

On the Horizon

By Jason Ezratty

Will the VMS as we know it survive?

Human resources are the most valuable resources your company has. That sentiment has been drilled into our heads so many times we've taken to drilling it into the heads of others. We also promote the idea that contingent workers are now critical to strategy, growing in quantity and importance. How, therefore, have enterprise resource planning (ERP) software giants completely missed the emergence of contingent resources over the past decade?

Indeed, the likes of SAP, Oracle, PeopleSoft, and Ariba each appeared as potential category killers. However, they seemed to disappear as quickly as they entered — and sometimes repeatedly so. To the credit of native VMS market leaders, it appears to be because they just don't appreciate the nuances of contingent labor. For the amount of revenue at stake, contingent workforce management solutions require a lot of work from specialized and experienced personnel. Along with ERP contestants, the competitive landscape of VMS software and services is rich with diversity, with sizable foes threatening to enter the contingent workforce management technology arena.

THE ERP ADVANTAGE

Thus far, vendor management systems have been able to sneak under the radar of ERP product managers' development roadmaps. But how long can this go on? Sooner or later, ERP players will take advantage of one of their three major advantages.

Advantage No. 1. ERP has a strategic IT-roadmap alignment advantage. IT departments are under pressure to consolidate application licensing and support investments — meaning a likely trend of fewer specialized tools and more bolt-on solutions off existing ERP backbones.

Advantage No. 2. ERP has peak-level strategic relationship advantage. ERP players enjoy key relationships — externally with significant investments in the IT analyst community,

SNAPSHOT

- VMSs have stayed under radar of ERPs' roadmaps
- ERPs have 3 fundamental advantages over VMSs
- VMSs use knowledge and overall service to boost their worth
- Newcomers spur innovation



alliance is compelling enough for me to believe their longer-term technical integration potential.

DIFFERENTIATION STRATEGY

Despite the strategic advantages of the ERP and ERP-aligned, Fieldglass and Beeline, as well as industry notables IQNavigator, Emptoris, Peopleclick and ProcureStaff, won market share through hard-earned client successes. In the world of contract labor, eBusiness did not bring the billion-dollar get-rich-quick hype of other Web-based emergent markets. The VMS-category differentiation strategy was largely based on two factors:

1. Better knowledge of the space, and
2. It's more about the overall service than the software application.

Those VMS providers that combine MSP operations within their solution offering repeat both of these points throughout their marketing and sales messages. MSP personnel live and breathe the everyday realities of a VMS

and internally at the desks of the C-suite. Native VMS software salespeople rely on their depth of subject matter expertise to win middle-management attention for their wares. ERP salespeople are speaking to the most powerful people in Corporate America, those who set the agenda at the highest level — and who traditionally ignored the contingent workforce as being too small or marginal.

Advantage No. 3. ERP's capital advantage is substantial enough to ensure it can out-spend and out-influence current VMS market leaders. ERP companies are literally a thousand times bigger than native VMS players, counting revenue in the tens of billions, not tens of millions.

VMS up-and-comer Provade claims to have the best of both worlds. Provade is strategically aligned with Oracle — enjoying everything from its tradeshow booth space to its top-down selling tactics. (For VMS history buffs, some of the Provade guys have a Skills Village lineage.) This is a powerful alliance if for no other reason than Oracle is so powerful. The degree to which Provade software is actually more deeply technically aligned with Oracle, or even PeopleSoft, is contested by its competitors. To me, the business

deployment. They are the ones whose SLAs are most tightly aligned with that of the transaction — on-time quality candidates at good-value pricing — not just a bug report and server performance log. Beeline, IQNavigator, PrO Unlimited and Agile-1 are all MSP/VMS integrated players. Their philosophy: The software is better because their brethren are in the field, working the tools and providing feedback and enhancement ideas. Who could intuit where VMS software needs to grow better than an MSP company?

This is what makes CEO Darren Reid's strategy for 3 Story Software (see box) seem so counter-intuitive at first. For him, application quality comes first and foremost. 3 Story Software, a Connecticut-based VMS provider, offers a fully hosted solution but has not yet built out an infrastructure for help desk support and is still scaling up to true mission-critical fault-tolerance. The team has its sights set high, seemingly undaunted by the scope of what it ultimately plans to take on: old school software engineer bravado.

