The Five Most Dangerous Trends Impacting IT Staffing Organizations

*And Recommendations for Action*
Executive Summary

According to a study by TechServe Alliance, the IT Staffing and Consulting Services industry has ballooned into over a $20 billion-dollar market. In recent years, however, we have witnessed a number of dangerous trends taking hold within the IT staffing services industry. Low-barriers to entry have crowded the marketplace with an over-saturation of service providers. The supply of IT staffing firms far outweighs the demand for these services. The .com boom represented the dawn of the job board era with the birth of Monster.com, Dice.com, Career Builder and many others and it introduced us to procurement services software products such as Ariba.

Traditional clerical and administrative staffing firms have expanded the scope of their service portfolio to not only include IT staffing services but also MSP and VMS programs. Bench based system integrators including the “big-five” now generate a significant portion of their revenues through staff augmentation services. And lastly, a rising star within corporate America has been that of the Chief Procurement Officer. The CPO has gained popularity due to their ability to cut costs and reduce expenses primarily through a mix of strategic sourcing, demand management, change management and supply chain optimization initiatives. Under the CPO’s leadership, organizations have consolidated demand to achieve purchase price reductions across the enterprise.

If all of that were not enough, the process for purchasing contingent labor within corporate America has become fragmented among executive stakeholders thus making the selling process more complex. As a result of these trends IT staffing firms are fighting for their lives. Competition and pricing commoditization have reached unprecedented levels and service differentiation is close to impossible. Selling IT staffing services has transformed from a simple category buy to a complex, enterprise sale. Yet the industry continues to sell the same way it has sold for the past twenty-five years.

How can IT staffing firms survive the impact from these trends? What must they do to counter these challenges in order to restore the integrity of their gross profit margins, differentiate from the competition and win “good” business? This white paper examines these trends and their implications and offers recommendations for action.
EXECUTIVE SUMMARY KEY TAKEAWAYS

• The unbundling of the “big five” and traditional system integrators

• The .com boom: The dawn of the job board era and oversaturation of service providers

• MSP programs & the evolution of traditional temporary staffing firms

• Rise of the CPO & fragmented purchasing process for IT staffing services

• Corporate America’s rapid adoption of VMS Programs and Workforce Management Software

THE UNBUNDLING OF THE “BIG FIVE”:
Bench Based Consulting Firms Offer Staffing Services

Shaping the marketplace early on were the “big five” (soon to become the “Big Four”) tax auditing and accounting firms. Having tight relationships with the CFO allowed the “Big Five” (along with traditional system integrators) to dominate the IT services marketplace. They provided a number of services but largely focused on managing and delivering large, complex ERP, CRM and eCommerce initiatives on a fixed fee basis. At the core of their value proposition was their ability and willingness to take on all of the risk and liability associated with delivering an enterprise IT initiative. They were “on the hook” for the end deliverables.

During the .com boom the volume of work rapidly increased and as a result, projects began to fail. Approximately one out of every three IT projects were failing and the “big five” (along with others) consulting firms took the heat for it. As a result, IT executives became very nervous about outsourcing large complex projects to external consulting firms. In response and in large mass, they began to bring their projects in-house and to build out their Project Management Office. Project management would now become an internal core competency within corporate IT departments. Under this new model the client began hiring their own internal, full-time project managers to manage their projects and hired the technical experts on a “just in time” basis from IT staffing organizations to work under their management.

On the surface this trend would appear to favor those providing pure IT staffing services. However, in response to this trend the “big five” and traditional systems integrators began offering staff augmentation services. Today, bench based consulting organizations generate a significant portion of their revenues through IT staff augmentation. As a result, IT staffing organizations have to compete with these firms, but how?
The .Com Boom: The Dawn of the Job Board Era and Oversaturation of Service Providers

Most people who worked in the IT staffing industry during the .com boom remember those being the “good ole days.” While it was an exciting period of growth for many in the IT services industry, a much more profound and long-term trend took hold; the birth of job boards and the oversaturation of IT staffing service providers. Job boards such as Monster.com, Dice.com and others dramatically impacted the industry. Job boards made it easy for anyone with a telephone and internet access to recruit IT professionals—from the comfort of their home nonetheless! And with information technology red hot, everyone wanted to be a part of the industry.

The number of providers seemingly doubled overnight. There was so much business during the .com boom that it didn’t matter that most of these new entrants to the industry were lacking credentials. They were in it to make money and that meant signing risky and unfavorable contracts with poor payment terms. The decision to sign these contracts fifteen years ago (and to continue to do so) has damaged the credibility of the industry and the value that IT staffing firms provide. When the .com bubble burst, the IT staffing industry become commoditized.

Working as a Supplier to an MSP Program IT Staffing Organizations Can Expect to Take Anywhere Between a 7%-20% Cut in Gross Profit Margin.

The Birth of MSP Programs & The Evolution of Traditional Temporary Staffing Services

The birth and subsequent growth of MSP programs is another dangerous trend impacting the profitability of IT staffing organizations. An MSP program is a program where one staffing vendor supplies the client organization with all of their contingent labor staffing needs across the enterprise and manages all secondary suppliers on an agreed upon markup. Markup's vary from client to client but often hover between 30% and 50%, depending on the size of the program and number of suppliers.

