

THE BEST RUN



Agility isn't always on the payroll

Gain full visibility of your
external workforce to help you
drive better business outcomes

Agile Procurement
Insights Research
by SAP

in collaboration with



OXFORD
ECONOMICS

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Contingent labor and services are large, under-managed spend categories

There's a huge spend category that may not be on your radar. Only 58% of workforce spend is on employees. **The other 42% of workforce spend is on external labor.** The external workforce comprises:

- **Contingent workers:** Individuals hired to work for a company, but not as employees. They include independent contractors, freelancers or temporary labor, and could be contracted via staffing agencies, through freelancer marketplaces, or directly by the company.
- **Services providers:** Organizations that provide services delivered by people, typically contracted via a Statement of Work (SoW). Examples include consulting firms, IT outsourcers, marketing agencies and call centers.

The external workforce gives companies the flexibility they need for business resiliency, helping to support peaks and fluctuations in demand.

Many organizations lack visibility into this large and critical spend category, and do not manage it effectively. This reduces business agility, creates compliance and security risks, and means organizations are leaving money — and value — on the table.

But it doesn't have to be this way. **Some organizations actively manage their external workforce and achieve greater ROI.** Read on to learn the secrets of their success.

SAP collaborated with Oxford Economics to survey 2,050 executives in more than 20 countries and a variety of B2B and B2C industry sectors across two research studies to understand:

1. The impact of technology and process digitization on the procurement function
2. Organizations' use and management of the external workforce.

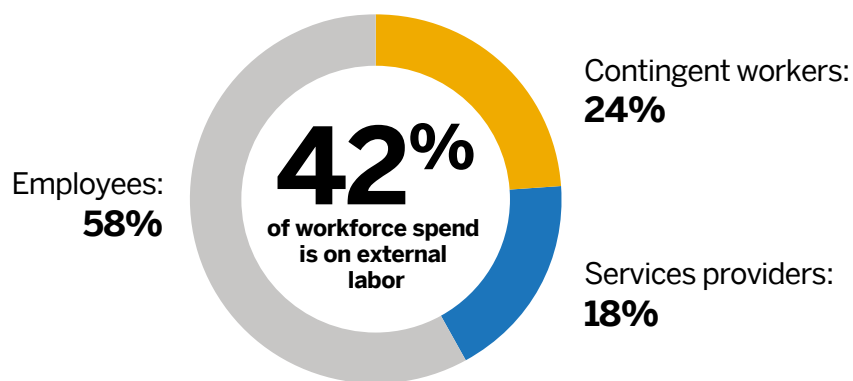
One-third of these executives are in the C-suite. From a qualitative perspective, we conducted interviews with executives to gain their insights. In this report, we focus on the executives who manage these important spend categories — and share what the leaders do to realize better ROI. For more information, please see the research methodology section at the back of the report.

The external workforce is essential for business resiliency and agility



Many believe the external workforce will continue to grow in the future, because of the flexibility it provides. Martin Thomas, Head of Total Workforce Management at Royal Philips, says: “I can see a world where the external workforce makes up an even greater proportion of the workforce. That’s a future we anticipate for Philips.”

Fig. 1: Split of workforce spend across employees, contingent workers and services providers



“ I can see a world where the external workforce makes up an even greater proportion of the workforce. That’s a future we anticipate for Philips.”

Martin Thomas
Head of Total Workforce Management, Royal Philips

The external workforce operates at the core of the enterprise.

More than half of executives (55%) say their company would be unable to conduct business as usual without an external workforce.

Fig. 2: The external workforce fuels business resiliency

Percentage of executives who agree with the following statements about their external workforce

The external workforce helps us compete in a digital world

63%

The external workforce provides extra capacity to help manage peaks in demand¹

62%

The external workforce is essential to getting work done¹

61%

The external workforce helps our business recover from downturns¹

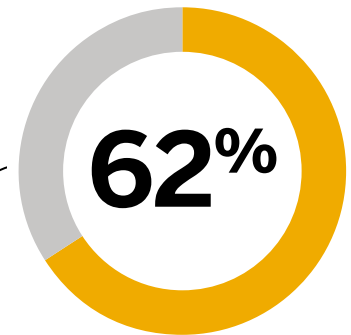
54%

The external workforce also helps organizations source the skills they need. In fact, 61% of executives say external workers are important to meet business needs for specialized new IT and digital skills, and 58% for industry-specific skills.

