



THE FUTURE OF  
**CONTINGENT  
WORKFORCE  
MANAGEMENT**

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## THE FUTURE OF CONTINGENT WORKFORCE MANAGEMENT

Every business is examining its workforce. Economic conditions and the global pandemic have placed attention and reliance on the idea of a flexible workforce that can meet the fluctuating demands of a modern organization. With changes in hiring activities, the shift to remote work, and changing business priorities, the demand for a more flexible workforce has never been greater. According to our research, 80% of companies are leveraging contingent workers, and 1 in 3 companies plan to increase their investment in 2021. A contingent workforce helps companies fill critical talent gaps, reduce costs, and increase overall productivity. In a year when agility and resilience are becoming table stakes for businesses, alternative work arrangements are essential to the future of the workplace.

Yet, despite the increased investment in contingent labor, companies still face many of the same challenges. Most companies lack visibility into the use, spend, and performance of this critical workforce segment. Additionally, cost control and fee models are a concern as companies question their staffing agencies and technology partners that lack the expertise in-house. The approach to contingent workers has been reactionary, with companies responding to immediate needs and ignoring long-term implications. The question, “Are we doing this right?” is becoming even more difficult to answer.

### **Contingent Workforce (Non-Employee Workforce) Definition:**

The contingent workforce umbrella is expanding beyond temporary workers. Contingent workforce management today includes on-call workers, independent contractors, SOW-based projects, and freelancers.

Contingent workforce management is ripe for transformation. Companies must examine what is broken to develop deeper insights and a more effective framework. They must reconsider the ownership, fee models, and partnerships that they have in place. Based on data collected by Aptitude Research and ERE Media in November and December 2020, this report will explore the current state and the future of contingent workforce management.

### **This report answers the following questions:**

- **What are the key drivers for investing in contingent workers?**
- **What are the challenges that companies face today?**
- **What are the different stages of maturity for improving contingent workforce management?**
- **What role do ownership, cost, and technology play in the contingency workforce management maturity model?**
- **What actions can companies take to become more strategic in the next year?**

## Aptitude Research Methodology

Aptitude Research conducted the research cited in this report in November and December 2020

**Quantitative Research:** 274 Global Responses from Talent Acquisition Leaders across all industries and from companies with 1,000+ employees

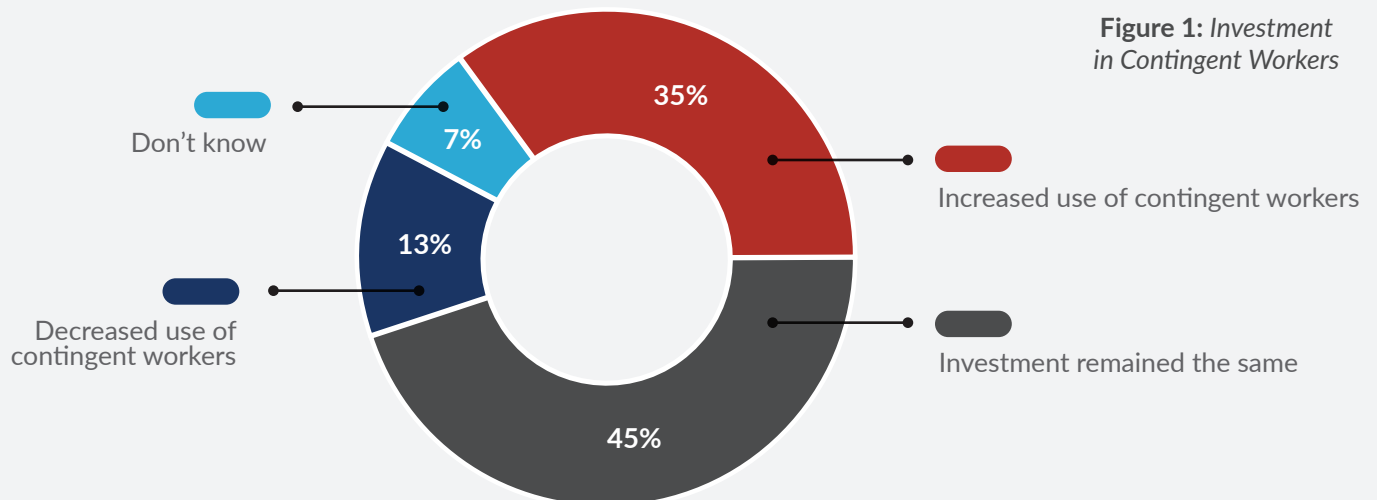
**Qualitative Research:** A series of interviews with companies to understand their strategies for automation



