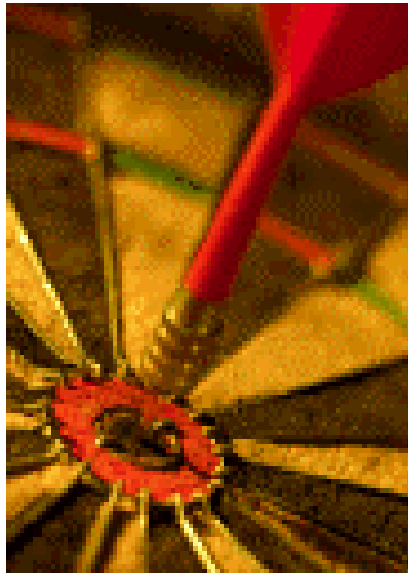


Vendor Management Systems Best Practices Initiative



National Association **NACCB**
of Computer Consultant Businesses

VMS Task Force

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Table of Contents

The Purpose and Benefit of the VMS Best Practices Initiative.....	3
Executive Summary	5
Terms	7
The Basis of Success: Hiring Outstanding Talent and Effective Communications	8
The Role of an IT Consulting Firm	8
The Current State of Vendor Management Systems	9
Defining a Successful VMS Program	10
VMS Issues Raised by Key Stakeholders	11
VMS Issues Raised by Vendors.....	11
VMS Issues Raised by Clients.....	13
VMS Issues Raised by MSPs	15
Ten Questions that Foster Best Practices.....	16
Summary	19

The Purpose and Benefit of the VMS Best Practices Initiative

This Vendor Management Systems (VMS) Best Practices Initiative has been compiled by a task force within the National Association of Computer Consultant Businesses (NACCB). NACCB is a trade association representing IT services firms that provide highly skilled computer professionals to clients in need of technical support and/or IT services and solutions.

The services provided by NACCB members support the flexible workforce paradigm driving the 21st century economy. Similarly, the management of the flexible workforce is a core underpinning of a VMS program. As suppliers to VMS clients, NACCB members want to help clients succeed in their VMS programs.

With the increasing adoption of vendor management programs, there has emerged a wide variance of methodologies with varying degrees of success (or failure). While there is no one “best” program due to a variety of operational, logistical or managerial differences from client to client, a few best practices are surfacing. However, what surfaced during this first phase of our VMS Best Practices Initiative were the many issues and concerns expressed by the major VMS stakeholders whose input was solicited for this initiative:

- Vendors (represented by NACCB members)
- Client "hiring managers" (those responsible for hiring/supervising the talent)
- Client purchasing and finance managers
- Client human resources (HR) managers
- Managed Services Providers (third-party vendors who administer VMS programs)

Subsequently, this document articulates the issues raised by all parties and reviews how successful VMS programs address these issues. While the methods certainly reflect best practices, a later edition of this VMS Best Practice Initiative will offer a thorough compilation of practices that may be used as a guide for clients and others who are designing, implementing or modifying a VMS program. This later edition is anticipated later in 2003.

It should be noted that this initiative addresses VMS programs as related to information technology (IT) staffing. We recognize that VMS programs also encompass staffing in other areas such as administrative, manufacturing and clerical. However, the reader should realize that this document was written from the perspective of IT and that many of the issues discussed are specific to IT. Also of note is the possible effect of market pressures as they relate to the issues that are raised by certain stakeholders - in other words, cost control pressures are undoubtedly causing some of the issues, not necessarily VMS program design.

This initiative was created for four purposes:

1. To raise awareness of critical issues faced by NACCB members/vendors in VMS programs.
2. To initiate discussion and open dialogue amongst all VMS stakeholders in an effort to mutually understand each other's needs and collaborate toward mutual success.
3. To compile and share a Best Practices Body of Knowledge for VMS Programs based on input from all stakeholders.
4. To help NACCB members gain knowledge of successful VMS programs so that they can do a better job for their VMS clients.

We strongly believe that open and frequent dialogue between all involved parties is the key to successful VMS programs. We offer this VMS Best Practices Initiative as the first exchange of information, input and ideas that can promote best practices and subsequently increase returns for clients.