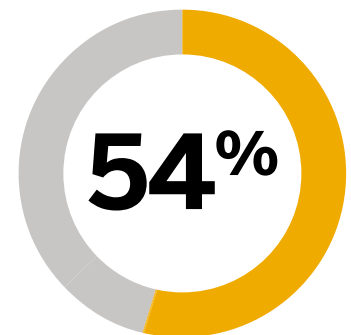
Lisa Zak, Director of Strategic Sourcing at Medtronic, the world's largest medical device company, sums it up well: **"Many C-level executives don't have the external workforce on their radar because they are not aware of the extent to which it comprises their total workforce mix and fuels growth and innovation of their business."**

The external workforce helps organizations realize a broad range of business goals

The external workforce helps companies meet business goals including managing costs (73%), boosting organizational agility (64%) and reducing risk (64%) — all critical capabilities for business resiliency. JP Stadelmann, Head of Purchasing for the External Workforce at Swisscom, remarks: **"For us, the value of the external workforce has never been cost. It's flexibility. It's strategic."**



of executives say the external workforce provides extra capacity to help manage peaks in demand¹



of executives say the external workforce helps their business recover from downturns¹

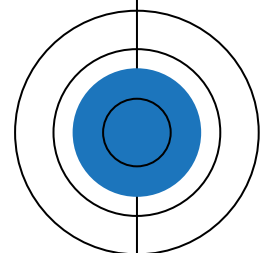


Fig. 3: The external workforce is crucial to meeting business goals

Percentage of executives who say the external workforce is “important” or “extremely important” in meeting business goals

Managing costs

73%

Operating at full capacity/meeting market demands

73%

Improving the customer experience/client satisfaction

70%

Increasing organizational agility

64%

Reducing risk

64%

Increasing speed to market

62%

Developing or improving products and services

58%

“For us, the value of the external workforce has never been cost. It’s flexibility. It’s strategic.”

JP Stadelmann

Head of Purchasing for the External Workforce, Swisscom

The external workforce operates across the enterprise

External workers are important to meeting business needs across the organization:

- Support services (84% of organizations)
- Field services/manufacturing (70%)
- Outsourced projects (64%)
- Corporate staff, such as IT, Finance, Marketing and Legal (56%)
- Seasonal workers (48%)

Spend on contingent workers and services needs to be actively managed and better controlled. Why now?

The external workforce is a top priority right now, because it helps organizations to pivot quickly in this uncertain economic environment.

The McKinsey Global Business Executives Survey reveals that approximately 70% of executives anticipate they will hire more on-site temporary workers and freelancers in the next two years, compared with pre-COVID levels.²

According to Andy Bartels, Vice President and Principal Analyst Serving CIO Professionals at Forrester, organizations are likely to ramp up their external workforce when the economy recovers from COVID-19: **“As the economy starts to pick up, companies will tend to bring contingent workers on first, as they are uncertain about how strong the recovery will be... As growth strengthens, they may start relying on contingent workers to manage peaks in demand.”**³

The opportunity

Despite organizations' heavy reliance on the external workforce, this spend category is significantly under-managed. Organizations lack visibility into their external workforce, which makes it hard to pivot quickly. They do not manage their external workforce with sufficient rigor, creating risks and reducing ROI.

Part of the problem is that companies don't have the right technology.

35% of executives say they have technology for contingent workforce management, and 70% for services procurement.

Many organizations are using traditional procure-to-pay solutions to manage contracts and POs — but these solutions don't help them manage security, compliance, quality of work and other important aspects of these engagements. See the “Mind the technology gap” sidebar on the next page.

Despite these challenges, a group of organizations are driving better business results from their external workforce and reducing risk. Read on to find out how.



of executives say they have technology for contingent workforce management

Mind the technology gap

Only around 1 in 3 organizations have technology to help them encourage use of preferred suppliers, support different pricing models, enforce negotiated rates and track quality of work. Even fewer have solutions to help them manage security access, run bid events, and track equipment usage. Sophisticated, purpose-built vendor management solutions (“VMS”) enable organizations to do all of this and much more.