## CURRENT STATE: INCREASED INVESTMENT AND GREATER COMPLEXITY

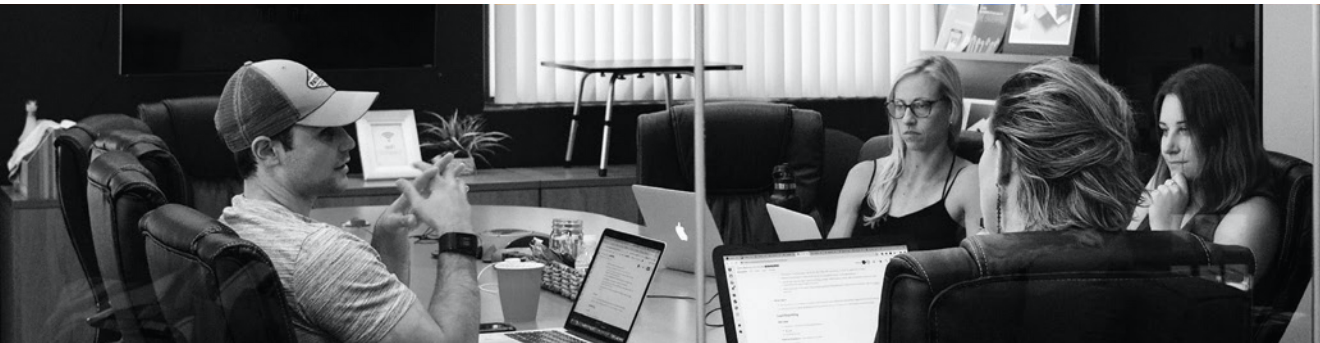
Traditional employment has changed significantly over the past year thanks to changing business needs and a new focus on workforce flexibility. Both employers and employees want flexible options during a time of uncertainty, and a contingent workforce enables organizations to be agile and adapt quickly. The contingent workforce umbrella expands beyond temporary workers to include on-call workers, independent contractors, scope-of-work (SOW)-based projects, and freelancers. This study found that 80% of companies plan to continue or increase their use of contingent workers in 2021, compared to 62% of companies that plan to continue hiring permanent employees (see Figure 1).

As companies look to adopt a more flexible workforce, they need to better understand what drives this investment and what challenges they may face.



## KEY DRIVERS

Companies respond to a massive shift in talent acquisition, and the way companies think about, and leverage talent needs to change. This shift – and the focus on rapid scalability – has intensified the need for a new model.



The shift to a contingent workforce is not a recent trend. Companies have steadily increased the ratio of contingent workers over the past decade. Still, the pandemic has accelerated the urgency and forced companies to think more strategically about their workforce composition. This study found several key drivers for investing in contingent workers, including the need to fill talent gaps, create more flexibility, increase productivity, reduce costs, and increase diversity efforts. These key drivers also reflect the need for rapid scalability. Today's environment means that companies must be able to move quickly and scale at a different pace. **Contingent workers enable companies to scale in a short period of time by filling the talent gaps, improving productivity and performance.**

Figure 2: Key Drivers for Investing in Contingent Workers





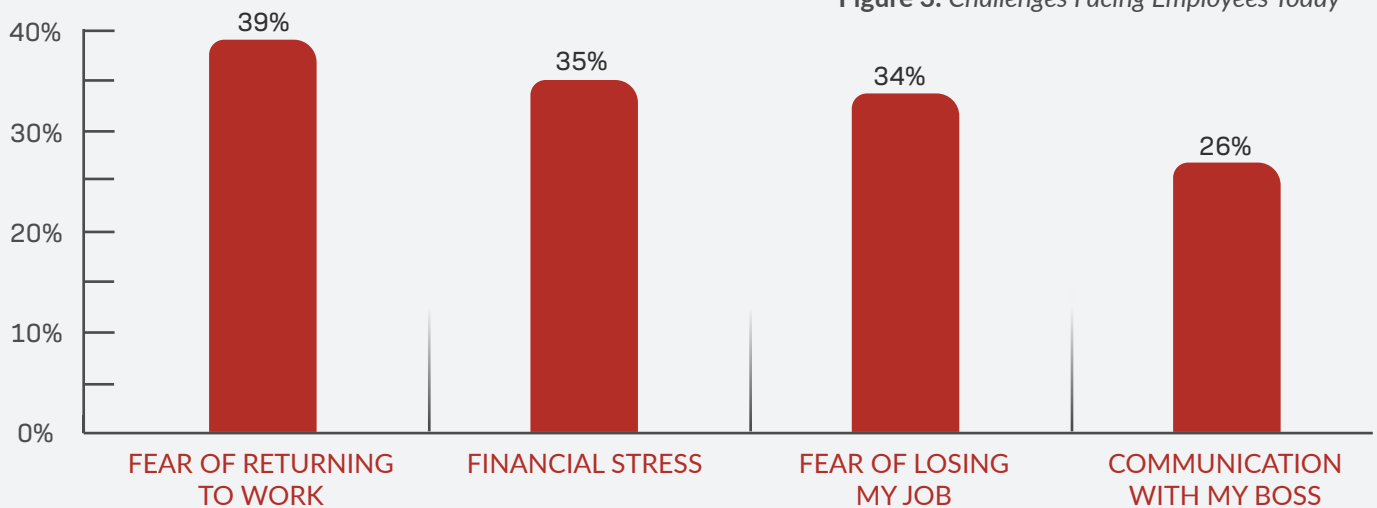
## Fill Critical Talent Gaps:

Contingent workers contribute to an organization's productivity by bringing expertise to highly skilled roles and collaborating with full-time employees on projects and business objectives. Organizations had to adjust and adapt overnight to the new realities of 2020, and contingent workers provided much-needed skills to support this business transformation. Companies looking for immediate talent needs found a viable solution in contingent labor this year, whether engineering skills, healthcare expertise, or even hourly retail or hospitality roles.



## Create Greater Flexibility:

Aptitude Research surveyed over 400 employees in the summer of 2020, and the greatest challenge at that time was the fear of returning to work (See Figure 3). Although we expect safety concerns to wane as vaccines become more readily available, the traditional 9 to 5 office environment is being reconsidered by both employees and employers. Working from home has become a reality for people and a requirement as they evaluate job opportunities. Contingent workforce provides greater flexibility that can drive productivity and engagement in a remote environment.