In order to enhance the value of this initiative for all VMS stakeholders, we strongly request and urge widespread industry participation. Please e-mail any comments, input, experiences and best practices that have worked for you to staff@naccb.org.

Executive Summary

The National Association of Computer Consultant Businesses (NACCB) organized a task force to study Vendor Management Systems (VMS). The initiative was launched to:

- (a) Help NACCB members and their clients understand and build successful VMS programs.
- (b) Open a dialogue between VMS stakeholders - clients, vendors, managed service providers (MSPs) and consultants.
- (c) Develop a VMS Best Practices Guide.

Vendor Management Systems are increasingly being adopted by organizations seeking to centrally and efficiently manage their contingent workforce. A primary reason cited by clients for VMS program implementation is cost reduction, from billing rates to administrative costs. Still, the ultimate goal is to hire quality talent and this must remain explicit so that the VMS process supports the goal. Accordingly, a successful VMS program is one where clients work with the best vendors to obtain quality, productive people, at competitive market rates, on a timely and efficient basis.

VMS programs for information technology (IT) consultants are a relatively recent phenomenon - consequently, much is still being learned. Indeed, the magnitude of issues conveyed to the task force by clients, vendors and managed service providers (MSPs) suggests the urgent need for collaborative dialogue between all VMS stakeholders in order to attain success and continuous improvement of VMS programs. Therefore, this initial document presents these issues for industry consideration and will be followed later this year with a published Best Practices Guide.

An independent survey by third-party Jordan Group, Inc. confirms the prevalence of significant issues and the need for dialogue between key VMS stakeholders. In the VMS Providers' Scorecard (February 2003) 78% of IT consulting firms gave "poor" to "fair" satisfaction ratings on MSPs. Not all MSPs received low ratings, however. This study is available online at www.jordangroupinc.com.

Key issues raised by vendors to the NACCB Task Force include:

- Costs of VMS participation - Mandated program fees and discount structures are obvious added costs but less obvious costs include higher recruiting expenses due to typical lower fill ratios (candidates presented to actual placements) and increased administrative costs due to a plethora of processing procedures for each separate VMS program. With the average computer consulting firm earning only 3.5% before taxes, these new expenses are significant.
- Processes that encourage low-quality recruiting - Programs with too many vendors, poor communication and responsiveness on submittals and/or an emphasis of speed over quality negatively impact the recruiting process.
- Poor communication and feedback - Lack of communication, to some degree, seems to be a root cause of VMS programs not reaching full potential. All stakeholders must communicate openly and often.

Key issues raised by clients to the NACCB Task Force include:

- Restrictions of an added layer - VMS programs that do not provide some means of fully communicating the needs of hiring managers and their feedback on candidates to the vendors are counterproductive. Similarly, an efficient method of communicating issues or problems with consultants on assignment must be incorporated.
- Under-trained or under-qualified VMS staff - Successful VMS programs have VMS managers who are well versed in IT, process management and communication skills.
- Reduced quality of candidates due to cost pressures - If cost reduction is the overriding objective of a VMS program, poor quality of candidates often results. Bill rates and margins artificially reduced outside of normal market forces can produce a pool of lower quality candidates and/or high quality individuals who may leave when the market accelerates.

Key issues raised by MSPs to the NACCB Task Force include:

- Disgruntled stakeholders - Vendors and client hiring managers who work against the VMS program impair the program and potentially harm themselves. Rather than fighting, issues must be raised in a positive environment of collaboration towards building a successful program.
- Unrealistic expectations - A successful VMS program must have well defined objectives and expectations - with both clients and vendors.
- Poor feedback from hiring managers - VMS program managers take undue heat when key information is delayed or not conveyed during the recruiting and hiring process - from initial information to feedback on submitted or interviewed candidates.

Ten questions were developed that can help clients build successful VMS programs:

1. Have you included hiring managers/users and vendors in the design and periodic evaluation of the VMS program?
2. Do you have the proper number of preferred vendors to work with?
3. Do you provide the means for responsive communications?
4. Do you encourage candidate quality over resume submittal speed?
5. Do you have limits on the number of resumes vendors may submit per job order?
6. Do you provide vendors sufficient detail on the job requirements?
7. Do you have adequately skilled VMS staff reviewing the resumes?
8. Do you provide vendors with prompt and sufficient resume and interview feedback?
9. Do you negotiate "too hard" on pricing and contractual terms with vendors?
10. Do you track vendor and program performance and share it with the vendors?