Fig. 4: Organizations lack suitable technology to manage their external workforce

Percentage of executives whose technology enables them to do the following to manage:

Contingent workers

Enforce negotiated rates

37%

Provide automated benchmarks to real-time market rates and availability in various geographies

37%

Guide users to preferred suppliers

33%

Re-engage a successful individual

29%

Source talent from digital platforms

25%

Manage individuals' systems/facilities access and automatically turn off at end of assignment

20%

Services providers

Support different pricing models – e.g., T&M, milestone-based, SLA-based

32%

Ensure individuals are current on required certifications and training

28%

Ensure use of preferred suppliers and negotiated rates

21%

Manage individuals' systems/facilities access and automatically turn off at end of project

18%


Run bid events (competitions or tenders) among preferred suppliers

16%

Track equipment usage

5%

Technology is critical, but it's not a silver bullet. Digital solutions must be deployed as part of a clear plan — including change management, proper governance and support from senior executives.



Take 3 key actions to better manage your external workforce

In our analysis, we identified a group of leaders — about 14% of executives — that stand out from the rest. These leaders take three key actions that help them better manage this spend, reduce risk and unlock more value from their external workforce:

3 key actions

Actively manage your external workforce to drive better business outcomes

1 Gain visibility

2 Manage with rigor

3 Improve ROI

Yet, even the leaders aren't perfect. Let's take a closer look at where they shine, and where they need to improve. Please see “Leaders chart the way forward” on page 16 to see the criteria organizations met to qualify for this group.

1 Gain visibility

It's vital to gain visibility of your external workforce, because **you can't manage what you can't see.**

Leaders have greater visibility of their external workforce than other respondents. In particular, when it comes to contingent workers, leaders are much more highly informed about their access to facilities, responsibilities and contract terms. Yet they fare worse when it comes to who is doing the work and where they are located.

With regard to services providers, leaders perform better in nearly all areas, notably contract terms, responsibilities and access to facilities. Yet they aren't as aware of where their services providers are located.

Philips gains real value from having a holistic view of employees, contingent workers and services providers to actively manage its total workforce with true agility. When the pandemic hit, Philips' visibility into its total workforce was critical in two significant ways. First, it enabled the company to protect all worker types by knowing who they were, where they were and the buildings to which they had access. Second, it enabled the company to quickly ramp up its production of monitors and ventilators. Martin Thomas, Head of Total Workforce Management, Philips explains:

“**Our driving purpose at Philips is to make lives better, so when the pandemic hit, we wanted to do everything we could to increase production of the monitors and ventilators that were in such high demand. Visibility into our highly-skilled external workforce allowed us to shift and redeploy resources quickly to do that and keep our people safe.”**

Martin Thomas, Head of Total Workforce Management, Philips

54% leaders

vs

37% others

are highly informed about their contingent workers' access to systems and confidential company information

48% leaders

vs

32% others

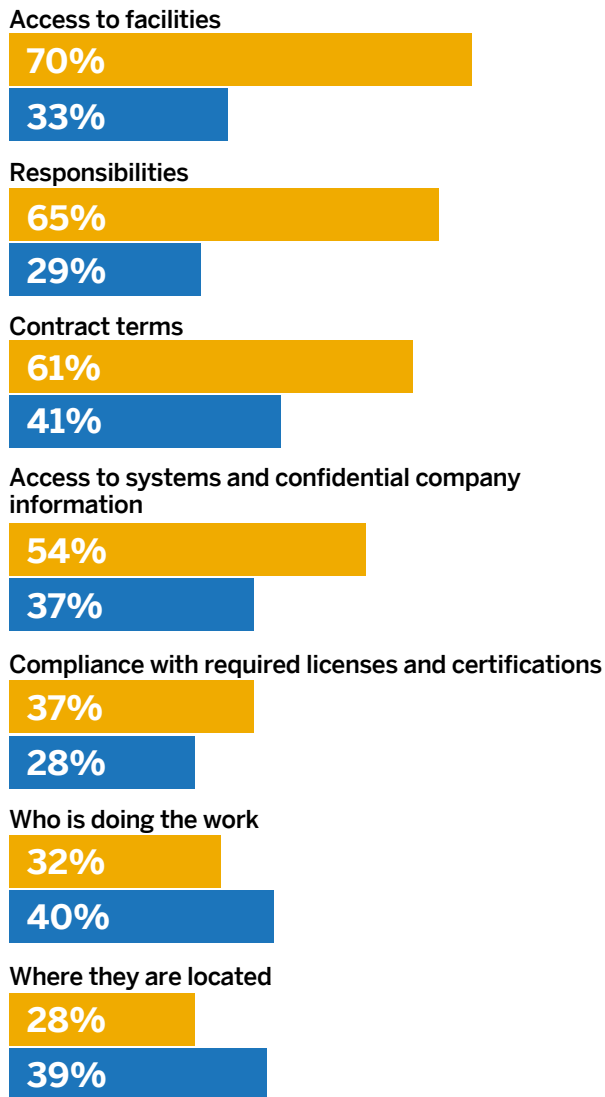
are highly informed about their services providers' compliance with required licenses and certifications

