

Hudson

IPros Play Growing Role

In Meeting Talent Needs



THE DIGITAL COMMUNICATIONS & TECHNOLOGY GROUP AT OIL GIANT BP RELIES ON INDEPENDENT PROFESSIONALS WHEN IT NEEDS HIGHLY SKILLED INDIVIDUALS TO WORK ON PROJECTS RANGING FROM SIX MONTHS TO SEVERAL YEARS. EXPERIENCED ARCHITECTS, DATA ANALYSTS AND PROJECT MANAGERS ARE AMONG THE PROFESSIONALS WHO HAVE COMPLETED ASSIGNMENTS WITH THE COMPANY, WHICH HAD \$221 BILLION IN SALES IN 2005.

Archer Daniels Midland (ADM), one of the world's largest processors of oil-seeds, corn and wheat, uses independent professionals to train salespeople to sell value-added products such as cocoa or soybean oil.

At privately owned Solo Cup Co., 200 independent professionals – 80 percent of the IT department – are working on an SAP conversion project that is expected to take three to five years. Solo, which makes disposable serving items, had \$2.4 billion in sales in 2005.

"I can't imagine how we would have gotten through it without them," said Denyse Peterson, Director of Corporate Staffing at Solo.

Companies such as BP, ADM and Solo have long recognized the value of contracting with well educated, experienced individuals with specialized skills for time-limited projects. As more workers choose the autonomy and flexibility of the independent professional (IPro) lifestyle, companies are likely to take advantage of their availability for an even wider range of projects.

"There really is good talent out there that's available, and readily available," commented Carmen Dabiero, Vice President, HR Administration at Sealy Corp., adding that the quality and number of people who have been displaced from various organizations has increased dramatically over the last 10 to 12 years. Sealy is North America's number one maker of bedding products.

Also, with technologies changing at warp speed, the competencies companies need to develop state-of-the-art solutions may not be available within their organizations, said Rosemary Gantz, Director of Talent Management for Albertsons, a grocery chain recently acquired by Supervalu. However, “you can easily reach out and find [the competency] in the marketplace” in the form of independent professionals,” she said.

While in the past business organizations primarily relied on temporary workers to help fill gaps created by uneven workloads, vacations and maternity leaves, today’s companies are as likely to seek temporary workers to fill gaps in knowledge or skills. And while a typical temporary assignment for clerical or administrative staff would have been measured in weeks or months, work assignments for IPros often last for years.

To gain insight into why and how companies use IPros, how they are recruited, and their relationship with full-time workers, Hudson interviewed 15 companies in a wide variety of industries. These interviews complement a global study Hudson conducted in 2005 that shed light on what individual IPros want from their work experience and how satisfied they are with their current job situation (see “*The Lure of Autonomy: A Global Study of Professional Workers*”).

The companies interviewed by Hudson retain IPros for two main reasons: to gain expertise that they don’t have in-house, and to address a shortage of personnel to perform a time-limited function. In some cases, they contract with IPros because full-time employees are not available. Overall, the employers are very satisfied with the services IPros provide.

“It’s a win-win on both sides, particularly when you don’t know how long the work will last,” said Joy Yeager, Director of Employment and Recruiting at McCormick & Co., a \$2.6 billion spice and flavorings company.

HOW MANY ARE THERE?

In an effort to pin down the number of independent professionals in the United States, Hudson conducted an independent analysis of data published by the Bureau of Labor Statistics (BLS) on “alternative work arrangements” in 1995, 1997, 1999, 2001 and 2005 (see Table A, “Alternative Workforce, 1995-2005”). BLS categorizes workers with alternative arrangements into four groups: independent contractors; on-call workers and day laborers; temporary help agency workers; and workers provided by contract firms. However, BLS does not separate out knowledge workers in these categories.

Table A

BUREAU OF LABOR STATISTICS – ALTERNATIVE WORKFORCE 1995-2005										
	1995		1997		1999		2001		2005	
	Number (in mil)	% of Total Workforce	Number (in mil)	% of Total Workforce	Number (in mil)	% of Total Workforce	Number (in mil)	% of Total Workforce	Number (in mil)	% of Total Workforce
Independent Contractors	8.3	6.7	8.5	6.7	8.2	6.3	8.6	6.4	10.3	7.4
On-call Workers and Day Laborers	2.0	1.7	2.0	1.6	2.0	1.5	2.1	1.6	2.5	1.8
Workers Paid by Temporary Help Agencies	1.2	1.0	1.3	1.0	1.2	0.9	1.2	0.9	1.2	0.9
Workers Provided by Contract Firms	0.7	0.5	0.8	0.6	0.8	0.6	0.6	0.5	0.8	0.6
Total Alternative Workforce	12.2	9.9	12.6	9.9	12.2	9.3	12.7	9.4	14.8	10.7
Total Workforce	123.2	100	126.7	100	131.4	100	134.6	100	138.9	100

