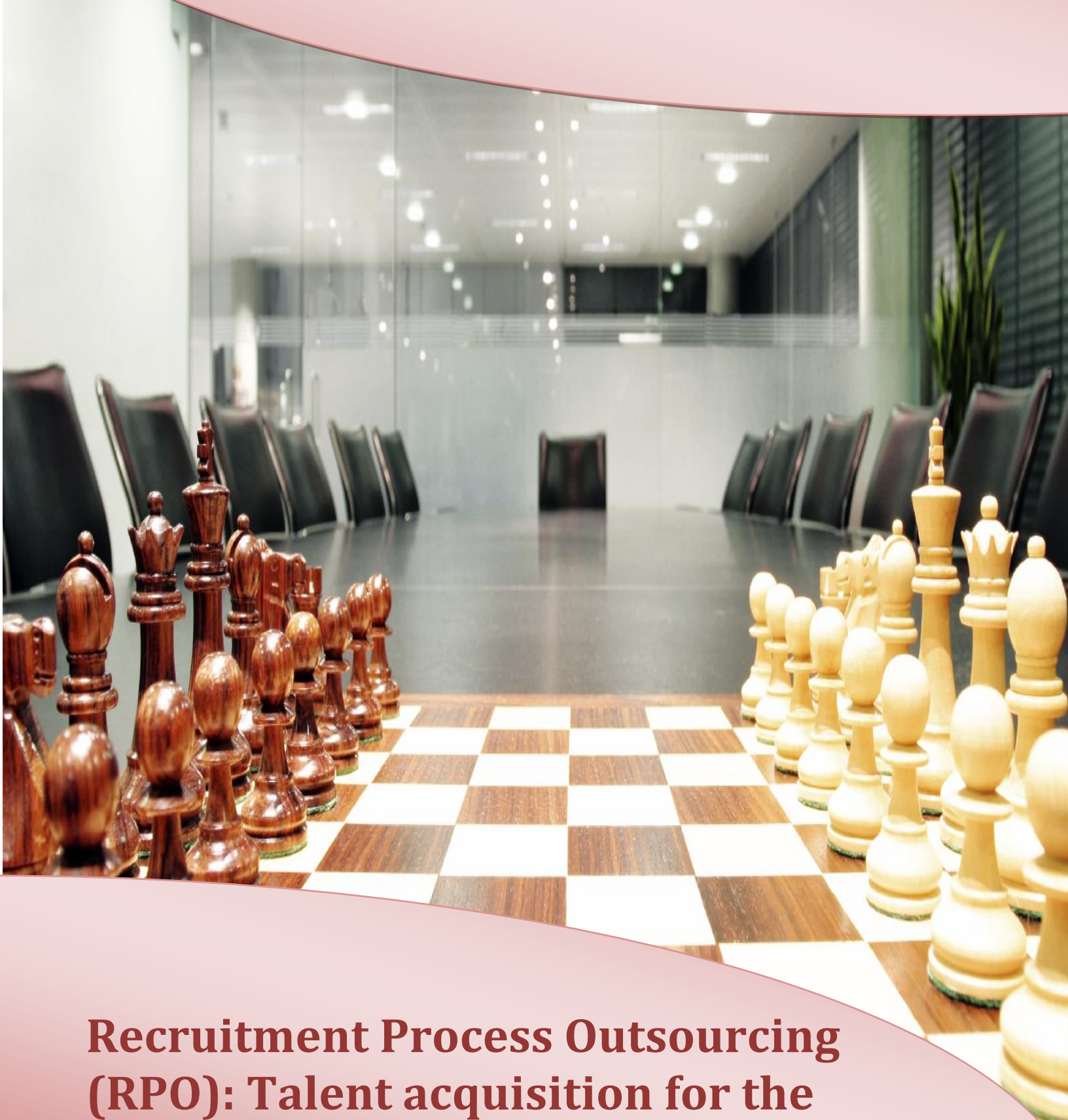




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Recruitment Process Outsourcing (RPO): Talent acquisition for the new millennium

In recent years, Recruitment Process Outsourcing (RPO) has increasingly become a standard tool used by HR departments to bring higher quality, lower costs, and better speed to talent acquisition and talent management initiatives.