Fig. 5: Leaders have better visibility of their external workforce

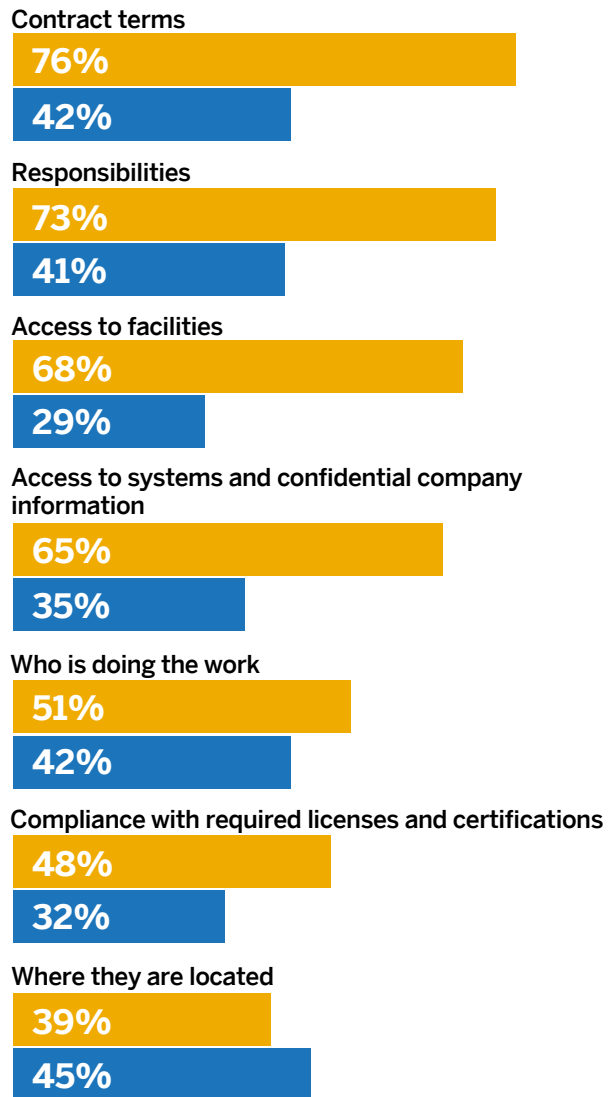
Percentage of executives who are “highly informed” about the following aspects of their:

Contingent workers

Leaders Other executives



Services providers



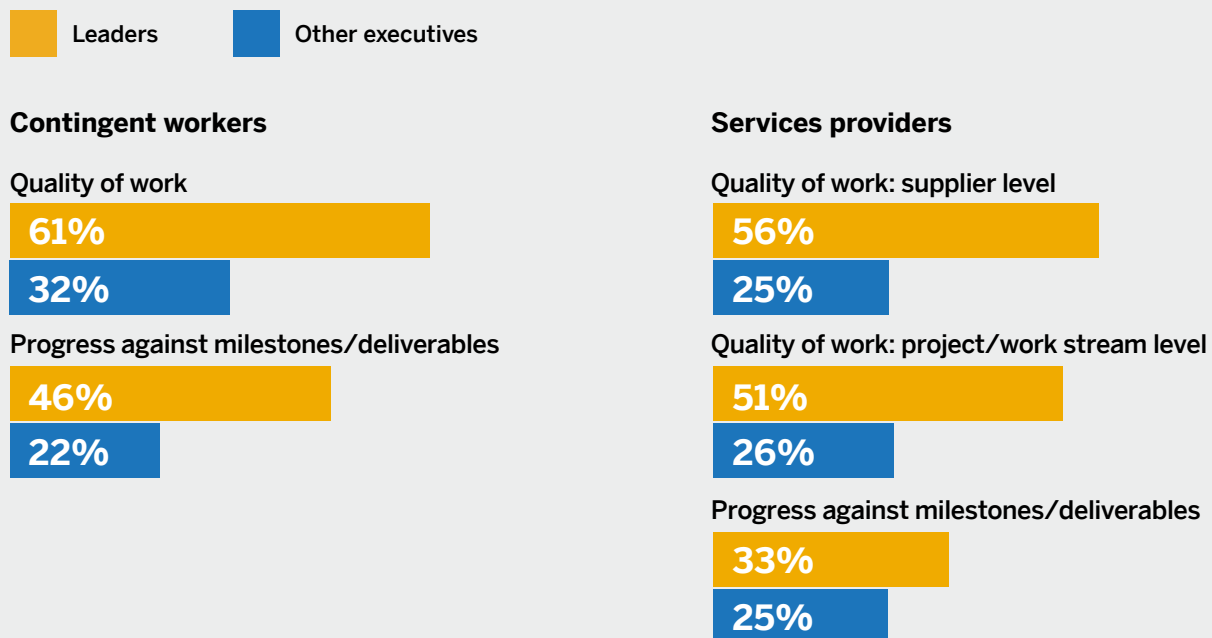
Quality of work

Leaders generally have visibility of contingent workers' quality of work, but other organizations have a long way to go. **Only one-third of non-leaders are highly informed about contingent workers' quality of work.**

When it comes to services providers, leaders and others alike lack insight into quality of work. They also don't effectively track progress against milestones and deliverables. Without this visibility, how do you know if the work was completed according to the contract — and that you received what you paid for?

Fig. 6: Leaders have slightly better visibility into quality of work

Percentage of executives who are “highly informed” about the following aspects of their:



Organizations may be paying a high price for their lack of visibility. Poor-quality work has a huge hidden cost, because it can cause substantial rework and missed deadlines.

Better visibility would help executives identify missed milestones early on, and make better decisions about who to re-engage.

2 Manage with rigor

Leaders' superior visibility helps them manage the external workforce much more effectively. In fact, **non-leaders are >10x more likely to experience issues with their contingent workers and services providers — including maverick spend, overcharges and duplicate payments.**

Fig. 7: Leaders experience fewer issues with their external workforce

Percentage of executives who experience the following issues “sometimes, frequently or nearly every engagement” with their:

Contingent workers

Leaders Other executives

Digital security breaches

27%

47%

Unauthorized spend without approval of Procurement

3%

40%

Overcharges and duplicate payments

3%

35%

Rates that deviate from the rate card or master services agreement

1%

38%

Compliance issues

0%

39%

Misclassified workers

0%

32%

Services providers

Digital security breaches

20%

40%

Unauthorized spend without approval of Procurement

3%

40%

Rates that deviate from the rate card or master services agreement

3%

39%

Late projects, missed milestones or incomplete work

3%

36%

Overcharges and duplicate payments

3%

34%

Compliance issues

0%

42%

3 Improve ROI

There's a huge opportunity for organizations to increase ROI from their spend on the external workforce.

For example, **1 in 4 projects done by services providers is not completed on time or on budget.**

Think of this in light of the billions that companies spend with consulting firms, IT outsourcers, marketing agencies and other services providers every year.

Overspend or missed deadlines may be caused by the client, rather than the contingent worker or services provider. Early warning indicators about burn rates or missed milestones can help organizations identify projects that are off track, get the attention of senior management and put the project back on course.

It's clear that leaders' efforts pay off, as they successfully drive better business results from their external workforce.

On average, leaders are 2x more likely to say that 90% of their contingent workers and services providers meet their goals and objectives. What's more, leaders are nearly 2x more likely to say that their services providers deliver on time and on budget more than 80% of the time.

Leaders are
2X

more likely to say that 90% of their contingent workers and services providers meet their goals and objectives

Services providers: More than a PO

Every year, organizations spend billions with services providers such as consulting firms, IT outsourcers and marketing agencies.

One of the key issues we identified is that companies often purchase goods and services in the same way.

Although many companies excel in managing the financial side of contracts with services providers, they stop short of managing the "people" aspects of these engagements, such as security and compliance.

This under-management creates risk and reduces ROI.



