More Than a Passport: The Journey of Globalizing Managed Service Programs

Stephanie Stoffer
Vice President, Global PMO, APME

Robert Dougherty
Vice President, Global Operations

TAPFIN
ManpowerGroup Solutions

[Introduction]

The number of companies interested in globalizing their managed service programs (MSP) has increased dramatically in recent years. Growth-related influences such as expansion plans and merger and acquisition (M&A) activity are driving companies to broaden their workforce strategy footprints. Likewise, many companies are looking to optimize their operational functions through increased visibility and the deployment of cost savings initiatives throughout their organization.

Striving for growth and efficiency are not novel concepts. The new dynamic at play is the convergence of these concepts with the key enablers of MSP globalization—namely, the maturity of MSP across global regions and the ability of vendor management technology to be configured across geographies. These high-stakes developments have financial, regulatory, human resources and reputational considerations. **As MSP markets mature, providers with global capabilities are becoming better equipped to create flexible service delivery solutions that meet the needs of today's organizations.**

MSP Goes Global: The Emergence of Centralized MSP Structures

The globalization of MSP is apparent in the volume of requests for information (RFIs) from organizations seeking to create centralized programs. In 2016 alone, global RFIs for MSPs increased by 45 percent with activity concentrated across Central Europe and parts of Asia in particular.[1] Global year-over-year spend is also expected to increase.[2]

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For organizations with a significant global presence, it is possible the uptick is even more acute. For example, TAPFIN's direct experience suggests that global MSP is poised to take hold. The following are a few of the trends being observed:

Many companies are replacing their current programs because their incumbents cannot help them go global.

Some companies are seeking next generation MSPs after making short-term buying decisions that involved a partner lacking sophisticated value-add capabilities.

First-time MSP clients with a global presence are inquiring about global capabilities during the selection process— something that was uncommon just a few years ago.

Clients based in North America are frequently choosing to go live with their MSPs in North America first, with plans to expand globally shortly thereafter.

For most stakeholders operating in the MSP space, the increased demand is quite visible. The key now is to understand what is driving it to better anticipate and plan for future needs.

[1] *ManpowerGroup* Internal Sales Analysis

[2] Staffing Industry Analysts MSP Competitive Landscape 2014 and 2015

Drivers of Demand for Global MSP

Individual countries have regulations that restrict when, where and how contingent workers are engaged. This includes everything from contract duration limits, quotas that cap the percentage of workers that can be contracted, and regulations related to pay, work hours and invoicing. Given these complexities, employers generally recognize the need for MSPs to manage the unique regulatory environments of different markets. Today, however, demand for more flexible, efficient and centralized MSP solutions is increasing.

This demand is driven by dynamics including: corporate expansion plans, desire for efficiencies, the maturity of MSP in newer markets and improving MSP technology.

Expansion, Mergers and Acquisitions and Strategic Location Decisions Drive Demand for Global MSP

Data suggests companies will continue to expand geographically. For example, 2015 was a record-breaking year for M&A activity while 2016 ended with a total of more than $3 trillion in deals.[3] This shows no signs of slowing and analysts widely expect the volume of M&A to increase in 2017. Worldwide, executives tend to agree, with 57 percent saying they expect to pursue M&A activity in 2017.[4]
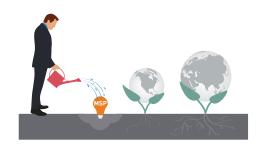
Companies often know expansion into new markets is on the horizon and in some cases they opt to prepare in advance for their workforce needs. For example, one online services company is already operating in over 30 countries and has plans to expand into at least that many more. In preparation for the expansion, they are already working to establish essential supplier relationships in those countries.

[3] A recent TAPFIN whitepaper, "Red Rover in M&A" provides an in-depth look at this particular trend and its impact on MSP.