To derive a credible estimate of IPros, Hudson started with the two BLS categories that include the most knowledge workers: independent contractors and contract workers. Within the two categories, we looked at the number of workers who have at least a bachelor's degree and who listed their occupation as "executive, administrative and managerial" or "professional specialty." An independent contractor is defined as someone who obtains customers on his/her own to provide a product or service. Contract workers are employed by a company that provides them or their services to others under contract and usually work at a customer's work site.

Using these definitions, Hudson estimates that in 2005, there were 2.7 million IPros, 23.4 percent of independent contractors and contract workers combined. Except for a slight dip between 1997 and 1999, the number of IPros grew steadily from 1995 to 2005, increasing from 1.8 million to 2.7 million, or 50 percent (see Table B, "Hudson Estimate of IPro Workforce, 1995-2005").

Table B

HUDSON ESTIMATE OF IPRO WORKFORCE, 1995-2005*					
	1995	1997	1999	2001	2005
Number of IPros (in mil)	1.8	2.0	2.0	2.1	2.7
Number of Independent Contractors and Contract Workers (in mil)	9.0	9.3	9.0	9.2	11.1
IPros as % of Independent Contractors and Contract Workers	20.0	21.7	22.4	22.5	23.4
Number of Alternative Workforce (in mil)	12.2	12.6	12.2	12.7	14.8
IPros as % of Alternative Workforce	14.6	16.0	16.5	16.4	17.6

Estimate is based on U.S. Bureau of Labor Statistics data on the number of independent contractors and contract workers who have at least a bachelor's degree and are knowledge workers (listed their occupation as "executive, administrative and managerial" or "professional specialty").

RECRUITMENT

Most of the companies Hudson interviewed recruit IPros by word of mouth, but some use staffing agencies when they require a large number of people, need someone quickly or have difficulty finding the right individuals.

“I would say 75 to 80 percent of the [IPros we retain] is because somebody knew them from past relationships, whether they worked with them in an organization or the person provided consulting or other types of services to them in the past,” said Wayne L’Heureux, Senior Vice President, HR at a privately-owned Midwest retailer. The company uses IPros in a variety of functional areas, including human resources, information technology, finance and marketing.

Solo Cup, which recruits IPros through internal referrals as well as consulting firms, offers a bonus to independent contractors who refer other contractors. Solo also is trying to build a pool of IPros who are interested in doing project work when it comes up. In a previous position at a pharmaceutical company, Peterson and her colleagues created such a pool.

“Once it caught on, it was just like wildfire. Every time you use a professional through an agency or you come in contact with someone in normal full-time recruitment, you mention... that we have a pool and we would love to send you an application to participate. And almost everyone jumped at that,” she said. “It was hugely beneficial to the company.”

When McCormick & Co. needs independent professionals for technical positions, “usually somebody knows somebody who would want to come and try this out for awhile,” Yeager said. McCormick and several other companies also rely on retirees when they need to identify IPros. “We have a lot of retirees here that we joke have retired five and six times, because they just keep coming back,” Yeager added.

Deloitte & Touche Canada also tends to prefer IPros who have worked for the firm because they understand the culture. “A partnership is very different [than a corporation], so if they had had previous experience with Deloitte that works very well for me,” said Wanda Parker, Director of Learning and Growth. IPro referrals also often come from elsewhere in the global accounting and consulting firm, she added.

In addition to networking, hardware retailer True Value uses professional staffing firms to recruit IPros, according to Evie Moschel, Manager of Talent Acquisition at the privately owned company. These firms are particularly helpful when a need comes up suddenly. For example, “somebody ends up in the hospital and you’ve got to get a replacement onboard quickly for two months or six months or whatever it might be. And the contractors in your pool

might be tied up or on another assignment," Moschel said. She also calls on recruitment firms when the company needs multiple independent contractors for a variety of different projects.

Solo also uses professional staffing agencies to provide IPros when it needs a large number of people. Peterson noted that miscommunications are possible when dealing with a third party, but overall, professional staffing firms have been essential for the SAP conversion project.

Other companies that use recruitment firms are generally pleased with the experience. Parker said that staffing firms or consulting firms that have consulting or training depth have better business procedures in place than IPros who work alone. "This full-service approach is what we value," she said. "A corporation that has a strong network, supported by good administration, finance and invoicing procedures, is a greater value to me than an independent without back up. [For the independent], taking care of the administrative side of the business may be a lower priority."