Good VMS best practices are emerging and this initiative will continue with the compilation and publishing of a "VMS Best Practices Guide" later in 2003. We hope that opening up these VMS issues for collaborative discussion is a positive step towards continuous VMS improvement. For more information on this topic, contact an NACCB member or visit the NACCB website at www.naccb.org.

Terms

Although there are variations, the following terminology is generally recognized throughout the industry, and is useful to define as a foundation for this document:

VMS – Vendor Management System. Generally refers to the software that's in place that facilitates the requisitioning and procurement process of filling temporary staffing requirements. A typical system tracks costs and integrates pertinent data into existing financial and human resources databases.

VMO – Vendor Management Organization. The body of policies and procedures that surround the VMS software. The VMO can be either managed internally by the client or outsourced to a third-party such as a Managed Services Provider (MSP).

MSP – Managed Services Provider. A company that typically partners with a VMS provider and maintains an on-site program management presence.

VOP – Vendor on Premise. Typically an on-site management solution provided to a client by the primary staffing provider, whereby the suppliers' representative(s) acquire and manage contingent workers.

Primary Vendor(s) – Refers to the direct contractual relationship between a consulting vendor and the end client. A typical vendor management program will have a number of primary vendors, but there can be one primary vendor who can then use sub-vendors.

Sub-Vendor(s) – Those staffing firms that work through a primary vendor.

Vendor Neutral – A program that is based on the client's desire to have a "level playing field" for the preferred suppliers. Depending on client agreements, a VOP or MSP serving as program administrator may participate in the program as one of the staffing suppliers, but is not given preferential treatment.

The Basis of Success: Hiring Outstanding Talent and Effective Communications

A company's strategic vision and goals are, of course, carried out by its people. The first imperative of an organization's managers and human resources (HR) team is to hire outstanding, productive and committed people that will get the job done. That's the fundamental goal.

The fundamental goal of a VMS program is the same: *to hire outstanding people*. As elementary as it seems, this keystone of a successful program can often get lost in the surge of activity surrounding VMS implementation or management. Processes and systems are irrefutably important...but they are only the means to the end.

Notably, this goal stands out as one that is unequivocally shared by all parties in a VMS program: the client, the VMS managers, and the vendors. While each party has objectives specific to their interests, the central common purpose is the acquisition of quality people. This supersedes - or *should* supersede - every other objective.

To make this happen, communication amongst all parties is paramount. Without it, the acquisition of outstanding people becomes even more challenging. Successful VMS programs adopt procedures that facilitate and foster communication - yet still achieve process efficiencies.

The Role of an IT Consulting Firm

Simply put, the role of an IT consulting/staffing firm is to deliver outstanding, productive, cost-effective and committed IT consultants who will get the job done. But while the ultimate goal is simple, the methodology – and subsequent value to the client – is multifaceted.

If hiring quality IT consultants were strictly a matter of resume collection and sorting, clients would not really need IT consulting/staffing firms. Many candidates possess the right technical skills. Sending over a resume with the right skills is easy; sending the right person for the job is very difficult and invaluable – especially when you consider that today's resumes are loaded with buzzwords and acronyms to “fool” resume search engines. Intimate knowledge of the client's culture, technical environment, management style, goals and capabilities is crucial. That, coupled with the same understanding of each candidate's skills, personality, values, needs and goals, is what defines the value-added role of an IT consulting firm.

In order to gain intimate knowledge and understanding of the client and its needs, communication is essential. Successful VMS programs are structured to provide some channel of communication between clients and vendors so that vendors thoroughly understand all the critical factors that constitute a good candidate fit. The role of a vendor management organization (VMO), whether internal or external, should be to facilitate vendor/hiring manager communications, not block them.

In fact, facilitating this important facet of a good hiring process will help a VMS program meet another key objective: efficiency.

“Process improvements and efficiencies delivered by IT consulting firms are of real value,” states former NACCB CEO Don McLaurin in *The Talent Economy* (9/01). “The IT services industry has brought about a just-in-time talent concept and continues to improve upon its ability to deliver the right talent, where it needs to be, when it needs to be there.”