[4] http://www.ey.com/gl/en/services/transactions/ey-capital-confidence-barometer-merger-and-acquisition-outlook

Cost and Benefit Drivers Stimulate Demand

One of the most significant dynamics shaping the demand for next generation global MSP solutions is simply experience. Companies that have come to realize the benefits of MSP in one region are now looking to replicate those results in other countries.

Cost and Benefit Drivers

Streamlining/Cost-Cutting:
The desire to streamline workforce efforts and achieve cost efficiencies is as strong as ever. According to one recent survey, cost reduction is the second most common strategy global CEOs expect to employ in order to achieve growth objectives following "organic growth."[5]

Centralizing Operations:
A general trend toward centralizing operations has been emerging for the past several years. For example, one consulting firm reports growth in companies seeking to streamline risk and compliance functions.[6]

Replicating Value:
Organizations recognize the value they have in mature markets like the United States and the United Kingdom and seek to replicate value elsewhere. These include a wide range of benefits—from streamlined work models and standardized reporting to compliance, governance and invoicing benefits. In addition, experienced providers with the right market presence are in a position to offer strategic insights regarding location and workforce decisions.

Mitigating Risk:
As companies expand their presence into more countries, they face the practical need to manage their external human capital. Regulations, competition and cost increases provide an expanded value proposition for MSPs to mitigate risk and enhance opportunities to gain a competitive advantage in talent attraction. MSP is now seen as a way to address regulatory needs, compliance concerns, and related public relations in different markets.

[5] http://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2017/gx/data-explorer.html

[6] http://www.ey.com/gl/en/services/advisory/centralized-operating-models-and-their-benefits
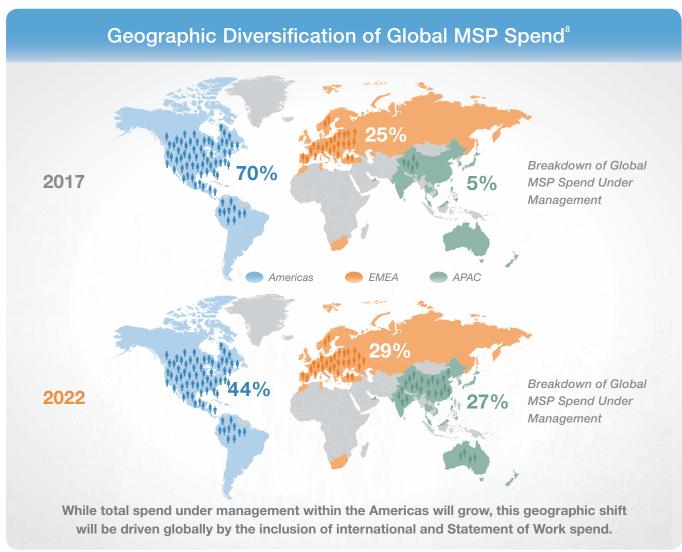
MSP Maturity Across Regions Creates the Required Conditions for Global MSP

Market maturity—meaning the presence and widespread acceptance of MSP solutions—is an important factor in the relatively recent drive for new MSP options. More specifically, a lack of market maturity in Europe and Asia-Pacific has prevented global MSP solutions until recent years.

Ten years ago, MSP was going strong in North America, but in its nascent stages in Europe. Today, North America's market share remains robust, with a 59 percent share of the global market spend,[7] but other markets are beginning to pick up. Due to consistent growth over the last decade (including 14 percent year-over-year growth in 2015), Europe has now emerged as a mature market. Meanwhile all other regions accounted for 20 percent of global MSP-spend growth in 2015. Staffing Industry Analysts predicts that Asia-Pacific will grow the most over 2017-2018 with firms looking to combine staffing efficiencies with offshoring efforts and extend their global centralization efforts.

Because the maturity of MSP has improved in Europe, Latin America and Asia-Pacific, organizations are less hesitant to explore opportunities to centralize MSP operations and are increasingly moving forward with expansion and new solutions.