## Increased Productivity:

Companies that use contingent workers cited a 20% increase in overall productivity this year. Many contingent workers are already accustomed to working remotely and do not require the same support or training that traditional workers may need. According to the Bureau of Labor Statistics (BLS), 23.7% of employed persons teleworked in December 2020 because of the coronavirus pandemic, up from 21.8% in November. Further, more companies now have the digital infrastructure necessary to support distributed teams thanks to this shift to remote work.



## Reduced Costs:

Recruitment is an expensive undertaking. The cost of a traditional hire is \$4,000 or greater. This cost does not account for the time spent posting a job, reviewing resumes, scheduling calls, interviews, and onboarding a new hire. Also, the complexities and expenses of a dispersed workforce is a costly undertaking as more companies move toward remote models. When managed correctly, contingent workers can help reduce these costs by offering a more simplified and streamlined process on a short-term basis.



## Greater Diversity:

Sixty-two percent of companies stated that they are looking to improve diversity and inclusion as their top priority this year. Companies looking critically at diversity and inclusion may have more immediate success in leveraging contingent workers to reduce bias and increase inclusivity. Conversely, companies that lack diversity and inclusion programs may find it difficult to engage talented contingent workers.



## Risk Mitigation:

It is interesting to note that risk mitigation was not identified as a top driver or challenge for contingent workforce management today, although it is a priority for business leaders and procurement professionals to manage this workforce. In this study, procurement leaders were two times more likely to identify risk mitigation as a priority than HR leaders. Risk mitigation involves process compliance, workflow management compliance, technology compliance, audits, Independent Contractor (IC) management, and employee classification. As HR becomes more involved in the hiring and management of contingent labor, risk mitigation must continue to be a focus.



## TOP CHALLENGES

Despite the benefits of a flexible workforce, companies rely on antiquated models that create challenges with visibility, cost control, and efficiency of contingent workers. Companies want some indication that their contingent workforce models are effective, but they lack the insight and expertise to measure success. The contingent market is underserved, and even the BLS has faced challenges in its reporting frequency and scope. Companies have few options when looking to improve or evaluate their efforts.

According to this study, cost control, visibility into the use and spend inefficiencies, lack of ownership, and technology were the top challenges.

### Cost Control:

Cost control as it relates to contingent workers is not a new challenge. Companies question their spending and the role of staffing agencies in managing that spend. Furthermore, most companies do not pay attention to cost until it is too late. According to this study, 39% of companies are not tracking costs for contingent workers, and 42% of companies looking to reduce spend are just trying to control these costs.