With communication and feedback, the best consultants with the right skills and fit with the client will be provided. Efficiency will be gained in terms of reduced mismatches/wasted interviewing time. Most importantly, retention and productivity will be better.

The Current State of Vendor Management Systems

VMS programs are a relatively recent phenomenon – at least in the sense of a macro trend. While individual corporations may have had some type of centralized program to manage their staffing needs, it has only been within the last several years that VMS programs have been formalized and more widely adopted. In a July 2002 survey of IT services vendors conducted by The Jordan Group, Inc., 91% reported clients using vendor management systems. The percentage of their clients using VMS services ranged from 5% to 72%, with half of the participants reporting VMS programs in place at 5% to 20% of their clients.¹ Most expect this to grow over the next several years as the issue of human capital management becomes more important.

VMS is clearly still evolving. While it's difficult to pinpoint precisely where the trend is on a typical product life cycle curve (development, introduction, growth, maturity, decline) it is arguably somewhere between late-introduction and early-growth. At this stage, trial-and-error plays a large role in guiding future direction. Corporations that have instituted VMS programs are learning what works and what doesn't and rightfully adjusting their programs accordingly.

Part of the VMS evolution and adjustment is attributable to changing reasons for its implementation. In other words, the impetus behind adopting a VMS has a lot of influence on the way the program is structured. During the late '90s when vendor management programs began to take hold, the demand for IT talent exceeded the supply. In this environment, clients saw VMS programs as a strategy to improve the process of human capital acquisition by getting good vendors to provide good people in a timely and efficient manner. VMS programs were structured accordingly. This was classic supply chain management, where all interactions with vendors are handled through a single system for reasons of efficiency.

However, as the economy soured in 2000 through 2003 and the supply of IT talent outstripped demand, VMS programs were increasingly adopted as a cost control strategy. Consequently, most of the more recent VMS systems, policies and procedures favor a discount model with pressure on rates and margins. While this is good company management, particularly in a difficult economy, care must be taken to maintain the quality of vendors and consultants.

¹ Vendor Management Services, Compensation, Outplacement and Key Issues, July 2002, The Jordan Group, Inc.

Other reasons often cited by customers as why they implemented a VMS include:

- Gain control of supplier base
- Achieve consistent pricing for like skills
- Maximize competitive dynamics for each job opening
- Potential supplier base reduction to provide more favorable pricing
- Electronic billing through one source
- Reduced administrative load and costs
- Consolidated reporting
- Single point of contact
- Access to a large number of vendors
- Reduction of the number of vendor calls on hiring managers

Overall, the VMS trend is part of a larger movement in corporate America that recognizes and encompasses the contingent workforce as well as permanent employees in their human capital management strategy. Simply put, organizations want to know who's working where and determine if their utilization is optimized.

Defining a Successful VMS Program

A successful VMS program is one where clients work with the best vendors to obtain quality, productive people, at competitive market rates, on a timely basis. This is done within a framework of centralized management that bridges the needs of the user community (hiring managers) and the supplier community in an efficient, yet dynamic manner. Communication is fostered amongst all parties in a collaborative spirit to achieve success and mutual benefits.

On the other hand, a deficient VMS program is counter-productive to the goal of obtaining the best talent at competitive rates. Parties have misgivings about each other or feel that benefits are accruing disproportionately to one or the other party. Hurdles are erected between key stakeholders and information and feedback is suppressed.

As VMS programs have evolved, best practices are undoubtedly emerging. However, as stated earlier, these have not yet been compiled in an industry body of knowledge. This first phase towards building that body of knowledge admittedly places the spotlight on the issues that stand in the way of successful VMS programs. Yet understanding these issues should foster dialogue among all VMS stakeholders and enable identification of best practices that result in successful VMS programs.

VMS Issues Raised by Key Stakeholders

Three key VMS stakeholder groups - clients, vendors and MSPs - were recently asked by the NACCB Task Force to outline key concerns and issues to address if continuous improvement of VMS is to occur. Interestingly, some of these issues are opposite the stated intentions and benefits of a VMS program. The actual verbatim responses can be found on the NACCB website, www.naccb.org/vms21.pdf.