We are constantly looking for ways to improve the way we manage services providers. For example, we are shifting from managing hours towards managing deliverables, and holding services providers accountable for the quality of the work they deliver."

Cynthia Moore
Sourcing Lead Consultant &
Procurement Solutions, Allstate

How to get started

To gain control of your contingent labor and services spend, and unlock the true potential of your external workforce:

- 1. Reframe how you view services providers.** Many companies are doing an outstanding job of managing services providers' contracts and POs. To gain more value, you need to go beyond treating services providers as financial transactions and manage these companies — and their people — like a workforce.
- 2. Manage your external workforce with real rigor,** including managing security, compliance, quality of work and progress against milestones.
- 3. Develop a better understanding of the skills you will need** to succeed in the digital era, and remember that specialized IT and digital skills are in short supply. Build a strategy to ensure you can access these capabilities.
- 4. Improve cross-functional collaboration** between Procurement, HR, IT and the lines of business on workforce strategies, sourcing, spend management, governance and offboarding. Everyone brings a different perspective to the table.
- 5. Ensure your leadership has visibility** into the scope, impact and spend on contingent workers and services providers, so you get the support you need to manage them proactively and drive more value for your organization. You'll need purpose-built technology, executive sponsorship, change management and a program with strong governance.
- 6. Consider creating a position for a senior executive to oversee the external workforce.** Less than one-third of organizations have an executive sponsor who reports to the C-suite regarding the strategy and operations of their external workforce. Other companies should follow their lead.

Research methodology



Leaders chart the way forward

Approximately 14% of companies that responded to our external workforce research survey have much more rigorous approaches to managing and extracting value from their external workforce. These leaders are charting the way forward for others. To identify this leader group, we analyzed executives' responses in three areas — visibility into the external workforce, effective management of the external workforce, and competitiveness in a digital world.

Our segmentation was based on responses to the following four questions:

Visibility

1. How informed are you personally about the following details of services providers doing work for your organization?

Leaders are “highly informed” (the most-advanced response on the five-point scale used in our survey questionnaire) about at least four of the following aspects regarding their services providers:

1. Responsibilities
2. Contract terms
3. Duration of work
4. Who is doing the work
5. Access to facilities
6. Access to systems and confidential information
7. Compliance with required licenses and certifications

Effective management

2. How challenging are the following aspects of managing your services providers?

Leaders find at least five of the following aspects easier to manage than other organizations do, ranking them as “not a challenge,” “minimally

challenging,” or “somewhat challenging.”

1. Tracking resource and project quality/Inconsistencies in talent or project quality
2. Managing digital or cybersecurity/Managing physical security
3. Administrative issues
4. Compliance with local tax laws, labor laws, regulatory, and candidate privacy requirements/Worker compliance issues
5. Unauthorized spend (i.e., spend without approval of Procurement)
6. Lack of adequate technology to manage external labor
7. Ensuring non-employees or suppliers who do not perform well are not re-engaged
8. Finding high-quality resources at the right time and in the right place/Finding high-quality resources at the right rate

A key point: even leaders find several of these issues difficult to manage.

Competitiveness in a digital world

3. To what extent do you agree with the following statements about your organization's use of an external workforce?

Leaders “agree” or “strongly agree” that their external workforce helps them compete in a digital world.

4. How important are the following kinds of external workers to meeting your current business needs?

Leaders say external workers with specialized new IT and digital skills (e.g., AI and machine learning, data science, blockchain, automation, cloud, robotics, Internet of Things) are “important” or “extremely important” to meeting their business needs today.

About the research

This report presents the findings from two complementary research studies conducted by SAP in collaboration with Oxford Economics.

Procurement research

The data points marked¹ are from the Agile Procurement Insights Research by SAP in collaboration with Oxford Economics. This research aimed to understand Procurement's influence on the organization, the current state of supplier collaboration, and the impact of technology and process digitization in the procurement function. In this report, we focus on the responses from the 389 executives who manage contingent workers or services providers.

Geographical reach

Respondents come from 23 countries in four regions:

- Asia Pacific: Australia, India, Japan, Singapore
- Europe: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom
- Latin America: Brazil, Colombia, Mexico
- North America: Canada, United States

Industry reach

Respondents represent a range of B2B and B2C sectors: automotive (manufacturers and tier 1 suppliers), banking, chemicals, consumer products, heavy industrial/manufacturing, high tech, insurance, life sciences/pharmaceuticals, oil and gas, professional services, public sector (federal, state), retail, telecommunications, and utilities.