Geographic Diversification of Global MSP Spend[8]

2017

70% — Americas
25% — EMEA
5% — APAC

Breakdown of Global MSP Spend Under Management

Americas   EMEA   APAC

2022

44% — Americas
29% — EMEA
27% — APAC

Breakdown of Global MSP Spend Under Management

While total spend under management within the Americas will grow, this geographic shift will be driven globally by the inclusion of international and Statement of Work spend.

[7] *Staffing Industry Analysts*. MSP Market Developments Summary, 2016.

[8] *ManpowerGroup Solutions'* internal monitoring, market reviews by *Staffing Industry Analysts, Nelson Hall,* and *Everest Group.*

Technology is Increasingly Able to Respond to Demand

Sub-par technology solutions can severely limit an MSP's ability to operate effectively. Historically, the technology has been rooted to a specific country. Vendor Management System (VMS) providers roll out new countries based on demand, usually with technology configured to manage local language and laws. The challenge comes as more and more companies seek to globalize their MSPs in places where compatible technology solutions and configurations are not yet available. This requires the VMS and MSP providers to work in close partnership to develop and implement systems at the country level.

One critical success factor TAPFIN has identified is the importance of establishing a global baseline for the technology. While all countries will have unique requirements, processes are standardized for all inputs that do not involve regulatory requirements. This includes everything from how suppliers are tracked to the structure of worker and project information. In addition to making new configurations easier, the global baseline ensures that reporting is standardized across the program.

New Models Emerge to Support Demand

As the needs of MSP customers shift, new structures are being introduced to deliver the results companies seek. While some organizations continue to operate on a country-by-country basis (with completely separate programs in each country), new solutions present the opportunity for increasingly sophisticated and flexible approaches.

Hub-and-Spoke Model:

A service delivery model that typically delivers distinct in-country MSPs within the context of a global framework or set of standardized expectations. Clients provide governance and direction from a global hub.
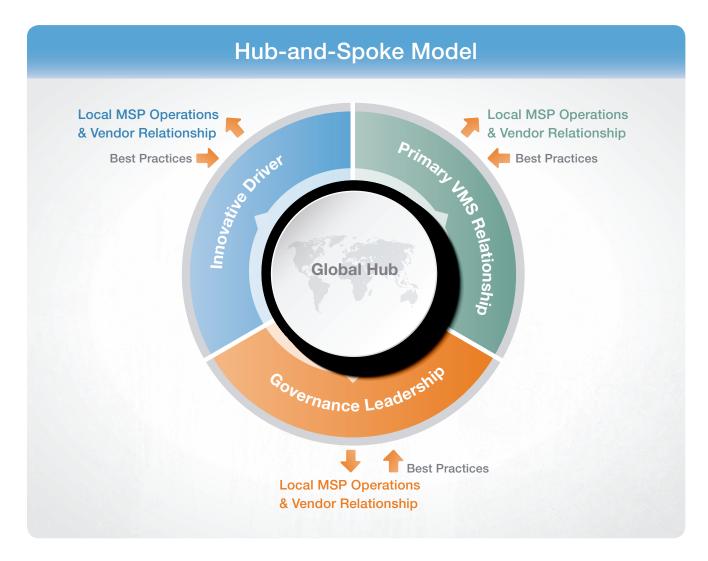

Centralized Model:

A global model that is built around a global baseline of processes and rules, a single technology platform and global governance.

Hub-and-Spoke Model

The hub-and-spoke model often involves different MSPs in different regions, coordinated through a single hub. This approach may make sense in certain circumstances. For example:

- In countries with strict regulatory policies such as Russia, regulations around data warehousing require that all data must be stored in-country. This makes a true global approach impractical and cost prohibitive, opening the door for a company to consider a different MSP provider for that country.

- Companies sometimes find that strong supplier relationships already exist in different regions or countries.

- When a company has a decentralized procurement organization, local countries or regions often want to have influence over the choice of MSP in each region.