**Figure 4:**  
*Top Challenges in  
Contingent Workforce Management*

44%

**COST CONTROL  
WITH THE USE OF  
CONTINGENT WORKERS**

34%

**INEFFICIENCIES  
IN MANAGING  
CONTINGENT WORKERS**

32%

**VISIBILITY INTO  
THE USE OF  
CONTINGENT WORKERS**

30%

**LACK OF  
OWNERSHIP**

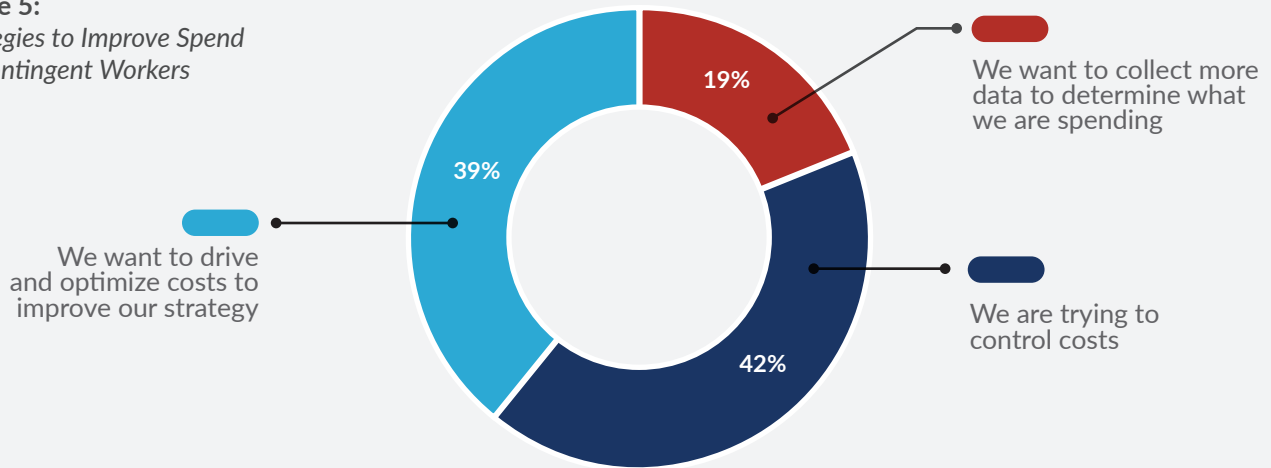
26%

**VISIBILITY  
INTO SPEND**

23%

**LACK OF  
TECHNOLOGY**

**Figure 5:**  
*Strategies to Improve Spend on Contingent Workers*



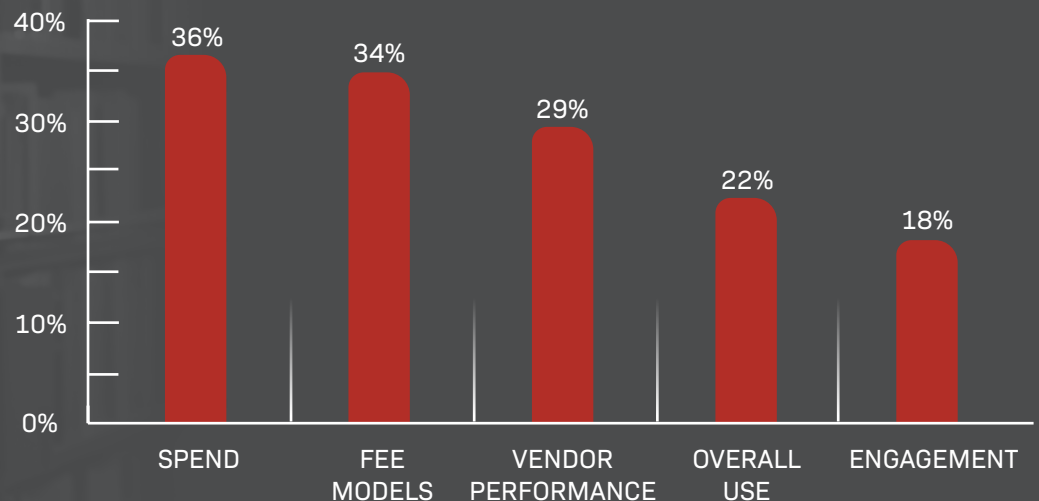
Controlling costs does not mean that hiring contingent workers is not justified, but it represents a growing concern that companies may be spending more than they should. Many aspects of managing contingent labor can impact program spend, including:

- **Lack of budget visibility:** To control costs, companies need visibility into what those costs are and how their budget is allocated.
- **Inability to forecast the budget:** Companies think about contingent needs in the short-term without looking at what they are currently spending, what they have left to pay, or how they can prepare for future spending.
- **Lack of consistent rates across vendors:** Managing vendor costs and rates is an overwhelming task. Companies tend to set rates by vendors without standardizing and analyzing what those rates should be for the short-term and long-term.

## Visibility:

One of the greatest challenges with contingent workforce management is the lack of visibility into use, spend, and performance. Without insights into how to manage non-employee labor, companies will always question the value and models that they have in place. According to this study, over 60% of companies lack strong visibility into spend, fee models, vendor performance, engagement, and overall use.

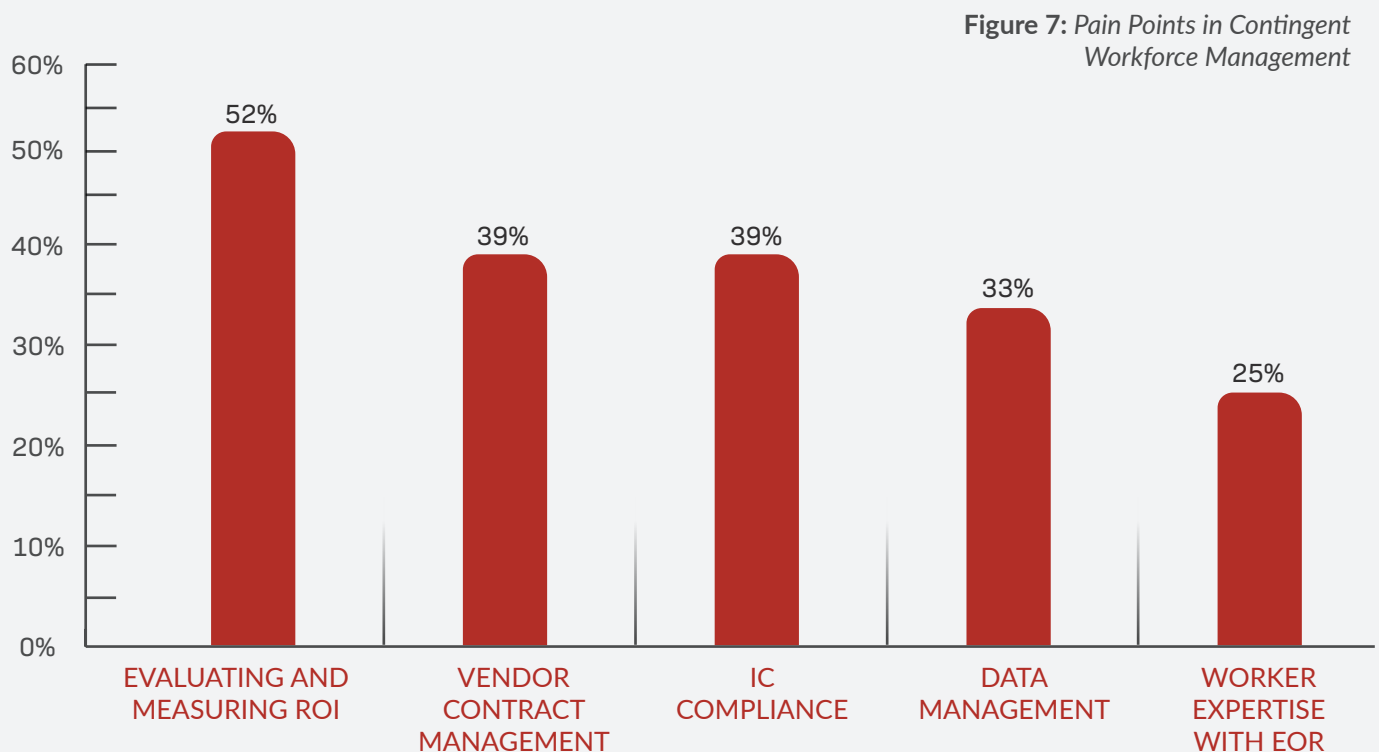
**Figure 6:** *Areas Lacking Visibility in Contingent Workforce Management*