Reid's view of the future is not all that uncommon: VMS software must solve a bigger problem than automating the sourcing of temporary labor and tackle the entirety of project

A New Entrant

A small VMS provider takes a different course

Late last fall a client asked me to kick the tires at a small vendor management system (VMS) provider located in New Milford, Conn. The VMS provider was 3 Story Software, and I was scheduled to spend the day with its CEO, Darren Reid, and CTO, Christian Sauer (I would later learn they comprise 40 percent of the workforce). The address they gave me belonged to an old house with a yard out front. Fearing I'd been led astray by the Garmin, I drove by the building three times before spotting the 3 Story Software sign.

I was greeted by Sauer in the backyard parking lot. Sauer is a smart, affable guy and I immediately felt welcome in the company's "home." Within minutes, I was having coffee with Reid and Sauer in what I would have called the dining room, but they called a conference room. I was sad to learn that this structure had never actually been lived in but was instead built with municipal intentions — it even has an old vault / walk-in safe, now serving as backup server room.

3 Story Software is small, indeed. It boasts just five employees (though it is actively hiring). Reid's gang is the former R&D group from ECG, originally brought together to build the Ensemble architecture. Who'd be willing to put their eggs in this basket? As I learned, Reid defines the basket differently than his competitors do.

His position is simple — focus a small number of talented and experienced software engineers on high-value business application development and do not get caught up in the infrastructure, help desk, marketing, and account management overheads their competitors are claiming is a key aspect of their overall solution value.

But what an enviable position these guys are in. A tight-knit group of seasoned software engineers afforded the freedom in architecting an application without the unending demands of a customer during a sales cycle. Rumor has it they referred to their new product initiative as "Cheetah" because it performed so quickly. Hmm, Geeks Gone Wild... maybe they're on to something, but is there room for such a newcomer? Equally concerning, if successful, can 3 Story Software survive the strains of rapid growth? Only time will tell.

services. To Reid, temporary labor is yesterday's news and he has thus named his new VMS, "Projects."

Reid says, "We like project spend because it is messier, complex, multi-country, multi-language, and a product-driven approach, I think, fits it better." As for scope, 3 Story Software's Projects application goes beyond non-employee labor, capturing the entire human capital spectrum. Reid goes on, "Our customers/prospects have a mix of full-time employees and suppliers working on projects, and often multiple suppliers are awarded a single project. They measure the cost and performance of all the resources, including full-time [traditional employees]."

MARKET DRIVERS

In New York, there are still tailors who practice the craft of suit making, offering to fashion a garment to exact specification and fit. This is considered a customer-driven product management philosophy. The assumption at the heart of this philosophy is that customers will pay a premium for individualized customization.

In contrast, large-scale fashion retailers such as Gap, Brooks Brothers, and Ann Taylor serve a market, an abstraction of their collective customers. Their designers create a line that they anticipate will resonate with the tastes of their target market sectors. This is considered a market-driven product management philosophy. The assumption behind a market-driven philosophy is that customers respond to the quality, consistency and better pricing provided by more established, volume players.

According to Staffing Industry Analysts' 2009 VMS/MSP Competitive Landscape Report, Fieldglass and Beeline together occupy approximately 40 percent of the market, making them the market leaders. While data for this year's landscape report are still being collected, these leaders are expected to maintain that lead, and by a growing margin.

In the VMS world, ProcureStaff and Agile-1 would be considered customer-driven, whereas Fieldglass, with its multi-tenant environment, is more market-focused. Both strategies have achieved great successes for clients and have a rightful place on the landscape. However, as market-driven players like

Fieldglass continue to grow and mature, it may get tougher for customer-driven players to demonstrate the differentiating value of their tailored approach. Historically speaking, market-driven players get more powerful as they amass more market share, increasingly marginalizing customer-driven players to shrinking niche market sectors; hence, the disappearance of tailors and seamstresses.

