

Technology targets a problem in asset-intensive industries: 'Contractor spend' becomes unwieldy as use of extended workforce rises

SPEND MATTERS BRAND STUDIO

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When people think about the external workforce, they often refer to contingent staff and purchased services, an area typically covered by legacy technology solutions like MSPs and VMS. But those don't address a growing problem now: how to handle management duties as more outside workers are being brought into asset-intensive industries to maintain and upgrade plants or build new facilities.

A specialized technology is needed for an area that does not receive a lot of attention — the external workforce in the maintenance and construction fields, commonly known as contractor labor or contractor management. Driven by cost optimization, labor shortage and demand for workforce flexibility, more and more companies in asset-intensive industries are outsourcing jobs to contractors.

What is striking here is that within this industry the spend for contractor labor surpasses the indirect spend — however, the level of attention and management is minimal.

The main reason for this is that the jobs are very regional and the autonomy at different sites within one company is very high, leading to missing global standardization from a process and technology perspective. The management that is done is manual — which requires a lot of work, doesn't provide visibility for managers and doesn't yield analytical insights for stakeholders.

This article will examine in more detail the complexity of contractor labor, its different use cases and a potential path forward for companies looking to gain control over this spend category.



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Controlling Contractor Spend

Within the asset-intensive industry there are typically three business areas that are heavily engaging contractors, each with its own unique processes and requirements.

- **Plant maintenance** — an array of work done by licensed or approved people like welders, electricians, plumbers, cleaning crews and machine specialists
- **Turnarounds** — a highly expensive process where a plant shuts down to perform comprehensive maintenance activities
- **Capital projects** — like new construction and engineering projects that need hundreds of credentialed workers for everything from pouring the concrete foundation to raising the rafters to ensuring that green processes are used

In the plant maintenance area, companies are typically engaging a set of preferred contractors that are employed year-round to perform maintenance activities on the company's assets. There are hundreds of different specialties — such as electrical work, plumbing, pipe-fitting, etc. — that can be carried out by the contractor. Depending on the size of the company site, the number of contractors on any given day can range from 100 to over 1,000 individual workers, and every individual can work on one or more jobs on any given day. All of these external workers need to be managed on a daily basis for the job execution, but where it becomes even more complex is the whole process on assigning daily activities, recording and submitting time for approval, followed by accurate invoicing and payment processes.

From a procurement and contracting perspective it becomes even more complex because services can be carried out based on T&M (time and materials contracts), unit rate catalog or a fixed-price contract. Being able to maintain the cost visibility is a significant challenge that companies in the asset-intensive industries are faced with — mainly driven by the lack of available technology that would digitalize the source-to-pay process for contractor labor.

Looking at turnaround projects, the challenges are similar to plant maintenance. But the volume of external workers employed during a turnaround is significantly higher, and the time in which the turnaround has to be completed is typically much shorter because the whole production comes to a stop for a major overhaul of a plant. These additional constraints

lead to more complexity in the overall job assignment and invoicing process for external workers.

When looking at capital/construction projects, these projects are typically fixed-bid/milestone-based projects, where T&M or unit-rate billing is less of a concern. However, insights into how many hours and how many crew members are on site at any given day are crucial to managing the quality and timing of the project.

Benefits of Tackling Contractor Spend

The consulting firm BearingPoint has a Sourcing & Procurement department that specializes in advising clients on how to manage complex labor procurement. BearingPoint shared with Spend Matters the benefits that companies have achieved by gaining control over their contractor spend.

- Improved end-to-end management of contract labor at site and regional levels through the standardization of the process and tools.
- Visibility into individual worker skills and available crafts across sites/regions to increase resource-sharing and minimize duplicate resources.
- Visibility of contractors' skills and roll-off dates across site and department to easily reallocate resources effectively, eliminating planning costs.
- Visibility into workers on site each day and the projects assigned. Ability to reallocate resources to higher priority tasks.
- Complete projects and plant turnarounds faster and more efficiently — fewer resources, fewer delays and less rework.
- Ensure accuracy of bill rates and time reporting — pay for actual work performed. Lower overall cost per worker-hour.
- Better compliance and use of approved suppliers with approved rates. Can more easily track usage of non-preferred suppliers without agreements.
- Reduce system management roles and overhead costs required to support today's process due to less complex process/tools.
- Better financial visibility from costs planned to actual costs, with real-time analytics and accruals.



Source: BearingPoint

The Big Picture

In recent coverage, we've explored how businesses can have hidden workforces inside their companies and how flexible talent-management strategies must be used because there is still not a single system for total talent management.

The next step is having a solution that helps manage maintenance and larger projects and that is integrated with a company's existing system so stakeholders have visibility across the company and can see the value created by strategic decisions and their tactical execution.

While the technology landscape for contractor management is slim, one solution is gaining traction with companies in the chemical industry. Multiple companies are in the process of deploying a best-of-breed solution called AES/32 on a global scale to standardize their job-assignment-to-invoice process across the globe. AES/32's focus is on delivering a solution that provides a comprehensive process for a company's total engineer-to-pay process.

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