## Inefficiency:

One of the most significant benefits of a more flexible workforce should be increased efficiency in processes and performance. Unfortunately, the reliance on outdated methods and tools to support these efforts often creates unexpected inefficiencies and uncertainty. This became evident during the pandemic, with healthcare organizations unable to scale or staff fast enough. Studies show that contingent labor accounts for 30% of the nursing needs today. Yet, when hospitals needed support across different geographic areas, inefficiencies and outdated regulations delayed the process. Some states, such as California and New York, required weeks to bring out-of-state nurses on board. When asked to identify their greatest pain points with contingent workforce management, companies identified evaluating and measuring ROI, data management, vendor management, IC compliance, and expertise with the employer of record (EOR). Each of these pain points is the result of an inefficient and ineffective approach to contingent workforce management (see Figure 7).



## Compliance:

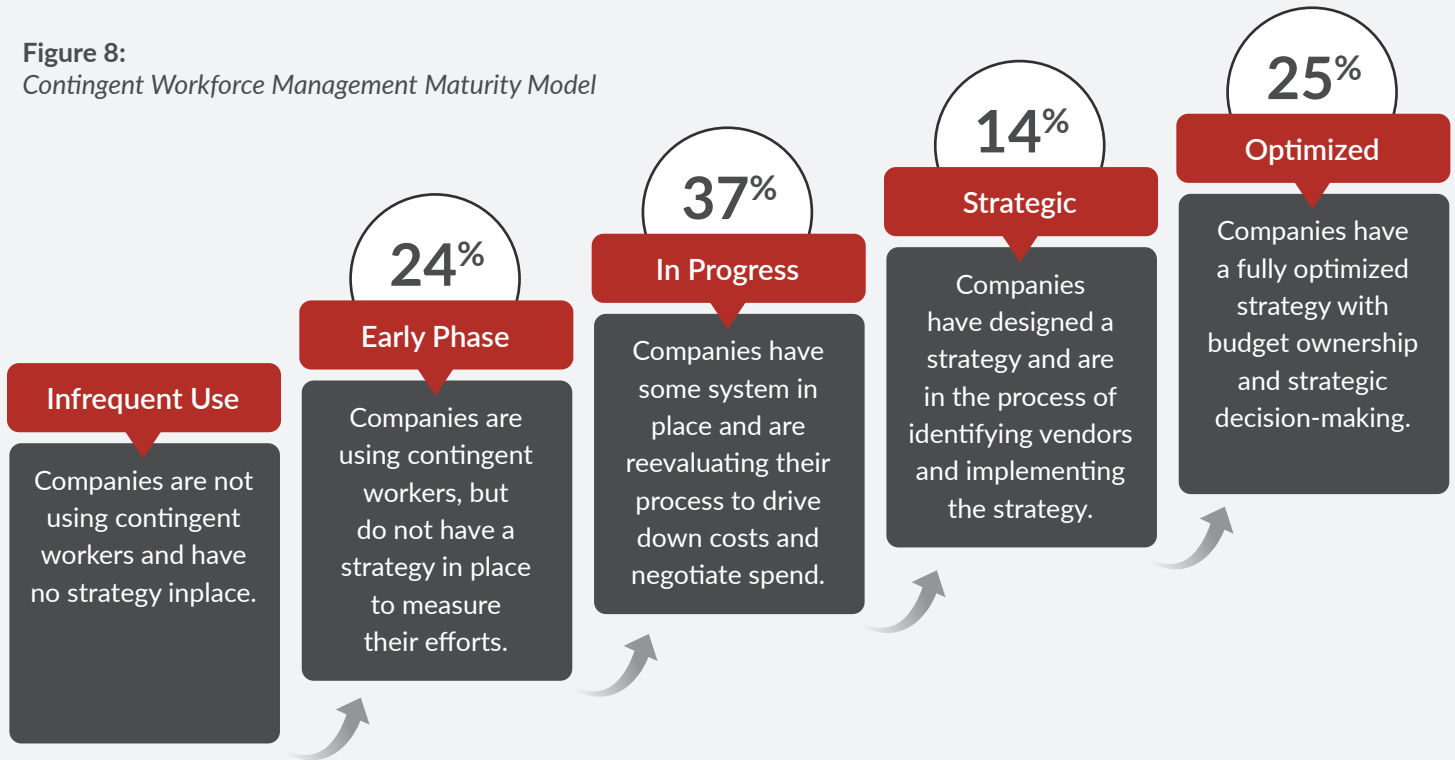
Many companies are hesitant to use contingent labor due to the risk of misclassification of independent contractors (ICs). Although it may seem simple for organizations to distinguish between full-time and part-time employees, many organizations still struggle to properly classify workers and establish a baseline. As a result, the IRS and numerous federal, state, and local institutions are cracking down on organizations for the proper classification and co-employment. For example, if a company uses an independent contractor for over 30 hours a week, they may still need coverage. When organizations misclassify workers as ICs, they violate laws around worker compensation, unemployment insurance, and overtime. They are also leaving themselves vulnerable to potentially crippling wage and hour violations.

## FUTURE STATE: SHIFTING TO AN OPTIMIZED STRATEGY

Every company is at a different stage in its contingent workforce journey. Some companies are just getting started and making ad hoc decisions based on short-term demands for talent, while other companies are strategically planning for their future talent needs. Although contingent workforce management is a key priority this year, most companies are still immature in their flexible workforce approach. Only 1 in 4 companies currently have an optimized strategy around contingent workers.