VMS Issues Raised by Vendors

This section addresses key issues distilled from sixty-four that were mentioned by vendors in a survey of NACCB members. Many of these issues also came to light in a separate, third party study entitled *VMS Providers' Scorecard*² by human capital management specialists The Jordan Group, in which 78% of IT consulting firms gave "poor" to "fair" satisfaction ratings on MSPs and 72% reported that they do not receive regular feedback on their performance as a vendor. At the same time, some MSPs were given good ratings - an indication that there *are* well designed and managed programs and that vendors raise the following issues in a spirit of collaboration towards continuous VMS improvement.

Costs of VMS Participation

Vendors are often told that participation in a VMS should reduce their cost of doing business with the client. Client-perceived cost reductions include sales costs (a salesperson isn't needed) and economies of scale (access to more job orders). In reality, however, vendors' costs of business increase in working with most VMS programs:

- Recruiting costs skyrocket because vendor "fill ratios" plummet. Historically, IT consultant firms have averaged somewhere between 3:1 and 5:1 – that is, for every 3 to 5 resumes/candidates presented, one placement is made. Vendors involved in VMS programs now report typical fill ratios between 12:1 and 20:1 or more, effectively quadrupling recruiting costs.
- Sales costs do not altogether disappear, as someone still needs to manage the account and serve as the "client advocate" at the vendor. In most consulting/staffing firms, the account executive (salesperson) typically does this. Even if the compensation plan is reduced, there are still real costs including taxes and fixed costs.
- Administration costs increase due to the inputting/processing procedures associated with VMS software. In addition, most quality vendors are participating in several VMS programs, each of which has its own procedures, causing increased administrative training and internal inefficiencies. Granted, this is the price you pay to do business with more VMS clients, but it is nevertheless a real cost.
- Program fees are usually borne by the vendors, which can add anywhere from 1.5% to 5% in costs.²

² VMS Providers' Scorecard, The Jordan Group, Inc., February 2003

- Assorted discount programs are written into some VMS contracts, including volume discounts, early payment discounts, tenure discounts and right-to-hire conversion discounts, ranging from 0.5% to 5%.² Because consulting firms want to deliver quality consultants first and foremost, and competitive rates must be paid to the consultants in order to obtain and retain them, additional discounts are absorbed by the consulting firms.

Considering that the average computer consulting firm earns only 3.5% before taxes, these new expenses are truly significant.³

A Process That Encourages Low-Quality Recruiting

Despite having access to all of a client's job orders, experience has shown that the increased job order activity still does not result in more business – unless the VMS program is constructed to limit the amount of participating vendors. Some VMS programs have so many vendors that a reasonable payback for vendors is virtually impossible. NACCB members have reported upwards of 50 or more vendors on a VMS. Not only does this exponentially increase recruiting costs for little return, it also saps the productivity of the client's VMS manager(s) and hiring managers. Everyone is swimming in a torrent of resumes instead of concentrating on process improvement. Double submittal incidents spike due to "cross traffic" among vendors. Feedback on candidates is virtually impossible, ensuring perpetuation of vague submittals in the future. And of course, encouraging the communications with hiring managers is made that much more difficult with such a large vendor list.

Scenarios such as these lead to yet another major problem that has surfaced in many VMS programs: the emphasis of speed over quality. Some programs intentionally build this emphasis into the program, for example by closing job orders in 24 hours. Others don't limit the number of resumes that can be submitted by individual vendors yet place a limit on how many resumes in total they will accept before closing the job order. Obviously, the scramble is on to work as fast as possible so vendors have at least a fleeting chance for a placement. The sourcing and qualification process inevitably falls short, simply because time doesn't permit a higher level of recruiting. The common result: "okay" candidates, but often not the best.

Consistently recruiting quality IT talent is detail-oriented and time-consuming - a VMS process that works against this works against the fundamental goal of efficiently hiring outstanding people.

Poor Communication and Feedback

Communication and feedback cannot be emphasized enough...communication between VMS managers and vendors; communication between hiring managers and vendors; and communication between VMS managers and hiring managers. This last point is critically important for program success, as feedback to the vendors on submittals ensures an efficient process and provides vital knowledge on "fit" for current and future reference.

