

Outsourcing to a Managed Service Provider (MSP)

Why the MSP Model Proved the Best Option



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www.usc.edu/purchasing/trojantemps



Trojan Temps



Powered by Guidant Group



- Identify size and scope of temporary staffing program at USC
- Summarize key problems with current program
- Introduce solution
- Detail outcome
- Describe lessons learned
- Explain what's next

Size and Scope of Program

- In FY 07/08, USC spent \$12 million on temp labor
 - Excludes temp labor at two hospitals that were acquired by USC on March 31, 2009
- Similar to most other institutions of higher education, labor needs at USC are diverse since we operate
 - Hotels, hospitals, clinics, restaurants, bookstores, offices, classrooms, grounds, facilities, parking lots, etc.
- Temporary staffing program is managed by USC Purchasing Services
 - Treated as a vendor contract

Key Problems

- USC Purchasing Services had too many temporary staffing companies to manage and monitor
 - Issued Purchase Orders to 52+ temporary staffing companies / year
 - Perceived as the breath of companies needed for a large and diverse research university

Key Problems

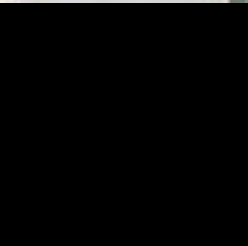
- Lax oversight resulted in:
 - Rate “confusion” and “overcharging”
 - Huge variances among agencies
 - Rate “unfamiliarity”
 - No one in Purchasing understood the temporary labor market
 - Compliance short cuts
 - Background checks were conducted inconsistently (or not at all!)
 - Difficult to cap the maximum number of hours a temporary staff could work

- Hired a consultant who conducted an analysis of three options:
 1. Outsource temporary labor needs to staffing companies (status quo)
 2. In-source temporary labor program and pool
 3. Outsource to a Managed Service Provider (MSP)
- MSP model projected the highest return in three areas:
 1. Cost savings
 2. Risk mitigation
 3. Service

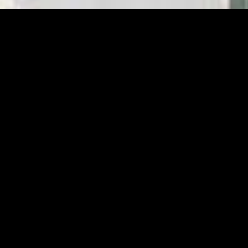
- With MSP Model, USC only has one contract to manage
- On behalf of USC, the MSP:
 - Contracts with a large / diverse pool of temporary staffing companies
 - Establishes and standardizes rates based on industry benchmarks
 - Monitors compliance requirements and contractor service performance
- Receives fee from staffing companies; no fee from USC

- Engaged a large campus-wide committee who endorsed the MSP model
- Selected the Guidant Group, Inc. as the MSP after a competitive bid
 - Headquartered in Houston, TX
 - Is the MSP for Visa, Pitney Bowes, etc...
- Learned that USC is among a small number of academic institutions that outsource temporary labor via an MSP
 - Somewhat more common among university hospitals, mainly for temporary nurses

- Launched the program in December 2008
- Transitioned entire campus by March 2009



- MSP model with Guidant produced more than we expected:
 - Reduced hard-dollar costs
 - Reduced administrative costs (central, departmental, and temporary staffing)
 - Mitigated institutional risk
 - Improved Service
 - Created transparency
 - Improved inclusion of diverse suppliers



Outcome – Hard dollar cost savings

- Reduced costs by @ \$2 million or 17% / year
- Achieved reduction by:
 - Categorizing all temporary job descriptions into 5 groups
 - Standardizing the “markup” rates within each group
 - Definition of “markup”
 - Percentage increase to the temporary staff's pay rate; the amount (revenue) retained by the temporary staffing company for its services; includes a % fee the temporary staff pays Guidant
 - Used to vary from company-to-company
 - Guidant does this for a living; knew what the market would pay

Outcome - Hard dollar cost savings

Markup Rates

| Position Type | Old USC Average Mark-up | New Flat Mark up |
|-----------------------|-------------------------|------------------|
| Admin | 38% | 33% |
| Medical | 60% | 48% |
| IT | 53% | 43% |
| Light Industrial | 50% | 48% |
| Professional | 82% | 42% |
| Payrolled – High Risk | 30% | 21.95-25.90% |
| Payrolled – Low Risk | 31% | 18.95-21.90% |

