

Helping our clients win in the changing world of work:

Insights into cost reduction strategies

A Manpower Insights Paper

What do you do?



According to a recent Aberdeen Group Survey, respondents cited the top three business priorities for 2009. They were: “executing business strategy”, “reducing operating costs” and “recruiting, retaining and developing a great workforce”¹.

Cost reduction is one of the priorities of the business strategy established during an economic downturn. The current economic climate has forced organisations to implement many cost-cutting strategies, such as reducing training programs, reducing employee benefits, and significantly trimming down the overall size of their workforce in order to protect their profits. According to a recent survey of Towers Perrin (Figure 1), the number one action of cost cutting cited by the respondents was salary freezes (59%) and they have implemented or will implemented over the next 12-18 months, while training programs remain a tempting cost cutting target (45%).

While cost pressures remain intense, if a company is facing revenue shortfalls or a decline in business opportunities, workforce cost reduction has probably become a significant goal and it is relatively easy to reduce head count and take an immediate profits. However, talent retention, employee engagement and productivity remain as a primary concern - if an organisation is cutting too deeply then there could be a detrimental effect on its talent as the economy recovers. The recent research from Right Management indicates that the financial implication of a reduction in employee engagement is potentially devastating to the bottom line and many organisations may encounter significant performance challenges in the coming years².

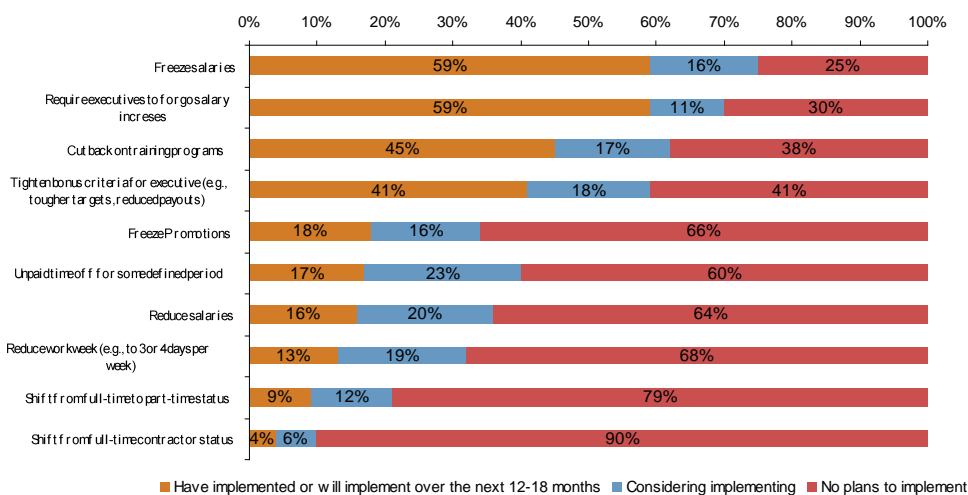


Figure 1: Top pressures driving all organisations to outsource all or parts of the recruitment process
Source: Aberdeen Group, March 2008

Key Benefits of RPO

Manpower has worked with a number of companies globally to provide advice and support to drive workforce cost efficiencies. Below we summarise some of the initiatives we can bring to our clients.

Cost reduction strategies targeting workforce spend typically fall into two categories:

- 1) Quick results with short term sustainability
- 2) Longer term results with long term sustainability

Many companies tend to focus on the first category as they are easier to implement and deliver results quickly.

Savings in this category however, are often unsustainable and can create challenges for companies needing to deliver savings year on year.

Category 2 savings can sometimes require upfront time or financial investment with savings results being realised overtime.

Once they start to generate, however, they are generally far greater than those achieved in Category 1 and can be recognised for many years.

We believe the most effective strategy to adopt is forward-looking with a combination of both categories.

¹ Martin, K.; Saba, J.; Lombardi, M. The 2009 HR Executive's Agenda, Driving Business Execution and Employee Engagement; the Aberdeen Group; Dec. 2008
² Restructure for Growth- Change Management Australia 2009, Right Management- A Manpower Company, 2009

Quick Results

Margin reduction

In this market, many suppliers will be working on margins that have little or no room for reduction. If a supplier makes a 10% reduction to their margin, typically this will only equate to cost saving of around 0.8% to 1.5% of the total bill rate. Where this sits in the scale will depend on several factors including: volume of business a supplier receives, operational efforts required for placement and contractor management, tenure of placements and amount of risk required (for example, warranties).