Working as a supplier to an MSP program IT staffing organizations can expect to take anywhere between a 7%-20% cut in gross profit margin. Significant to say the least. The expectation and belief is that they will make up the difference in sheer volume. While there are some cases where IT staffing firms have been able to accomplish that, we have found this to be the exception, not the norm.

Prior to MSP programs, relationships between IT staffing organizations and client organizations centered primarily between the sales representatives and the IT hiring manager. With MSP’s, IT staffing providers are typically required to communicate exclusively through the Program Manager responsible for managing the MSP—often a fresh college graduate and/or human resources/recruiting assistant who lacks the business acumen and technical knowledge to effectively drive business through these programs.
This model cuts off communication between the sales professional and IT hiring managers, which hinders sales ability to sell directly to the buyer and build long-term client relationships.

MSP programs are typically offered and managed by traditional, global temporary staffing firms who specialize in temporary staffing for non-professional, entry level positions including warehouse workers, administrative assistants, receptionists and manufacturing assemblers. The business model of these organizations is based on high-volume and very thin profit margins. By working off of markup’s instead of bill rates or a client budget, they often reveal their overhead costs thus weakening their position. Their service is sold as a transaction and business is typically won on price.

Today however, these organizations are applying their business to their professional staffing and MSP service offerings. This sales strategy has weakened the industry and made it difficult for all staffing organizations to sell value avoid the “pricing” conversation. Once one supplier (regardless of industry) starts a bidding war, all suppliers lose. It is bad business for everyone. What seemingly happened overnight, IT staffing providers not only had a whole new set of competitors (big five, systems integrators, traditional staffing firms), but an entirely new industry in MSP programs to compete against.

**CORPORATE AMERICA’S RAPID ADOPTION OF VMS PROGRAMS AND WORKFORCE MANAGEMENT SOFTWARE**

During the mid and late 1990’s we saw the growth and continued adoption of procurement software. Enterprises were purchasing products like Ariba, Oracle I-Procurement, SAP Supplier Relationship Management and others. Enterprises purchased these software applications to automate the process and leverage their spend in the purchasing of goods including travel, office supplies and marketing materials among others.

For several years the focus had been solely on goods, not on services. But more recently, under the leadership of the Chief Procurement Officer, we are now seeing organizations utilize procurement services or workforce management software for the purchasing of professional services. Enterprises are now purchasing software products such as IQ Navigator, Click Commerce, FieldGlass and others to help them purchase temporary employees, consultants, outsource vendors, and legal services.

According to a study conducted by Forrester Research titled Services Procurement Grows Despite Obstacles, purchases of services represent 30%-70% of all company spending yet the services procurement market today is only a $200 million-dollar market. This is very bad news for the entire staffing industry. Why?
This tells us that VMS programs are in their infancy and that there is still a huge opportunity for organizations to achieve significant cost savings through procurement services software. The VMS tsunami is coming!

Business drivers for VMS programs include:

- Rate Reduction
- Increased visibility into spending & rates across suppliers/skill sets
- Reduce time to source candidates
- Verify work qualifications
- Improved collaboration among stakeholders

THE RISE OF THE CPO AND FRAGMENTED PURCHASING PROCESS FOR IT STAFFING SERVICES

According to the Contract Labor Benchmark Report published by The Aberdeen Group, responsibility for managing contract labor programs is shared between four main groups: Human Resources (30%), Procurement (22%), the business unit hiring manager (18%), and Finance (14%). This fragmented process is significantly impacting how IT staffing organizations must go about selling and marketing their services.

As mentioned earlier, the relationship historically has been between the IT hiring manager and the sales representative from the IT service provider. Today however, it’s not enough to have a strong relationship with the IT leaders of your client company, even if for years you have been the incumbent vendor. Under the CPO’s agenda to extract excess expenses and reduce costs, change must be implemented across the enterprise. Change, as it relates to IT staffing firms comes in the form of new human resource and procurement policies that enforce IT hiring managers to work exclusively through their HR and procurement office for the hiring and management of contingent labor.

Once granted the autonomy and freedom to work with the service providers directly to get the services they need to effectively run their business, IT hiring managers are no longer allowed to do this because of the new policies and procedures implemented by HR and Procurement executives.
IT staffing organizations must understand that MSP and VMS programs and workforce management software is here to stay. Now they must decide what their business model is for developing and managing this business. Are they going to be a supplier to those programs or are they going to run and manage those programs for their clients? Or, will they simply pass on those accounts and build an entirely different business model and go after a different market segment? If they chose to pursue these programs, what does the business model look like? What is the right compensation plan for internal employees driving this business and servicing these accounts?