Lack of communication, to some degree, always seems to be a root cause of VMS program failure and programs not reaching their potential. Conversely, open and frequent communication is by far

³ 2002 NACCB Operating Practices and Trends Study for the IT Industry, National Association of Computer Consultant Businesses

the chief underpinning of successful VMS programs. The following case history provided by a NACCB survey respondent illustrates this:

CASE HISTORY: A rescued VMS program

A client had implemented an inefficient VMS program. Vendors struggled to adjust, but had little success. The quality of talent began to suffer and the better vendors were leaving the program.

The client assigned a new VMS manager to get to the root of the problem. One of his first steps was to meet with vendors, where he opened with this question:

“How many of you are looking to replace us as a key customer?”

Nobody said a word, but the manager sensed the wariness in the room.

“We don’t want that to occur. What do we need to do to improve things?”

A dialogue was opened and it was the start of steady improvements and increased returns for the client – and the vendors.

VMS Issues Raised by Clients

This section addresses key issues distilled from thirteen that were mentioned by clients to the NACCB VMS Task Force. (It should be noted that not all clients experience these issues.)

Restrictions of an Added Layer

Effective communications between vendors and IT hiring managers is critical for program success. Not only is this essential at the hiring stage but also when issues arise regarding consultant performance. VMS adds a new layer that has the potential to hinder such communications if processes are not built into the program allowing this.

Some IT hiring managers report total restrictions on communicating with the vendor unless done through the VMS program office - making it unwieldy to solve problems. As a result, every party is negatively impacted in some way:

- The IT manager is not getting the issue resolved quickly enough, potentially causing disruption and impairing departmental and company productivity.
- The consultant may be frustrated and disgruntled, further exacerbating his or her performance.

- The VMS office/MSP is mired in an issue that detracts from their chief role of efficient acquisition of good talent - and is being negatively perceived as an adversary to its customer: the client
- The vendor is stymied in addressing and resolving the issue quickly for the benefit of all parties

Under-Trained or Under-Qualified VMS Staff

Successful VMS programs have VMS managers who are well versed in IT, process management and communications skills. Such individuals can truly spell the difference between a good VMS program and one that is failing. Obviously, VMS program design is at the core of a good program, but even the best-designed programs can stumble when managed by under-qualified or under-trained staff.

Under-qualified VMS staff represents the client company in an unfavorable or unprofessional way to vendors and consultants. There is high potential for reduced quality and lower customer satisfaction. A large number of poorly screened candidate resumes are forwarded to hiring managers, increasing everyone's frustration and workload (including the VMS staff).

Some clients cite high VMS staff turnover when poorly-trained or under-trained individuals become frustrated or replaced - which leads to a self-perpetuating cycle of VMS teams without adequate knowledge of the client, business, technology and local technical talent market.

Reduced Quality of Candidates Due to Cost Pressures

A good VMS program balances costs with efficiency and quality. However, when cost-reduction is the sole driving thrust of a VMS program, clients themselves can become frustrated. Of course, there are a number of constituencies within a client - HR, purchasing, business managers and IT hiring managers being primary audiences with differing needs and perspectives. The key is to involve all of them in the design phase of a VMS programs.

Interestingly, VMS fees that are generally imposed upon *vendors* have been cited by clients as getting in the way of quality. It is their perception that suppliers saddled with expensive fees or discounts are forced to submit lower-quality consultants who will accept lower rates. Market dynamics naturally fluctuate, of course, and there are many high-quality consultants available in today's market at significantly lower rates compared to a year ago. But when rate structures are artificially reduced further, quality issues can still be discernible - for example, in morale, productivity or prematurely departing the project as the labor market demand increases.

The Loss of a Trusted Partner

CIOs participating in a recent NACCB roundtable unanimously cited a vendor's track record with them as the most significant criteria determining additional future business relationships. They look for vendors who "know their stuff" and who have established a solid reputation in terms of delivering productive, high-quality consultants. Yet many VMS programs do not divulge the vendor's name when passing along submitted resumes to the hiring managers.

On one hand, this procedure removes bias or favoritism - candidates sell themselves on their own merits. On the other hand, some hiring managers are disenchanted with a program that removes

an important factor they used in their decision-making process: the comfort factor in dealing with a trusted vendor with a good track record.