Added Mark Krivoruchka, Senior Vice President, HR at Maytag-Whirlpool Corp., "Over a day's time utilizing their professional networking [a recruitment firm] will probably give you a list of three or four candidates, whereas myself or someone in the IT group would have to leverage personal relationships and then maybe get them or maybe not."

Several HR managers noted the importance of making sure that the staffing agency understands exactly what skills the IPro must have. "It's just like any other relationship with an outside vendor that you have. You just have to give them clear specific goals to accomplish, and manage to that," said Douglas Systrom, Vice President and Staffing Director of TJX Companies, Inc. The Massachusetts-based company operates seven retail chains including T.J. Maxx and Marshalls, the two largest off-price clothing retailers in the United States.

EXPERTISE NEEDED

Terra Industries, Inc. is among the leading North American producers of nitrogen fertilizers and the top U.S. producer of methanol, with sales of \$1.9 billion in 2005. Headquartered in Sioux City, Iowa, Terra uses a small number of IPros when it needs specific expertise that is not available in-house. For example, the company has announced a joint venture to build an ammonia and fertilizer facility in Trinidad and Tobago, and expects to retain independent project engineers if the plant receives final approval, according to Joe Ewing, Vice President of Human Resources.

Typically, Terra retains IPros to work on a series of projects for a three- to five-year period. “We may have two or three of them going on at one time. We just don’t have enough in-house expertise, so we’ll [retain] someone who does have the expertise,” explained Ewing. Often the IPros had a long tenure as an employee or manager at Terra or other companies in the industry before they became independent.

“Most of these people are seasoned industry people who are familiar with people in our company... Or if not, they certainly speak the same language because they’ve been in the business a long time,” Ewing said.

At Deloitte & Touche Canada, the Learning and Growth department historically has brought in outside experts to deliver the firm’s “shared competency” curriculum, which includes leadership, management, and sales and service skills. “They might be experts in performance management or offer a range of consultative coaching services. They’re called upon for very specific reasons because of that expertise,” said Parker.

Food processing giant ADM also uses IPros to conduct training. The Decatur, Ill. company, which had \$36 billion in 2005 sales, has the capability in-house to train sales people to sell commodities. However, it lacks training expertise for selling what it calls ingredients – value-added products such as cocoa or soybean oil, explained Michael Marty, Manager of Professional Staffing and College Relations.

Faced with a mandate from the company president to become number one or two in market share for each of its ingredients or get out of the industry, the company had to ramp up its training capacity. “We had [the market share] on the commodities side, but when we look at the ingredients and the other products we’re trying to make money with, the much smaller companies had a much greater market share,” Marty said.

“What we’ve done is we’ve had people come in from the outside to help us teach these individuals to break those old commodity trader habits of watching every half cent, and learning that we’ll charge ten cents more [for the product] because it’s worth it,” he added. Typically the trainers are retained for one- to two-year stints with the company.

The IPros “are not molded in the ADM culture,” Marty said. “They bring that outside perspective and they get people thinking about possibilities.”

FULL-TIME NOT AN OPTION

For McCormick & Co., independent professionals are sometimes the only option. “The unemployment rate here in Maryland is virtually nonexistent right now and it’s getting

harder and harder to find good [full-time] people," said Yeager. "The word 'contractor' comes up more and more as an option when we can't find the skill that we need. It certainly is a candidate-driven market around here."

McCormick is headquartered in Sparks, Md., 20 minutes north of Baltimore and a long commute from the technology talent in northern Virginia and Washington, D.C. When the company began a global implementation of SAP inter-enterprise software in late 2001, IPros were critical to the project.

"Five years ago, a lot of people did not want to go full-time. They were making \$150 or \$200 an hour [as contractors]...and maybe people didn't want to live here," Yeager said.

When the SAP implementation began, McCormick had more than 75 IPros working on the project. Some remained for more than five years. At Yeager's suggestion, the company hired about 20 of the contractors full time when she came on board in 2003.

McCormick has 10 openings for permanent employees to work on SAP, and "it's a needle in a haystack, especially for the skill sets we're looking for," she said. Yeager added, "There comes a time when you've been engaged in a search for a full-time employee for three or four months and you're just not finding what you need [that you] just give in" and retain contractors.

Solo Cup's Peterson pointed out that often there is very little that will convince an IPro to take a full-time position. "They want that flexibility, they want the ability to choose who they work for, when they work and how they work," she said.

GETTING ALONG

Despite the possibility of friction between full-time professionals and IPros, the companies Hudson interviewed described a positive relationship between the two groups.