IT staffing organizations often struggle with these decisions and as a result, they straddle back and forth as they contemplate the issues, thus not committing to a specific strategy but rather trying to be all things to all customers. The result is high SG&A costs and low gross profit margins, wasted recruiting cycles and weak client relationships associated with these accounts. IT staffing firms need to commit to the market in which they are selling into. It has often been the case that IT staffing organizations tend to chase any piece of business they can get yet they lack the delivery capabilities to support such a strategy. The field of information technology is too wide and extensive and technology changes and evolves too fast for any IT staffing firm to effectively support this strategy. Not only does this strategy take away the ability to differentiate, but it further commoditizes their service offering. IT staffing organizations must commit to a strategy and build their sales & service delivery capabilities around that strategy. Lastly, in order to have success as a supplier to an MSP or VMS program, IT staffing firms must have a cost effective delivery model. MSP and VMS accounts should not be supported the same way as a retail account.

**KEY TAKEAWAYS**

- **IT STAFFING ORGANIZATIONS MUST HAVE A WELL DEFINED BUSINESS MODEL AND GO-TO-MARKET STRATEGY**
- **IT STAFFING ORGANIZATIONS MUST HAVE A WELL DEFINED STRATEGY FOR SELLING IN AND AROUND MSP/VMS PROGRAMS. THIS REQUIRES CONSULTATIVE AND STRATEGIC SELLING SKILLS.**
- **SALES PROFESSIONALS MUST BE ABLE TO SELL BUSINESS VALUE TO BUSINESS & IT STAKEHOLDERS**
- **IT STAFFING SALES PROFESSIONALS MUST DEVELOP THE ABILITY SELL AN ENTERPRISE SOLUTION AND SELL TO MULTIPLE STAKEHOLDERS.**
IT staffing organizations must have a well defined strategy for selling in and around MSP/VMS programs

IT staffing organizations must understand that MSP, VOP (vendor on premise), procurement services and workforce management software and their associated VMS programs are here to stay. IT staffing firms need to define their sales strategy for selling into and around these programs. To do so sales professionals will need to be able to quickly and accurately identify where within the contingent workforce management strategy continuum the client resides. Where the client resides can dictate the appropriate sales strategy. Second, they will need to understand the client’s ERP strategy and associated timeline. The ability to quickly decipher the answers to these questions is critical to effectively qualifying accounts and establishing an effective sales strategy.

Sales professionals must be able to sell business value to business & IT stakeholders

In order to develop valuable and long term relationships with the CIO and other business executives and avoid being treated as a commodity IT staffing sales professionals must gain the necessary business acumen, and technical and functional knowledge in order to sell business value. Sales professionals also need to understand that the CIO and business executives are interested in buying business results, not a service.

To sell business results sales professionals must develop the skills to uncover critical business issues within client organizations and develop a vision for how their service offering can help the client resolve those critical business issues. At a more tactical level sales professionals will need to develop consultative sales skills in order convert those business issues into sales opportunities. To do so requires strategic thinking and problem solving skills, the ability to effectively probe and keen listening skills.

Lastly, IT staffing sales professionals must understand the business results that their consultants produce for their clients and be able to clearly and quantifiably articulate this to IT and business stakeholders. This is far cry from how IT staffing services are currently sold today. It is no longer good enough to simply fill pre-defined, budget-approved job orders for hiring managers and human resource professionals. This task is seen as a commodity.
IT STAFFING SALES PROFESSIONALS MUST DEVELOP THE ABILITY SELL TO MULTIPLE STAKEHOLDERS

The purchasing and procurement of IT staffing services within corporate America is now a fragmented process shared among multiple stakeholders including procurement, human resources, legal, finance, and IT/ the IT hiring manager. Further complicating the challenge is that purchasing and procurement processes within corporate America rapidly change, often leaving the hiring manager in the dark.

To effectively navigate this complex sales environment sales professionals must become experts in understanding their clients purchasing process. This includes understanding who all of the key stakeholders are and building relationships with each. The procurement of IT staffing services is no longer a category buy. Establishing relationships with all stakeholders and understanding the inter-relationships between these stakeholders is critical to success.

Sales professionals must also understand what steps their clients must complete in order to work with an external vendor and hire IT consultants. It is no longer good enough to simply identify a client need and deliver talent. To survive and differentiate in this new selling environment sales professionals must have the courage to actually lead their client through their purchasing process. The client’s purchasing process is the sales process.

ABOUT THE MENEMSHA GROUP

The Menemsha Group was founded to empower sales professionals in the IT staffing and consulting industry with the tools and knowledge to sell more effectively, differentiate from the competition, increase gross profit margins and move up the customer value chain. Menemsha Group provides one-on-one sales coaching and training and sales training workshops and webinars for sales professionals in the IT staffing and consulting industry. Menemsha Group is also the author and creator of the IT Staffing Plan, a proprietary sales methodology designed exclusively for sales managers and sales professionals in the IT staffing and consulting industry. The IT Staffing Sales Plan is a framework for best in class IT staffing sales best practices consisting of a collection of learning models, planning worksheets, tracking tools, sales scripts, letter and email templates and job aides. They’re all available as electronic files based in PDF, Word, Excel & Power Point format.

For more information please visit www.menemshagroup.com.