Good VMS programs address this, generally by including good-performing vendors in the first phase of a new VMS implementation, but making sure that they realize performance will be tracked and used as a key criterion for future program participation. It's also a good idea to share performance metrics with the hiring managers so that they are kept informed and on the same team.

VMS Issues Raised by MSPs

This section addresses key issues distilled from seventeen that were mentioned by MSPs to the NACCB VMS Task Force. (It should be noted that not all MSPs experience these issues.)

Unrealistic Expectations

A good MSP is committed to building and managing a successful VMS program - failure results in losing clients and their reputation. However, MSPs point out that troubled programs are often the result of undefined or poorly defined objectives and expectations. Clients may have unrealistic expectations particularly given insufficient internal support or resources. Vendors may also have unrealistic expectations of the MSP that may be out of the MSP's control. Again, as stated numerous times throughout this document, thorough and frequent communications are key to ensure against this.

Disgruntled Stakeholders

Much has been said in previous sections about vendors' and clients' dissatisfaction with VMS programs. However, MSPs get very frustrated with disgruntled hiring managers or vendors who fight and work against the VMS program. The bottom line is, the program is implemented for a reason and fighting it is not productive for anyone concerned.

What *is* productive is a forum or ongoing means to air and discuss any issues in a collaborative spirit. Again, open and frequent communications is the platform for resolving issues and ensuring a successful program.

It's also important to engage other client constituencies in the communications process as well. Too often, the MSP is forced to implement decisions made by Purchasing or HR that negatively impact IT managers - but those constituencies never communicated with each other. The MSP is merely the enforcement arm.

Poor Feedback from Hiring Managers

Feedback on candidate submittals and/or questions about a job requirement is crucial for an efficient process that delivers the best-fit candidates quickly. Just as vendors express this need from VMS program managers/MSPs, so do MSPs express this need from hiring managers.

Ten Questions that Foster Best Practices

As brought out in this document, designing a successful VMS program is a difficult undertaking. There are many issues and processes involved and one program does not fit all. However, there are some fundamental practices that can lead to a well-designed program, practices that will be thoroughly detailed in a future edition of the VMS Best Practices Initiative after input from the industry stakeholders. In the meantime, however, the following questions may help move clients towards a successful VMS program:

1. Have you included hiring managers/users and vendors in the design and periodic evaluation of the VMS program?

The needs of all the constituencies must be taken into account when designing a VMS program. A balance must be created between the needs of the end user (the department that employs the contingent worker), the needs of procurement and HR, the needs of the VMS program managers, and the needs of the staffing companies (who also represent the needs of the consultants). Everyone is on the same team working towards the same objectives: program success, payback and ensuring an efficient and proactive hiring process that results in hiring the best people at the most reasonable rates.

2. Do you have the proper number of preferred vendors to work with?

Too many vendors and you will lose the interest of vendors who perceive the probability of making a placement as too low. Not only would even their “fair share” be small, but at the same time their recruiting costs go up in parallel with worse fill ratios. For example, if there were 10 vendors, a fair share would logically average out to 1 placement for every 10 times a vendor recruits. Increasing that to 50 vendors means recruiting 50 times to make that same 1 placement.

Too few vendors can also be problematic, so you have to closely examine your anticipated needs, factor in reasonable fill ratios to keep vendors interested, and determine the optimum number. Also, many VMS programs have “secondary” or “tier 2” vendors. Do you have a sound procedure for using secondary vendors? Secondary vendors understand their position, but in order to maintain a quality secondary list it’s important to offer them realistic opportunities – you may need them someday.

Remember the Total Quality Management (TQM) recipe for increased quality: fewer, closer partners – not a cast of hundreds.

3. Do you provide the means for responsive communications?

If you don’t allow this, you will lose the interest of vendors that place great importance in directly understanding the needs of your managers and in playing a consultative and advisory role to your organization. These high-service vendors are the vendors that you want.

Contrary to what many think, allowing controlled communication with hiring managers actually increases the VMS program efficiency because the candidate/client match is focused and the total time spent sorting and interviewing is shortened. Also consider the need for proactive management of consultants currently on assignment. Suggestions include allowing communications for your select vendors only or simply providing for scheduled teleconferences.