ROLE OF BIG STAFFING

It is no secret that staffing companies earn a far greater percentage of the \$70 billion U.S. temporary labor market than VMS and MSP firms do. However, while VMS companies earn

substantially less revenue, they continue to appreciate in strategic value while staffing companies are increasingly being distanced from the really important conversations.

The disruption caused by VMS/MSP program strategies puts price-pressure on an already-commoditized industry. One would think a major revolution was afoot, except for the fact that the vast majority of MSP players, including several VMSs, are either owned or otherwise affiliated with large staffing agencies. Other than IQNavigator and ZeroChaos, all MSPs have a significant staffing company affiliation.

Of course, since the earliest VMS applications were hand crafted by MSP companies, the influence of big staffing companies on VMS applications is not news. Most notably, second-largest Beeline is owned by MPS Group, which was recently acquired by Adecco — the largest staffing firm in the world. Adecco's previous attempt at a VMS play was in 2002 with the acquisition of WorkCard, which was subsequently sunset. Regardless of whether you think big staffing has the greatest strategic advantage or not, Adecco is large and global enough to warrant a powerful voice in the landscape.

Volt is another large staffing company with a stake in the game. Volt rebranded its MSP as Volt Consulting - Managed Service Programs, recently segregating itself from ProcureStaff, which is now solely focused on VMS technology. Manpower's recent purchase of Comsys brought along MSP subsidiary TAPFIN, and VMS subsidiary Econometrix. Should the "Hybrid MSP" approach — those that attempt to get the best of master vendor and vendor-neutral competitive bidding per skill or location — begin to proliferate, vertical solution providers like Adecco, Volt, and Manpower are uniquely positioned to deliver a value-bundled holistic workforce solution and subordinate the perceived value of VMS software.

ROOM FOR MORE?

Traditional VMS software value notwithstanding, I gave considerable thought to Reid's product-driven approach. Could the right group of talented and experienced software engineers, given a lengthy and flexible build schedule, create a lovingly-crafted breakthrough product to stride past the rest? I'm a romantic capitalist, so I say anything is possible.

I root for new entrants because they often spur innovation. 3 Story Software boasts automated rate management and discounting features not found in any other application. Similarly, Peter McCree founded VMS newcomer Link2Consult, leveraging his success in HRIS, providing creative solutions for candidate testing data. Reid and McCree will win deals because they will find customers



who value their differentiation — be it favorable functionality, price, service, terms, or all of the above. Long-term, however, what might these guys be thinking, how do they really make money at this?

Are Reid and McCree really ready to grow a firm able to win sufficient market share to be taken seriously... even IPO? Or, are they better positioned for grow-to-sell, where the intention is to get noticed by a larger competitor and purchased at a premium valuation? Fortunately for those of us watching the industry, neither man seems ready for retreat. In fact, I suspect they'll make more of a splash than their competitors think.

THE WILD WEST

One of the many moving parts one must consider when selecting a VMS provider is whether its long-term strategy is aligned with one's own. Unfortunately, strategies are a lot easier to put on paper than to execute. What VMS providers are unable to tell you is whether their strategic roadmap is in the way of someone else's — perhaps players much more powerful.

At this juncture, it's still anything goes when it comes to contingent workforce management tools. At this point, we can't even guess if it will remain a niche category tool, get consumed by HRIS or eprocurement — and those are just the immediately obvious possibilities. What if the big staffing companies continue to push their chips into the VMS game? It's arguable that they have to in order to maintain strategic relevance in the supply chain.

Starting at the other end of the supply chain, job boards and applicant tracking and search tools come to mind. If candidates are the inventory, how long until they expand their functionality to include VMS features sufficient to leverage ERP tools, taking dominance anyway? This is especially possible if more companies look to internal recruiters and payrolling organizations as a fresh approach to temp staffing, offering the care of an internal recruiter at a half of the markup.

Speaking of search, how long until Google or Microsoft get involved? Aggregating results from multiple locations in a simple interface is what they do. Google, Microsoft, Oracle, SAP... these are formidable potential opponents, capable of squashing competitors instead of buying them. While these threats are not likely to realize change in the immediate future, how long can VMS providers hold on to the contingent workforce category as a specialty play? 🕒

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