Hub-and-Spoke Model

Local MSP Operations & Vendor Relationship

Best Practices

Innovative Driver

Local MSP Operations & Vendor Relationship

Best Practices

Primary VMS Relationship

Global Hub

Governance Leadership

Best Practices

Local MSP Operations & Vendor Relationship

These kinds of circumstances have led companies to deploy the hub-and-spoke model with two or more MSPs operating side-by-side. This type of solution often presents an underappreciated challenge—different providers needing to work together to create that visibility. Put simply, a company cannot extract full value without access to comprehensive reporting and analytics. When two MSP providers are operating in parallel, it is likely both will be reluctant to share any proprietary models or processes. Nevertheless, organizations are already making this work.

Best Practices for Side-by-Side MSPs

A Single VMS is Critical:

While the instances can be distinct, the underlying technology configuration, field names and data must be captured in the same way to ensure accurate, consistent global reporting. In addition, the client needs to own the VMS relationship from a contractual and decision-making standpoint. With multiple MSPs, it is impractical to defer that responsibility to just one.

Partners Must Play Well Together:

Side-by-side MSPs need to understand they have to work together. Data generated through the program cannot be considered proprietary, meaning an agreement must exist for information sharing.

Go with the Best Tools:

Creating a consistent underlying framework likely means that one MSP's tools, methods and standards will be adopted over another's. Some organizations have found that collaboration can be fostered by engaging one MSP to participate in training the other. Either way, the program should start with robust documentation, training and system configuration.

Establish a Review Process at the Outset:

Partners need to have a clear picture of the reporting and review process as they go about their work. For example, will it involve separate quality reviews or will partners combine and present together? Setting this expectation ahead of time allows partners to prepare accordingly.

Establish Consistent Supplier SLAs:

Where local law and custom allows, keep the same supplier SLAs so each MSP is measuring suppliers the same way using the same type of scorecards.
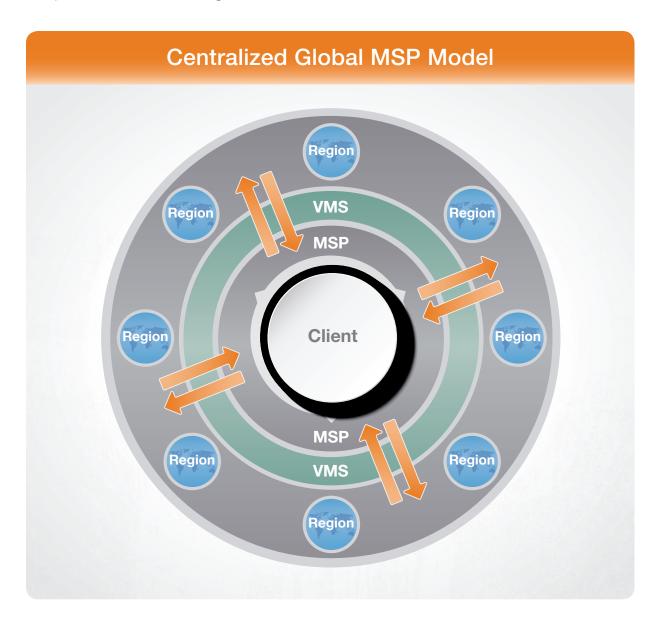
Benefits and Drawbacks of Multiple MSPs

As organizations consider whether a multi-provider approach is appropriate for their circumstances, they will need to weigh pros and cons. Most significantly, the client must typically play a much more involved role in the overall governance and strategy of the program. Other pros and cons are outlined in the table below.