Aptitude Research developed the following maturity model to help companies understand their own process around contingent workers and the steps they need to take for a more strategic and optimized approach. This maturity model includes four stages: Early Phase, In Progress, Strategic, and Optimized.

**Figure 8:**  
Contingent Workforce Management Maturity Model



Currently, 18% of companies surveyed report no use or infrequent use of contingent workers. As these companies consider their priorities over the next year – and their ability to fill talent gaps and adjust to shifts in talent demand – they should view the following maturity model.

#### Five different characteristics define each stage:

- Ownership:**  
Who has ownership over contingent labor, including budget and vendor management?
- Fee Models:**  
What fee models are in place, and how satisfied are companies with those models?
- Visibility:**  
What visibility do these companies have into spend, vendor performance, and engagement?
- Key Performance Indicators (KPIs):**  
What success have companies achieved with their contingent workforce strategies to date?
- Solutions:**  
What technology and services are in place?

## PHASE

## 1

## Early Phase:

The “early phase” stage of contingent workforce management includes companies that are just starting to put a strategy together. They are using contingent workers, but their efforts are ad hoc, and they have no process to manage or track these efforts.

**Characteristics:** Companies at this stage are driven to fill talent gaps in the short-term (40%), and their greatest pain point is cost control (62%). Procurement takes greater ownership in the overall contingent workforce strategy for budgets (45%), vendor management (30%), and overall use (25%). The greatest change these companies are looking to make in the next year is to shift ownership from procurement to HR (62%). Sixty-eight percent (68%) of these companies are not happy with their current fee model and rely on bill rate models. At this stage, companies have low technology and service adoption, with only 38% using vendor management systems (VMS) and only 28% using managed service providers (MSP), while 78% are using manual methods like Microsoft Excel.

**How to Progress:** These companies are beginning to shift ownership but need to build more significant expertise to change fee models and leverage the right technology solutions.

## PHASE

## 2

## In Progress:

The “in progress” stage of contingent workforce management includes evaluating or reevaluating their approach, spending, and use of contingent workers. They are trying to reduce costs and renegotiate spend.

**Characteristics:** Companies at this stage of the contingent workforce model are also driven to fill talent gaps in the short term (64%), and their greatest pain point is the lack of ownership (54%). HR and procurement both own different aspects of contingent workforce management, with less than 25% of companies using a shared-ownership model. The most significant shift companies are making is their use of vendors and staffing agencies, with 1 in 2 companies looking to switch to this model. Although companies are using both bill and pay rates (including markup) fee models, nearly 60% are not satisfied with these models. Technology adoption is greater, with 50% of companies using a VMS and 39% using an MSP.

**How to Progress:** These companies should shift their ownership to have greater visibility into areas like budget and vendor management. Companies at this stage should consider budget analysis, standardization, and forecasting.



## PHASE

## 3

## Strategic:

Companies at the “strategic” stage of the contingent workforce model have greater visibility into their use of contingent labor.

**Characteristics:** Companies at this stage are driven by the need for greater flexibility (78%) and have challenges with inefficiencies (42%). The greatest shift companies are making in this stage is around ownership. HR has more shared responsibilities for companies at this stage, with 40% sharing ownership of total contingent workforce management. Strategic stage companies are also more likely to use a pay rate model and are more satisfied with that model. Companies are also more likely to invest in solutions, with 67% of companies using a VMS and 35% using an MSP.

**How to Progress:** Though more progressive, these companies should strive to build their expertise, shift their fee model, and carefully evaluate providers for true partnership.

## PHASE

## 4

## Optimized:

Companies at the “optimized” stage have more control over their contingent workforce management strategies. They have greater visibility into the process and own their fee models to ensure better decision-making.

**Characteristics:** Companies at this stage are driven by the need to fill talent gaps and reduce inefficiencies (54%). They are three times more likely to have shared ownership of budget and vendor management between HR than early phase companies. They also have greater expertise and experience at this stage to take on more control of the vendor management process. Companies can better manage bill rates with greater consistency and market standardization.

At the optimized stage, companies see greater improvements in KPIs like worker satisfaction, fill rates, visibility, and productivity (see Figure 9).