Company size

A range of company sizes are represented in the survey (figures indicate annual revenue):

- 10% \$500 m–\$999 m
- 35% \$1 bn–\$4.9 bn
- 40% \$5 bn–\$19.9 bn
- 15% \$20 bn or more

Executive profile

Respondents are:

- 33% C-levels
- 34% VP/Direct reports to the C-level
- 33% Directors

Functions represented are:

- 80% Procurement
- 20% Supply chain

Kickstart your procurement digital transformation

We have distilled the [Agile Procurement Insights Research](#) findings into five reports — including this one.

Read the other research reports:

Dig deep into technology, automation and data/analytics:

[Procurement-powered performance: How digital transformation is elevating Procurement](#)

Make your business more resilient:

Getting closer to see further:

[Procurement can embrace advanced analytics to predict and manage supplier risk](#)

Learn the 3 ways you can better

manage your direct spend: [Close collaboration that goes beyond transactions: direct spend leaders engage with essential suppliers to improve performance](#)

Find out what leaders do that sets them

apart: [Leaders aim higher: Elevating the strategic value of Procurement to the business](#)

For more information about the research, please visit: [Agile Procurement Insights Research](#)

External workforce research

In collaboration with Oxford Economics, we conducted robust global research to understand organizations' use and management of the external workforce. The findings were published in two reports: *Services Procurement Insights: The Big Reveal* and *Contingent Workforce Insights: Expertise in Full Force*. In this report, we focus on the responses from the 578 Procurement respondents (79, or 14% of whom are leaders).

Oxford Economics also conducted qualitative interviews with executives in the field:

- **The Allstate Corporation:** Cynthia Moore, Sourcing Lead Consultant & Procurement Solutions
- **Medtronic:** Lisa Zak, Director of Strategic Sourcing
- **Royal Philips:** Martin Thomas, Head of Total Workforce Management
- **Swisscom:** JP Stadelmann, Head of Purchasing for the External Workforce

Geographical reach

Respondents come from 21 countries in five regions:

- Asia Pacific: Australia, Japan
- Europe: Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Norway, Spain, Sweden, United Kingdom
- Middle East: Israel, Saudi Arabia, United Arab Emirates
- Latin America: Brazil, Mexico
- North America: Canada, United States

Industry reach

Respondents represent a broad range of B2B and B2C sectors: aerospace and defense, automotive suppliers, automotive manufacturers, banking, capital markets, chemicals, construction & engineering, consumer goods, healthcare, high tech, industrial manufacturing, insurance, life sciences, logistics, media & entertainment, oil & gas downstream, oil & gas upstream, professional services, public service, rail, retail, telecom, travel & transportation, and utilities & waste.

Company size

A range of company sizes are represented in the survey (figures indicate annual revenue):

- 10% \$500 m–\$1 bn
- 35% \$1 bn–\$5 bn
- 40% \$5 bn–\$20 bn
- 15% over \$20 bn

Executive profile

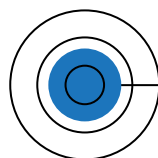
Respondents are:

- 33% C-levels
- 34% Direct reports to the C-level
- 33% Directors

Manage risk and boost ROI from your external workforce

Contingent workers are a vital source of skills — particularly specialized skills. They also help companies respond to peaks in demand. Many organizations lack insight into contingent workers and do not manage them effectively, exposing their businesses to risk and reducing ROI. To learn more, read [Contingent Workforce Insights: Expertise in Full Force](#)

Services providers are a huge source of untapped value. Most organizations only manage the financial aspects of their contracts, and not the “people” aspects of these engagements such as access to facilities and sensitive data, quality of work, and progress against milestones. This creates risk and reduces value delivered. To learn more, read [Services Procurement Insights: The Big Reveal](#)



¹ [Agile Procurement Insights Research by SAP in collaboration with Oxford Economics](#) (see page 17)

² <https://www.mckinsey.com/featured-insights/future-of-work/what-800-executives-envision-for-the-postpandemic-workforce>

³ <https://www.fieldglass.com/resources/webinars/2008vs2020-mining-crisis-data-maximize-workforce-agility>