At BP, the relationship between full-time people and IPros is excellent, according to Steve Arango, Staffing and Sourcing Consultant for IT and himself an independent professional. "I think everybody recognizes that everyone's professional ...everybody seems to work together very well." Currently, about 10 IPros work in the 180-person technology area.

L'Heureux said that it's important for companies to make it clear to everybody what they expect of IPros. "Our employees know why they're there and they [independent professionals] know what information our employees are going to be able to provide to them," he said. Because the company is very cautious about making sure expectations are clear, the relationship between IPros and full-timers is very positive, L'Heureux added.

Companies also rely on
retirees when they need IPros.

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At Sealy, IPros and full-time professionals tend to work well as a team, according to Dabiero. The Trinity, N.C.-based company uses IPros predominantly in finance and IT. "In most cases you wouldn't know one was the contractor and one was an employee. Occasionally you'll get someone...who doesn't work out because they sometimes come in and act above and beyond the people that are here," Dabiero said. Those types of individuals don't last very long. "If they can't play in the sandbox well with the rest of the people, we don't want them here."

DRAWBACKS

Although many of the companies interviewed said that they could not manage without IPros, they acknowledge there are drawbacks. The most significant of these is that when a project is over the IPros leave, taking their knowledge with them. To address this issue, some companies are instituting proactive Knowledge Risk Management initiatives with the assistance of companies such as Hudson to identify perceived knowledge risks and document critical information that may be lost when people leave the organization.

Some of those interviewed mentioned IPros who inappropriately or inaccurately speak on behalf of the company. Others complained that some IPros are slow or sloppy when they send an invoice at the end of an engagement.

Solo Cup has encountered IPros who have families abroad, and want to return to visit for four to six weeks at a time. "You don't really have a lot of choice. If you need what they're bringing to the table, you've got to give them that flexibility," Peterson said. She added that if IPros are open about their needs, "[the vacation request] certainly wouldn't disqualify them...I just try to encourage openness from the beginning and hope that we're going to build a strong, solid relationship and they'll be respectful."

Sealy's Dabiero pointed out that IPros "really don't work for you, so while you are paying them, you do have a little less control over what they're doing." Their level of commitment depends on the individual, he added. "Sometimes no matter how much due diligence you do, you don't get one that's really up to the task. {It's} just easier to get out of it."

COST

Dabiero, like most of those Hudson interviewed, cited cost considerations as an important reason his company retains IPros. He noted that the company only pays for the service it needs when it contracts with IPros. "You minimize your cost to bring in a specific talent and deal with a specific issue," Dabiero said. In addition, you don't pay benefits, and when the relationship ends, there are no severance payments due.

Albertsons also uses independent professionals to help manage costs, according to Gantz. “We are very conscious about being a lean and efficient organization in terms of not just our full-time headcount but in terms of all the resources we use... Our margins are not as large as some other industries so we’re always keenly focused on that [cost].”

At TJX Companies, whether it costs more or less to contract with IPros than hiring full-time staff depends largely on the length of the project, according to Systrom. For ongoing needs, such as programming talent, hiring permanent staff is less expensive, he said. On short-term projects for which the company needs specialized talent, retaining IPros ultimately saves money.

“It’s more expensive for that period of time but in the long haul, [a contractor] is obviously less expensive because you’re not bringing on a permanent employee,” Systrom said.

Peterson, who has been with Solo Cup for about a year, said she is not convinced that using a large number of high-priced contractors is less expensive than hiring full-time employees. “This is a conversation that happens almost daily,” she said. “I go back and forth between thinking that not having to provide benefits or vacation time and everything like that will get us further in the end, but these professionals are really expensive.” To answer the question definitively, Solo is conducting a study on the financial implications of contracting with IPros versus hiring full-time professionals.

CONCLUSION

More research is needed to determine under what circumstances contracting with IPros is more cost-effective than hiring permanent workers. Similarly, companies will need to institute formal evaluation processes to objectively assess IPro performance.

But it is abundantly clear that IPros are not going away. If the trend over the last decade continues, the number will continue to increase at a steady pace. At the same time, employers will increasingly use IPros as a strategic way to meet their workforce needs. Smart companies will integrate independent professionals into their overall talent plans. They will look several years ahead to assess the skills and competencies they need, and carefully evaluate whether they are better off hiring permanent talent or contracting with IPros.

As the Hudson study demonstrates, a wide range of companies already take advantage of the highly skilled IPros available in the marketplace. The next step for employers is to incorporate the use of independent professionals as an integral part of their strategic talent plan.