Benefits to Side-by-Side MSP	Drawbacks to Side-by-Side MSP
Offers a backstop if one MSP falters or has a catastrophic failure	Managing and ensuring cooperation between two "competitors" requires more effort from the client
Makes it easy to switch a region over to a new provider	The company has to ensure both are complying with a single set of standards
Creates competition every time you expand to a new region	Different MSPs that are contracted separately will have different SLAs and contractual terms which can create an apples-to-oranges situation when evaluating performance
Different MSPs have greater strengths in different parts of the world	MSPs may be reluctant to bring best practices to the table knowing they will be shared with a competitor

Centralized Global MSP Model

Global solutions are of increasing interest to global companies. At its most basic level, this means that one provider is delivering a consistent program across all countries within a single technology platform. Oftentimes, this means shifting from multiple MSP providers and technologies. For example, when one large U.S.-based communications company sought to consolidate its operations throughout the world, a global MSP provider displaced three separate MSP operations and collapsed eight separate instances of the company's VMS technology into a single platform. As the company continues to consolidate its operations and acquire other firms globally, the provider remains engaged globally to incorporate these units into one global structure.

Centralized Global MSP Model

Region

Region

VMS

MSP

Region

Region

Client

Region

MSP

Region

VMS

Region

Region

Global MSP Providers Must Lead the Way

The market is moving fast and companies need to react quickly when it comes to workforce and location decisions. The challenge for global MSP providers is to set the stage for consistent global deployment, while simultaneously making the case for it. Following are priorities global providers must address to create a more mature global market:

Educating the Market:

The solutions that are emerging are relatively new. Clients need more information to make the right decisions for their companies. In many instances, regional or global RFIs are issued with the assumption that the MSP provider will engage client stakeholders outside of the initiating country to achieve program buy-in.

Making the Global Economics Work:

Most providers are structured around in-country cost and incentive structures. Global MSP might be more work in one country (relative to the value) than another. It is difficult to bring a country on board when there is little incentive for the local team putting the work into it—even if the macro return warrants it. This requires creativity and rethinking incentive structures, delivery models and funding models to ensure widespread adoption.

Acceptance of Flexible MSP Models:

Centralized global programs will almost always include countries with minimal contingent labor spend and headcount. For a centralized MSP to support these smaller countries efficiently and within the constraints of the funding model, new delivery models need to be employed. The use of Regional Shared Service Centers and modified invoicing and supplier payment methods are being utilized to provide full service, but with a level of effort commensurate with the return on investment for both the MSP and client.

Customizing the Tools:

This is not an off-the-shelf or set-it-and-forget-it solution. Regulations and other in-country dynamics are always shifting, so management and constant care are paramount. In addition, programs must be prepared to address:

- Varying customization costs—tools might be ready to go in one country and not another. Likewise, a VMS partner might be in a position to provide customization without charge in markets where there is a clear value, while other markets might incur significant costs.

- The need for sophisticated provider skillsets—technology implementation requires expertise and market presence. This also involves a detailed understanding of country and technology limitations. For example, in some countries, invoices need to be certified. The system cannot just generate it automatically.

- Relationship management—VMS customization requires close partnership with the VMS company, as well as an understanding of how each VMS company operates and how their approaches to customization will be different.

Operationalizing Global MSP: The TAPFIN Example

The need for global solutions to standardize visibility, processes and compliance has been emerging for several years now. In response, TAPFIN started laying the groundwork in 2014 for a Global Program Management Office (PMO) for global MSP solutions.

Global Program Management: Two Main Areas of Focus

1. Service deployment—compliance management, VMS configuration, training, reporting

2. Performance excellence—bridging cultural gaps, applying best practices

The PMO is staffed by cross-discipline experts in operations, analytics, shared services, deployment, etc. to ensure breadth of expertise. The structure allows TAPFIN to move resources at will—without some of the boundaries (literal and figurative) that might typically exist in a global corporation.

What Drives Success? Key Factors for a Winning Global Solution

Providers that are creating new models know better than anyone: global MSP solutions are not easy. At the same time, they have identified key steps to preparing for a successful program:

Start Early:

Building local relationships is one of the most important—and most difficult—aspects of implementing a global solution. Companies can begin to lay the groundwork for that immediately. Even if a central global solution seems a distant priority, it is not too early to introduce the concept of MSPs to markets that might otherwise be unfamiliar.

