example, the total invoice value is \$26.36 per hour, which is only 1.53% higher than example 1 but from a supplier perspective, their margin is 20% higher!

It is important that you seek absolute transparency from suppliers about their pricing approach. For certain roles, don't forget to also ask about any potential uplifts in margin. For example, what would happen to the supplier margin if a temporary worker undertook overtime or shift work? Does the margin stay the same or is it applied to the increased pay rate? Our best advice is to keep margins as standardised as possible.

Example impact of not understanding how supplier margins are calculated



3. Gaining value for money from supplier costs

3 Seek clarity from suppliers on their approach to pricing temporary worker costs

These charges are highly complex to administer because they are based on hours used as well as earnings thresholds. It is a complex area for recruitment suppliers to manage and each will have their own approach. It is important to seek clarity from suppliers on their approach to charging you temporary worker costs, such as Superannuation, Workers compensation, payroll tax, professional indemnity and public liability insurances.

4 Stimulate competition among suppliers

It is tempting to rely on loyalty from trusted recruitment suppliers to deliver value, but this doesn't always deliver you the best value for money. In fact, we regularly see examples of businesses that have worked with suppliers for a number of years but are paying them more than double the market average.

Ensuring an atmosphere of professional competition among suppliers is more likely to deliver value for money. This is common practice in the recruitment industry, so don't be afraid to let your suppliers know that you are either working with others or asking new agencies to quote in order to gain the best price. Also, with on-line job advertising coupled with the current employment market, the costs of acquiring candidates in most job categories have never been lower. It is fair and right to assume that a supplier's lower cost of acquiring candidates should be passed on to businesses through lower supplier margins.

Legislation matters

Throughout this section, it is critically important to satisfy yourself that your suppliers are complying with the relevant employment legislation.

3. Gaining value for money from supplier costs

5 Benchmark each supplier's performance

An approach based on competition should also be based on fairness. One way to ensure this is to create and maintain a league table or scoring mechanism to objectively measure supplier performance.

In constructing this, it is important to understand from your hiring managers the importance they place on the performance of their suppliers in a number of areas such as price, speed of response and quality of candidates.

Our approach to benchmarking will give you some ideas that can be implemented quickly.

6 Negotiate discounts for long-term assignments

One example of an opportunity to bring down supplier margins is when you have temporary workers on a longterm assignment. A recruitment agency's cost of sale is invariably linked to winning new business and placing a temporary worker into an assignment for a period of time. Their pricing model will reflect this so ask for a suitable discount if you:

- have a long-term assignment (typically over six months)
- extend an assignment or;
- move an existing worker to a new assignment without them ever leaving your business.

Our approach to benchmarking

Comensura uses a balanced scorecard approach and a supplier tiering (or league table) system that places downward pressure on price and upward pressure on improving quality. Benchmarking like this can be based on a number of factors linked to your temporary labour requirements, such as a supplier's:

- speed to respond to orders
- acceptance or rejection of orders
- pricing for each order
- quality of candidate and whether they meet the requirements for the role
- fill rate versus the orders they receive.

3. Gaining value for money from supplier costs

7 Negotiate on a 'win-win' basis with suppliers

Although competition among suppliers is beneficial, it is also important that you reach a 'win-win' situation where suppliers feel that the relationship is worthwhile. If reducing margins means that you end up with unhappy suppliers, they may well cut corners and won't invest enough of their time in sourcing suitable candidates, which will cost you more in the long run.

Getting the right balance is the key and it is possible to get competitive supplier margins but you need to give something in return. For example, demonstrating your spend and usage patterns of temporary labour and committing a volume of orders with them over a period of time should make it easier for them to offer a lower supplier margin, yet still remain profitable.

In doing this, it is equally important to ensure that the supplier is capable of delivering the quality of candidates that you require based on your volume requirements and that they don't take on too much responsibility.

Remember, a 'win-win' negotiation isn't always achievable and your individual businesses circumstances and approach to using temporary labour may prevent this. In general, the table below is a good place to start from:

This table is of course a high-level overview and many other internal and external factors will also impact the number of suppliers required in order to achieve your requirements. For example, for quick time-to-hire roles, it may be possible to work with a single supplier who truly understands this need and has:

- built their business model to react quickly to your orders and;
- has a database of ready to work candidates available at minimal notice.

With the right model in place - either as a whole or for each job category - you are better placed to demonstrate the opportunities for recruitment suppliers. For larger businesses, one size will not fit all, so a large recruitment supply chain will be best managed by a vendor neutral managed service.

The recruitment supply model based on a variety of factors

Volume of temporary workers	Variety of roles	Number of departments / business units / locations	Recruitment supply model
Low	Low	Low	A single supplier
Low	High	Low	Preferred supplier list
Low	Low	High	Preferred supplier list
High	Low	Low	Sole supply or preferred supplier list
High	High	Low	Vendor neutral managed service
High	High	High	Vendor neutral managed service

Overall tip - Leverage your recruitment spend

If you follow all of the tips in this guide then you will be able to take advantage of the most important point - leveraging your recruitment spend. This can only realistically be achieved once you have a full understanding of your total spend on temporary labour, broken down into the temporary worker and supplier costs. This is fundamental to better demonstrate opportunity to recruitment suppliers.

For large, multi-location, multi-discipline businesses with complex recruitment supply chains, negotiating better value for money with recruitment suppliers may not be as simple. In this instance, working with a vendor neutral managed services provider should be your approach so you can leverage your total recruitment spend.

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 free discovery audit is a no-obligation service that could enable you to gain a greater understanding of your temporary labour supply costs element of this white paper. This includes benchmarking of the rates you are charged by suppliers against the rates we achieve within the \$675m per year of recruitment spend that we manage. It's free, so there's nothing to lose and a lot to potentially gain.

www.comensura.com.au/consulting/pages/consultancy-services.aspx

About Comensura

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

Established in 2001, we have developed a market-leading approach to managing recruitment supply chains. Over 100 clients currently work with us and they entrust us to collectively manage over \$675m of recruitment spend per year. We can take the burden of managing your recruitment supply chain from you and ensure you gain value for money from your suppliers.

www.comensura.com.au

Checklist

Complete this checklist by reading each scenario and ticking the most appropriate statement - A, B or C.
 Once complete, count up your scores and enter it into the totals sections.
 Then read the appropriate statement based on whether you mostly scored A, B or C.

	A: yes we do this at least once per year	B: we do this at least once every two years	C: we do this less often or have never done it
Temporary worker pay and costs			
We check that we have accurate data on all pay rates			
We check that pay rates across similar worker groups are equal, and take action when they are not			
We carry out regular pay rate benchmarking			
We check that our pay rates are aligned to our employer brand strategy			
We ensure that line managers know the pay rates and when they will be reviewed			
We check that our authorisation processes for pay rate increases are being followed			
We check that a standardised expenses policy is up to date and being applied			
Supplier costs			
We review and standardise margins where possible			
We ensure that we know how supplier margins are calculated			
We take steps to stimulate competition among suppliers			
We benchmark supplier performance			
We review agreements to make sure 'win-win' supplier relationships are in place			
We negotiate discounts for long-term assignments			
We report on whether we are getting overall value for money from each supplier			
Totals:			

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 contract management of your recruitment suppliers.
Mostly C's - your business may be in need of a fundamental review of the way it manages your recruitment suppliers.

Comensura PTY Limited, a wholly owned subsidiary of Impellam Group Plc.
Comensura PTY Ltd, Suite 1401, Level 14, 383 Kent Street, Sydney, NSW 2000
Tel: 02 9254 0477