Outcome - Hard dollar cost savings

- Hard-dollar cost savings further achieved by:
 - Standardizing the “pay rates” by job description (allowing for only a small range)
 - Definition of “pay rate”: The gross amount paid to the temporary staff for providing service; pay rates are set on a per hour basis
- Used to vary from company-to-company
- Many departments were either intentionally or unintentionally over or under paying the market pay rate

Outcome – Reduced Admin. Costs

- Note: Administrative cost reductions not included in the \$ 2 million or 17% cost savings
- Reduced administrative costs by:
 - Consolidating timekeeping into one, on-line system (Guidant's Staff Enabler)
 - All parties report / approve time in StaffEnabler
 - Got rid of 52 different timekeeping systems, including many paper-based sheets
 - All parties have to report / approve in a timely manner
 - Alleviates old/unexpected invoices
 - Improves payment flow through all parties
 - Improves compliance with labor laws

Outcome – Reduced Admin. Costs

- Reduced administrative costs by:
 - Transitioning 85,000 invoices to 54 invoices
 - Paying invoices via EDI instead of hardcopy
- Reduced administrative costs by:
 - Ordering temporary labor on-line
 - Phones and email available, but StaffEnabler can be used end-to-end



Outcome – Improved Services

- Improved Services by:
 - Calling the program TrojanTemps
 - Softens the reality that the program is outsourced
 - Placing two Guidant employees on campus, in Purchasing Service
 - Use campus extensions and campus email addresses (trojantemps1@usc.edu)
 - Use of one MPS eliminates need to sift through long lists of temporary staffing companies and contacting them one-by-one



Outcome – Improved Services

- Improved Services by:
 - Creating over one hundred, ready-to-use job descriptions
 - Eliminating need for departments to create
 - Mitigated co-employment perception by making sure job descriptions were not USC job descriptions
 - Requiring several new service guarantees
 - No charge to non-performers if reported within 48 hours
 - Using StaffEnabler for end-to-end processing



- Mitigated institutional risk by:
 - Requiring Guidant to make sure all staffing companies in Trojan Temps perform USC's standard background checks
 - Use same checks as new employees
 - Costs for standardized background checks included in markup rate
 - All temps must pass before start of work
 - Temps already cleared are noted in StaffEnabler
 - Background checks are redone annually
 - Also checks within USC for 'eligible for rehire'

- Mitigated institutional risk by:
 - Having Guidant ensure temporary staff do not work more the max number of hours set by USC policy
 - Even if the temp was hired by multiple staffing companies
 - Maximum number of hours is 1,400 in consecutive 12 month period
 - Up from 1,000
 - Can return after a 6 month break in service and evidence of having an assignment at an organization other that USC

Outcome – Improved Transparency

- Improved transparency by:
 - Creating a website on which every possible bit of information is disclosed
 - Markup and pay rates, background check requirements, etc.
 - Eliminated confusion and makes certain there are no program secrets

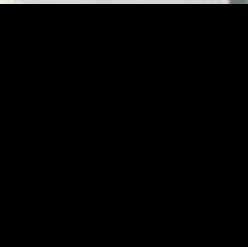


Outcome – Improved Inclusive

- Note: USC has a goal to spend 15% of all procurement dollars with diverse suppliers; large federal contractors also have small business plans
- Improved inclusion of diverse suppliers by:
 - Carefully investigating the classifications of all suppliers, and targeting those with desirable classifications
 - StaffEnabler notes “diverse supplier” next to staffing company’s name

Lessons Learned

- Require a large / cross campus committee to gain buy in
- Need a lot of time to design and launch program properly
- Prepare for some companies to claim they are not temporary staffing companies, even though they provide temporary labor
 - Opera production staff
- Expect some fall out (but not a lot) among the incumbents
 - If they don't want to reduce their rates and pay an MSP, they may bow out



Lessons Learned

- Prepare for opposition from vendors
 - A big MSP (Chimes) went out of business and many staffing companies got hurt and are afraid it'll happen again
 - We were the cash cow for many of our staffing companies
- Prepare to add more groups of pay rates than expected
- Search for a strong MSP
 - Need to find an MSP with a good reputation among contract suppliers
 - Need an MSP that is familiar with the labor needs of a diverse organization

- Continuing with different MSP for the two newly acquired hospitals
 - Decided to keep incumbent in place (basically a mandate to not change anything during acquisition)
- Considering the MSP concept for other commodities
 - Already use for relocation and recruitment
 - Looking at options for other commodities, e.g. furniture, travel, etc.