The most effective strategy to achieve margin reduction is to channel more business through fewer suppliers. This will enable the suppliers to grow volume and achieve operational economies of scale. In turn margins can be reduced without significantly affecting profitability.

Manpower can support clients regarding options to retain workforce at a lower cost. These include:

- Reduction of hours: for example if each employee worked a 9 day fortnight this would generate a
- 10% cost saving
- Sabbaticals or extended unpaid leave: for example, members of workforce volunteering to take 3, 6 and 12 months sabbaticals with guarantee of assignment on completion, or

Reduction of payrates or incentive schemes

Manpower can work with clients to implement and support a supply chain strategy to generate a greater and longer term outcome; this is covered in more detail in the second category.....

Probation / Training pay rates

Where market conditions and employment legislation allow, the introduction of probationary rates can have a two fold benefit.

- Firstly a cost saving will be realised against the full pay rate.
- Secondly it can promote a sense of achievement for the associate when they complete their probationary or training period. In some industries (for example contact centres) this tiered pay structure can also assist with retention during this period which has an additional positive impact on cost.

Workforce payrates and hours

During economic downturns many organisations will look to reduce staff in order to reduce operational costs. Temporary and contractor workforces are often targeted first as they are considered non-core – in reality however, many of these recourses are business critical.

As being mentioned in the previous section, losing talent, whether temporary or permanent, can have a longer term impact for an organisation especially when economic conditions improve or company growth is required.

Please note the latter should be a last resort and if chosen, the workforce needs to be consulted with majority agreement achieved. Whilst this option is currently being pursued by some organisations, this strategy is likely to have a significant impact on morale and brand loyalty will be negatively impacted once conditions improve.

Manpower can work with clients to identify overtime spend and where it can be reduced. This can involve initiatives around effective rostering, task efficiencies and conversion of associates from hourly to daily or weekly rates.

Workforce Rationalisation

It is common in many temporary workforces for resources to become overpaid for the skills they perform. This is especially common during a skills-short market when companies want to retain business critical resources. The labour market in Australia has seen these conditions over the last five years and with the current economic downturn impacting unemployment there has never been a better time to rationalise workforce.

On identifying over-skilled resources performing lesser job roles, Manpower in conjunction with the client will determine the need to increase job responsibilities or replace with a lower skilled resource.

As with pay rate reduction strategies, the former should be reviewed as a possibility first. Initiating this across multiple team members should increase productivity and offset output impact if headcount reduction is required.

Utilisation

Improved utilisation of a workforce can have significant effects on productivity and cost. Manpower can work with clients to improve utilisation in a number of ways. In category 1 this falls into two areas:

1: Assignment end date management and extension process

Manpower can help clients better manage assignment lengths by implementing a more robust extension review process. This includes:

- Automated reporting to highlight assignment end dates 1 -3 months prior
- Earlier and proactive contact with HR, procurement or line manager to review assignment close or extension, and
- Extension criteria and authorisation process for line managers.

Overtime management

Overtime hours and increased overtime pay rates are common in a temporary workforce. In many instances these result from poorly managed rostering and time management instead of business demand.

Secondly, overtime pay rates are often incurred unnecessarily. Whilst these are mandated for employees paid under awards some temporary associates are paid above award conditions therefore the rulings do not apply. This would be the case with many contingent workforces in IT.

Expense Management

Manpower can also work with clients to monitor and analyse expenses claimed by their workforce. In some companies managers will look to process expenses through temporaries to avoid the costs being visible to their finance teams. This in turn can expand spend under suppliers.

Manpower can work with clients to evaluate the key skills against each job role. Current market intelligence is used to determine up to date pay rate bands and the current workforce will be analysed against this (taking into account any exceptions in their job responsibility).



In addition to ensuring that resources don't continue to work when not business critical, a more robust process will also ensure needed talent is retained. Companies often lose high performers at contract end date by failing to secure and communicate extensions in a timely manner. As many temporary workers want regular employment they will often search for alternative positions when their future is uncertain.

2: Maximisation of leave entitlements and workload absorption

The majority of temporary workers forget or are unaware that their hourly pay rates are pre-loaded with 20 days annual leave per year. As a result many will not take their full leave entitlement and some will take no time off at all. As a responsible employer, Manpower promotes associates taking their leave entitlement and can work with clients to actively encourage this. Initiatives can include

- Regular communication to associates on the importance of taking breaks and reminders of preloaded remuneration.
- Promotion of work buddy schemes to encourage workload absorption when associates take leave.