4. Do you encourage candidate quality over resume submittal speed?

If you're receiving too many resumes very quickly with disappointing results, it may be that vendors are skipping important recruiting, screening and evaluation tasks in order to submit a resume before the requirement is closed. Tell your vendors you will collect resumes 48 to 72 hours before you make any hiring decisions. This will result in their presenting you with "best fit" candidates versus "first fit" ones.

5. Do you have limits on the number of resumes vendors may submit per job order?

Limits are a good idea for both clients and vendors. They prevent clients from being deluged with resumes and encourage vendors to be selective in whom they submit. A reasonable number of resumes per vendor depends upon the size of your vendor list, but one to three per vendor seem to work well. This allows the vendor to be selective and still realize an acceptable fill ratio – assuming your vendor list is not overly large.

CASE HISTORY: A successful VMS program

A successful VMS program has 10 primary vendors on their "Tier One" list. Each vendor is allowed to present 2 candidates within 72 hours, giving the VMS program manager a choice of 20 candidates to fill the position. The VMS manager can present up to 5 candidates to the hiring manager(s).

This program allows each vendor sufficient time to find and submit high quality, best-fit candidates. At the same time, the VMS is not deluged with resumes and picks from an excellent candidate pool. The hiring manager sees the cream of the crop. Everyone's time and effort is maximized.

Vendor performance metrics are tracked and shared with vendors, and Tier One vendors are reviewed every six months on submittal and quality. If any Tier One vendors are dropped, Tier Two vendors are evaluated for promotion into Tier One and new vendors may also be considered at this time.

6. Do you provide vendors sufficient detail on the job requirements?

Skimpy requirements produce skimpy candidates. Your requirements should be thorough and complete regarding technical skills, application skills, interpersonal skills, position responsibilities, duration, option-to-hire, etc.

When questions arise on requirements, make sure you respond quickly and effectively to the vendors. Respect the fact that the better vendors typically ask more probing questions, which allow them to better pinpoint the most appropriate candidates.

7. Do you have adequately skilled VMS staff reviewing the resumes?

If not, they will likely base their decisions on resume acronyms and buzzwords – which unfortunately may encourage some vendors to embellish resumes to secure an interview.

8. Do you provide vendors with prompt and sufficient resume and interview feedback?

Responsiveness to vendors is a key attribute for VMS success. Without feedback, vendors will not learn or improve from the experience so they can better serve you. Feedback must be prioritized. However, even if you as a VMS manager do not have feedback from the hiring managers, at least be responsive.

9. Do you negotiate "too hard" on pricing and contractual terms with vendors?

If so, you may discourage vendors from submitting their best candidates – which they will present to more favorable clients. You may also find your vendor list consisting of companies that compete on price versus quality – which is probably not what you desire.

10. Do you track vendor and program performance and share it with the vendors?

The good vendors want to know how they are performing so that they can improve. Likewise, they want your program to succeed so that they succeed...a classic win/win. The exchange of information and ideas provides invaluable insight.

MSPs should freely share information about the program performance, forecasts and goals with the vendors. If it is a good way of doing business, why keep key stakeholders in the dark? If there are some chinks, you may be surprised to hear constructive ideas about repairing them. Communication must be prioritized.

Summary

VMS programs are here to stay, but flexibility and ongoing evaluation of a VMS program is extremely important. All stakeholders have an interest in making a VMS program successful. Subsequently, all stakeholders should be consulted from the beginning and throughout the program implementation and modification.

Together, we need to construct win/win VMS programs so that value-added providers are on-board to help clients achieve their IT, financial and HR goals.

The emphasis on the price and cost of consultants should be replaced by an emphasis on value, productivity, and return on investment. Poorly constructed VMS programs may win the battle but lose the war - that is, low-pay consultants may actually be costing more if it takes longer to get the job done, it's not done correctly the first time, there is high consultant turnover and your best vendors are driven away.

Again, as stated at the outset of this document, we hope this opens a constructive and ongoing dialogue between vendors, clients, MSPs and consultants. With additional input, this initiative will succeed in compiling and publishing a VMS Best Practices Guide that will be a living document that continues to evolve as additional best practices emerge. The NACCB VMS task force again welcomes input via the NACCB at staff@naccb.org.

We conclude with the exhortation that has repeatedly surfaced throughout this document: communicate.