Involve a Global Provider with Global Presence:

This type of solution must be provided by a global provider with global presence. Even where a regional MSP serves a company's needs perfectly, when it comes time to expand, the market and technical expertise of a global provider is needed.

Find Your Champions:

Executive sponsors are essential to creating buy-in at every level. They should be enthusiastic supporters and deeply committed to internal communications. In particular, this means that these sponsors should champion the cause at every level of the company, not just with the provider and other executives. (Many seasoned providers have had the experience of widespread enthusiasm at every level except on the ground.)

Understand the Culture (and Make Sure Your Provider Does Too):

A deep understanding of legal issues is clearly non-negotiable. Less appreciated is the need to understand local context, culture, values and nuances. This takes time.

Evaluate Your Resources:

Evaluate the current capabilities of potential MSP partners to ensure they are aligned with global needs. It is important that your chosen MSP has supplier relationships in your key markets.

Know Who You Are:

The roll-out of global solutions is very much tied to corporate culture and structure. A global company with centralized structures and hierarchies will likely be able to adopt a large-scale program across many countries faster than a more decentralized organization. Of course, locations, head count and industry are factors as well. This explains why it took a conglomerate eight years to roll out in 25 countries, while the time horizon for a technology company was under a year.

Case Study

A large multi-national conglomerate with a presence in more than 70 countries wanted to get better visibility into its contract labor spend in order to drive cost savings. With an estimated headcount of nearly 10,000 across 26 countries, the effort is considered one of the largest and most complex of its kind.

The roll-out strategy mirrors overall market maturity. This is designed for efficiency (more mature programs have higher headcounts), as well as to ensure early success in order to better make the case to less mature markets. As such, the program deployed in North America and the United Kingdom in 2010 initially and then followed with 10 countries in Europe. Once these programs were fully established, roll-out began in less mature markets like China and Latin America.

A centralization effort of this scale is extremely complicated. The legal and cultural issues are extensive and require constant planning and attention.

10,000
Workers Identified

26
Countries

The Success of This Program is Driven by a Few Key Factors:

Internal Champions:
Program sponsors at all levels (from the CEO to regional managers) are essential to creating buy-in.

Hands-On, On-the-Ground Presence:
Countries with little to no MSP experience—and in some cases a cultural resistance to visibility—require thoughtful planning and on-the-ground presence. In some cases, TAPFIN experts have worked in-country to create buy-in for a year or more.

Baseline Technology Structure:
Consistent data collection and reporting ensures complete visibility to the client along with data integrity. This was built into the technology from day one and is a program mandate.

Real-Time Market Awareness:
Laws affecting this program change daily. Mechanisms are in place to anticipate, plan for and identify changes in real time.

[Conclusion]

Moving Forward, Solutions Will Continue to Evolve

The pace of Managed Service Program (MSP) evolution is exponential, rather than incremental. From a technological standpoint, the expectation and demand exists for providers to deliver consistent deployment regardless of location thanks to evolving cloud technologies. Likewise, technology will become increasingly savvy as it relates to legalities, invoicing, time tracking, and more.

From a business perspective, successful MSP providers will evolve too. They will be better positioned to manage a single Vendor Management System, no matter where it is. They will apply best practices from one country to another, while respecting cultural nuance and unique needs. And, they will create pricing models that are consistent with a global solution.

The emergence of new MSP solutions boils down to a simple equation of supply and demand: more companies establishing a presence in more countries stimulates demand for flexible MSP solutions.

About TAPFIN

TAPFIN is a leading managed service provider (MSP) dedicated to the innovation and delivery of integrated workforce management solutions worldwide. TAPFIN's customized, scalable MSP solutions for contingent and project-based spend are instrumental in driving process, performance and productivity improvements across the client organization, while providing visibility, predictability, risk mitigation and overall cost reduction. Part of ManpowerGroup™ Solutions, the outsourced services offering from ManpowerGroup, TAPFIN offers a complete suite of workforce management solutions that fully leverages a blend of global expertise and local knowledge.

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