Figure 9: Improvements in KPIs

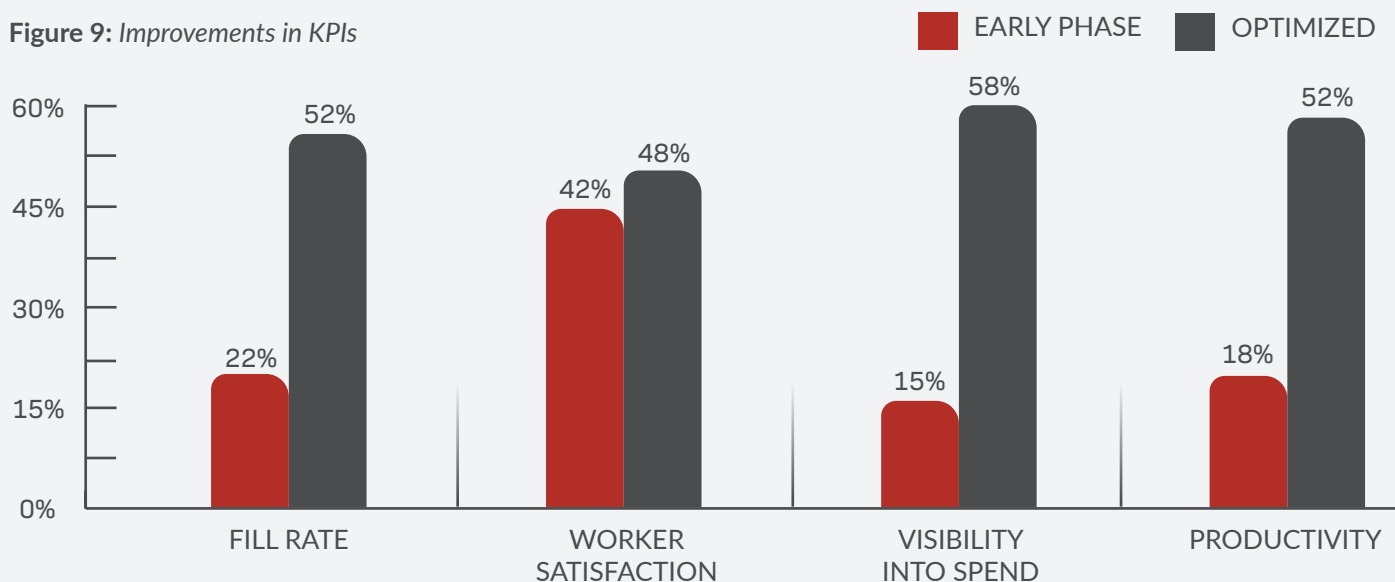


Figure 10: Maturity Model by Characteristics

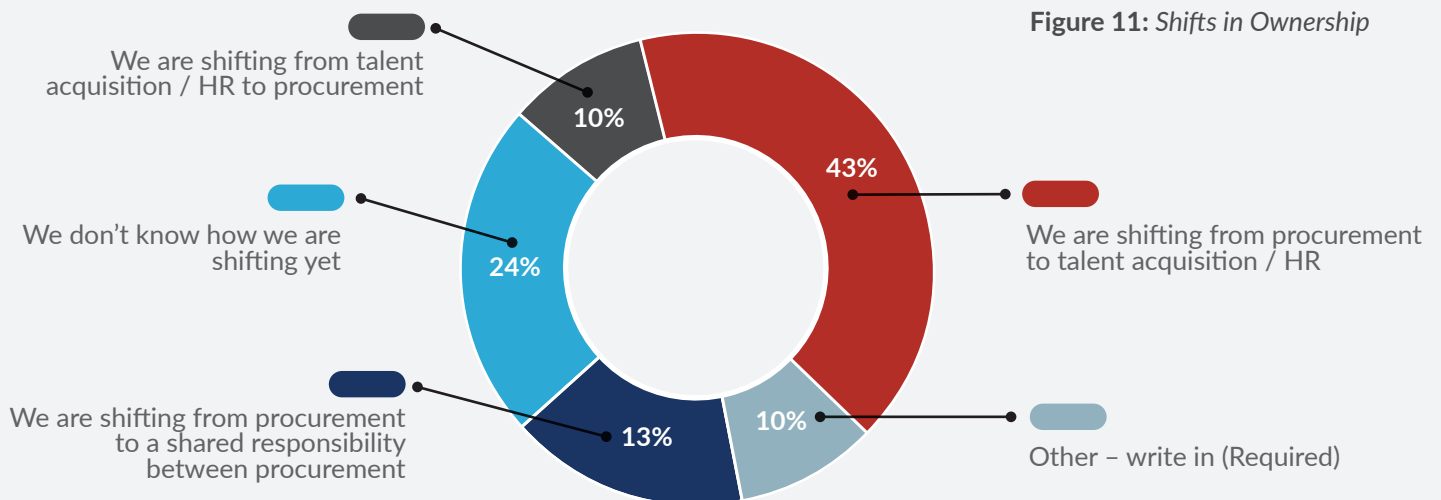
	Early Phase	In Progress	Strategic	Optimized
<b>Ownership</b>	Procurement	Procurement/HR	HR and Shared	Shared (heavy HR)
<b>Visibility</b>	Low	Low	Medium/High	High
<b>Fee Models</b>	Bill rate with little flexibility	Bill rate with little flexibility	Bill rate and pay rate	Bill rate and pay rate with greater ownership and visibility
<b>Solutions</b>	Low tech adoption; Excel spreadsheets	Greater adoption of VMS and MSP	VMS, MSP	Next-generation contingent solutions, HCM solutions, MSP
<b>KPIs</b>	Lack of defined KPIs	Fill rate	Fill rate	Fill rate, productivity, worker satisfaction.

Companies looking to mature and progress across these characteristics must reevaluate and shift their approach to ownership, fee models, and technology.

## SHIFTS IN OWNERSHIP

The lack of clear ownership is a fundamental problem facing many contingent workforce programs. Talent acquisition does not always have visibility or expertise on contingent labor, and procurement often relies on antiquated tools and strategies. Thirty-five percent (35%) of companies are shifting their ownership this year to reduce overall costs. When asked how they are shifting ownership, 43% are shifting from procurement to HR, and 24% are shifting from procurement to a shared model. By taking control of contingent workers' spending, companies will gain more visibility and confidence to manage bill rates with greater consistency and market standardization.