*Utilization can also be positively impacted by initiatives in category two. This is covered in more detail on page 7.

45% of organisations indicated that they have implemented or will implement cost cutting on training over the next 12-18 months..

-(Source: Towers Perrin, 2009)

Former NASA scientists found that vacationers experienced an 82% increase in job performance post-trip.

-(Source: Business Week May 21st 2007)

Training and development

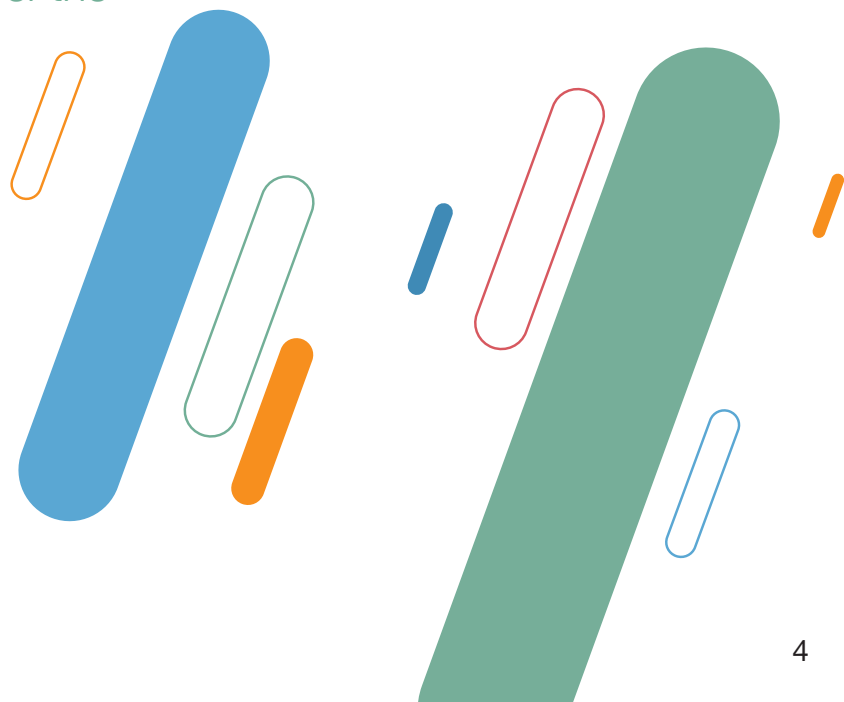
Reducing training may inadvertently signal a lack of organisational commitment to growth for employees and can impact employee engagement over time.

Manpower's online training and development centre (TDC - www.manpowertdc.com) is provided free of charge to all associates. Utilisation of the TDC for client benefit can deliver significant cost avoidance and savings.

From a cost avoidance perspective clients can utilise the TDC to up-skill and cross-skill associates instead of providing internal training at their cost.

Further savings are recognised in a number of areas including:

- Increased productivity due to up and cross-skilling
- Increased workload absorption through cross skilling buddies
- Increased retention through improved engagement and morale (associates feel invested in if provided with regular training), and
- Pay Rate containment – associates unskilled for more senior roles; associated pay increase is often lower than going to market.



Longer Term Results

Supply Chain

Many companies do not realise the cost of managing a panel or panels of multiple recruitment suppliers. For every supplier engaged, time is spent on contract management, recruitment activity interaction, performance tracking and review, invoicing and additional day-to-day communication.

Channelling more business through fewer suppliers was discussed earlier as a strategy to reduce charge rates. Additional and significant advantages are the reduced time and cost of supplier management.

The most effective model to reduce supply chain costs is to engage with one supplier which manages recruitment needs on the behalf of the company. This is often referred to as Recruitment Process Outsourcing (RPO) and can incorporate both contingent and permanent workforce needs.

Manpower can provide this service in a number of ways.

- Management of a pool of suppliers where Manpower is the master supplier
- Management of a pool of suppliers where Manpower is a neutral supplier
- Management only of a pool of suppliers where Manpower does not partake in recruitment activity.

A 70% reduction in costs can be achieved by implementing a global labour strategy.

- (Source: Mckinsey)

Cost per hire can be impacted by 15-20% when an RPO program is put in place.

Global Workforce Optimisation

Companies who have the opportunity to develop either a regional or global labour strategy with one partner can realise a greater level of savings. In addition to leveraging volume for competitive rates, a supplier engaged across multiple countries can assist with borderless workforce options.

Through knowledge, experience and thought leadership within the global labour market place Manpower has assisted clients in the following:



People to Work:

Our global cross border team can recruit and relocate resources and their families from over 80 countries and territories, saving clients significant time and cost. We have assisted clients in relocating candidates to Australia from over 16 countries including South Africa, India, Norway and Brazil.

Work to People:

Manpower has assisted a number of clients with off-shoring and near-shoring generating significant cost reductions of total cost of workforce. These include offshoring of work from Australia to Malaysia and Japan, Japan to China, Western Europe to Eastern Europe and India and US to Costa Rica.

51% of enterprises believe that the use of contract/contingent labour will increase over the next two years, with 40% of that figure anticipating a moderate increase in this workforce strategy

(Source: Aberdeen Group, 2009)

An average cost saving of 16% has been realised across our implemented models to date.....

Productivity Management

The majority of companies in Australia choose to engage contingent workforce from external suppliers. This model is extremely beneficial in changing fixed cost into variable. There are often challenges, however, when it comes to managing this workforce due to co-employment risks.

As a result a disjointed process is common when managing productivity in a contingent workforce.

Manpower has worked with a number of clients globally to implement productivity management models. In these models Manpower provide enhanced onsite HR support to take ownership for all HR tasks (including performance and attendance management). In addition to freeing up company's personnel, significant cost savings can be realised through increased productivity and retention.

Business re-engineering

Recruitment suppliers typically have transactional relationships with companies where there is limited accountability for business outcome. When organisations build strategic relationships with suppliers they are often looking for those suppliers to take greater accountability.

Manpower has worked with a number of companies to re-engineer business models, taking greater responsibility in managing services and sharing risk and responsibility. Our outcome based models typically fall into two categories:

- 1) Manpower can take over the full management of a business function for a fixed monthly fee. Manpower therefore takes on the full risk of resource costs and is responsible for business output
- 2) Manpower can be engaged in managing contingent workforce and be paid on execution of tasks. This outcome based pricing model has been very successful in reducing costs in areas such as break/fix field technician services and installation projects.

Both models, in our experience, can be very effective in achieving long term cost savings.

By taking over the management of our client's secretarial pool in Australia we helped our client achieve over \$6 million (AUD) in cost saving in the first 12 months.

Alumni Programs

There has never been a better time to attract back ex permanent and contingent workforce. Time and cost of gaining full productivity of these resources is significant less due to knowledge that they already hold.

Manpower can work with clients to develop an alumni program. This can include attracting back retirees who want to re-enter the workforce on a part time basis.

70% of Baby Boomers plan to keep working into their 70's and 80's, even if their financial circumstances do not require it.

-(Source: AARP survey, Manpower Inc)

About Manpower Inc.

Manpower Inc. (NYSE: MAN) is a world leader in the employment services industry; creating and delivering services that enable its clients to win in the changing world of work. Celebrating its 60th anniversary in 2008, the US\$22 billion company offers employers a range of services for the entire employment and business cycle including permanent, temporary and contract recruitment; employee assessment and selection; training; outplacement; outsourcing and consulting. Manpower's worldwide network of 4,400 offices in 82 countries and territories enables the company to meet the needs of its 400,000 clients per year, including small and medium size enterprises in all industry sectors, as well as the world's largest multinational corporations. The focus of Manpower's work is on raising productivity through improved quality, efficiency and cost-reduction across their total workforce, enabling clients to concentrate on their core business activities. Manpower Inc. operates under five brands: Manpower, Manpower Professional, Elan, Jefferson Wells and Right Management. More information on Manpower Inc. is available at www.manpower.com or www.manpower.com.au.

About Manpower Professional

Manpower Professional, a division of Manpower Inc., offers comprehensive, expert recruitment services backed by award-winning training, assessment and selection and outsourcing. Its extensive resources, world-class client list, and reputation attract a diverse group of talented candidates, with every level of education, skills and experience for permanent or temporary positions. Manpower Professional helps find and retain top people in IT, e-commerce, accounting, finance, engineering, clinical and lab sciences, and other business professions. For more information on Manpower Professional, please visit the website www.manpowerprofessional.com.au.

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