Figure 11: Shifts in Ownership



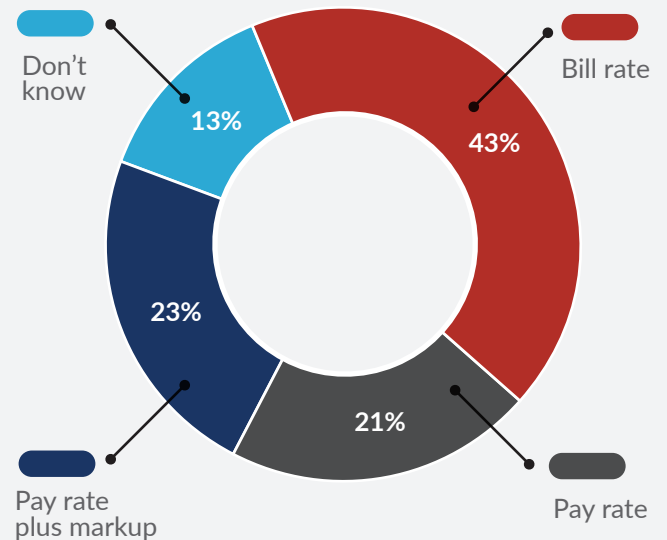
**Recommendation:** Companies shifting ownership from procurement to HR should consider greater collaboration between the functions to facilitate clear communication during this transition.

## SHIFTS IN FEE MODELS

Over 40% of companies currently rely heavily on a bill rate model in which staffing firms manage the costs, and companies have limited control over how much they spend on contingent labor. As a result, 58% of companies are not happy with this model and question if they are “doing it right.” The excessive fluctuation from different staffing agencies is an indication of uncontrolled spending and dissatisfaction in the process. Forty-one percent (41%) of companies plan to shift their fee models this year, but they do not have the expertise to move to a pay rate model that provides more control but requires more work.

**Recommendation:** Companies shifting to a pay rate model will need to consider consolidating budget tracking, developing more consistency in rates, and developing negotiation strategies to avoid excessive markups. By taking control of contingent workers’ spending, companies will have greater visibility and more confidence in their approach can better manage bill rates with greater consistency and market standardization.

Figure 12: Current Fee Models



## SHIFTS IN TECHNOLOGY

Investing in technology and service providers will help organizations with reporting, maintaining costs, and staying compliant. Unfortunately, companies have relied on the same solutions when considering technology for managing their contingent labor, including VMSs, MSPs, and workforce and talent management systems.

**The traditional solutions that support contingent workforce management are cumbersome, costly, and often unrealistic for most companies looking to scale rapidly. The contingent workforce technology landscape has changed over the years; yet most companies are not aware that there are better options to identify and engage contingent workers. The reliance on these traditional tools has prevented transformation in an industry in desperate need of change.**

The VMS remains the bread and butter of contingent workforce management. Still, 1 in 2 companies are looking to replace their provider in 2021, and only 29% of companies are satisfied with their existing provider. Fortunately, companies have better technology options, including talent marketplaces to connect workers with employers, contingent solutions to improve visibility, and providers looking to disrupt the contingent model and offer better solutions and experiences.

### Vendor Management Systems:

Organizations that invest in a VMS are more likely to ensure compliance and drive business outcomes. VMS technology helps manage all aspects of the contingent labor umbrella by automating the process of procuring, managing, and analyzing contingent labor. These solutions are transactional in nature and provide limited visibility to companies.

### Managed Service Providers:

MSPs bring a consultative approach to contingent workforce management and assist organizations in day-to-day operations. MSPs also offer expertise in handling the nuances of the contingent workforce umbrella, including mitigation of risks associated with contractors, consistent tracking of milestones/delivery dates against agreements for SOW-based projects and services, and process improvements to improve the productivity of contingent labor. The trend over the past few years has been to move the MSP model in-house; yet few companies have the expertise to do so and need to consider solutions that can support them through these operations.

### Workforce Management Solutions:

These solutions enable organizations to track and use workforce data to make better decisions around critical workforce management processes. These processes include time and attendance, scheduling and absence management, strategies, and tools for critical core HR functions like payroll and benefits and the power of integrated workforce management. Yet, most workforce management solutions tend to support permanent labor with limited expertise in contingent work.

### Recommendation:

Companies have access to better technology options today and should consider next-generation contingent workforce solutions. These solutions can help companies scale rapidly, improve visibility, mitigate risk, and provide an improved experience for both employers and workers. The future of contingent workforce technology comes from providers looking to disrupt this market by offering one platform to source, engage and pay non-employee workers, and measure and manage spend.

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## CALL OUT

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## KEY RECOMMENDATIONS: CREATING AN IDEAL MODEL

Companies that have an ideal and optimized contingent workforce management model have clearly identified their goals and priorities for the next year and are exploring more effective solutions for their non-employee workforce. Companies looking to mature in their contingent workforce efforts in 2021 should consider the following:



### ▶ **Establish Clear Ownership:**

Regardless of who owns contingent labor, companies at an optimized level have established ownership expertise in managing this workforce and optimizing spend and performance. Companies shifting to HR should work with procurement or individual business leaders to understand challenges and opportunities moving forward.



### ▶ **Create More Visibility:**

One of the greatest challenges with contingent workforce management is the lack of visibility into the effectiveness and spend. Without the insights they need to make better decisions, companies will continue to question if they should be doing things differently. Companies should consider providers that offer better visibility and establish clear metrics for success.



### ▶ **Measure and Manage Spend:**

Companies at an optimized level are better able to manage vendor spend and measure results. They have greater visibility, can forecast their budget and can standardize costs.



### ▶ **Invest in Next-Generation Solutions:**

Companies should think beyond the traditional VMS for their contingent labor and look at more innovative and effective solutions that can source, engage, and pay workers in one platform.



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