1. RPO vs. HRO

Recruitment Process Outsourcing (RPO) is a form of outsourcing where some or all of an organization's talent acquisition and talent management activities are outsourced to a third party vendor. Generally speaking, RPO can also be considered to be a form of Human Resources Outsourcing (HRO) which includes the outsourcing of all HR related processes. However, RPO is different from the use of external headhunters, executive search firms and staffing agencies because under those scenarios the ownership, design and management of the overall recruitment processes are still retained by the client. Under RPO, the vendor assumes ownership of both the design and the management of the recruitment process as well as the responsibility for the results achieved or not achieved.

Although the use of executive search firms and staffing agencies first began during the Great Depression, it wasn't until 1970s that Silicon Valley companies began to realize the benefits of outsourcing the ownership of some or all of the recruitment process as a method to bring down the costs associated with the use of these external headhunters in tight labor markets. Hence, companies began to increasingly examine all of the steps in the recruitment process and began to outsource the most difficult stages, usually the initial sourcing function, to RPO type vendors who in turn would generate lists of potential candidates.

With the advent of HRO vendors in the 1980s and 1990s, the overall concept behind RPO began to gain favor with human resource practitioners and by the early 2000s, many RPO vendors had moved beyond simple list creation services to offer an end-to-end talent acquisition and management solution. Today, the [Recruitment Process Outsourcing Association \(RPOA\)](#) includes the entire recruitment process, from job profiling, sourcing and scheduling interviews all the way through to on boarding of a new hire, in its definition of RPO. Moreover, the RPOA uses a [simple box diagram](#) to clearly illustrate recruitment relationship options from an internal recruiting department to an RPO vendor having no ownership of the tools and technology (from applicant tracking systems to job posting on job boards), to some ownership of the sourcing function (from name generation to the executive search function) to overall ownership of the entire recruitment function. To carry out such activities, the RPO vendor may provide its own or even assume a client's staff, recruitment technology, methodologies and reporting methods to carry out these activities.

2. The RPO Market Size and Growth Potential

Despite the gloomy state of the global economy and the global job markets in general, RPO is expected to continue growing as it can reduce the costs associated with talent acquisition and talent management. According to Boston based research firm [NelsonHall](#), the global RPO market is projected to have 37% annual growth and become a US\$7 billion market by 2010. In addition, NelsonHall found the USA market to be the most mature in offering stand-alone RPO services due its track record in providing HRO solutions while the UK market was found to be the fastest growing RPO market in Europe. Potential growth markets they listed included Continental Europe and Germany in particular plus the Asia-Pacific region with China and India seeing high growth rates. Meanwhile, market research firm [IDC](#) pegs USA based company spending on end-to-end RPO at US\$480.4 million in 2008 and they expect this figure to climb to about US\$1.6 billion by 2012.

3. The Vendor Landscape

As for the vendor landscape, HRO magazine's annual [RPO Baker's Dozen Ranking](#) lists 13 RPO vendors who have filled anywhere from 10,000 to 175,000 positions. Firms that made the 2008 list include [The RightThing](#), [Spherion Recruitment](#), [PeopleScout](#), [Alexander Mann Solutions](#), [Kenexa](#), [Talent2](#), [Manpower Business Solutions](#), [Kelly Hfirst](#), [Pinstripe](#), [Futurestep](#), [Adecco](#), [Select International](#) and [Yoh HR Solutions](#). Eleven out of the thirteen firms that made the cut are USA based with the exceptions being UK based Alexander Mann Solutions, one of the pioneers of RPO, and Australia based Talent2.

In addition to these large-scale operations that have or are in the process of building a global footprint, a number of small or medium sized RPO vendors have sprung up in recent years to also offer RPO type services to smaller organizations. However, many of these operations are expected to be acquired by bigger RPO vendors as they seek to build their global footprints or may not survive the current hiring downturn.

4. Benefits of RPO

As with outsourcing in general, the major benefits of the RPO model over traditional recruitment models are centered on cost, flexibility, economies of scale and economies of scope. Under the traditional third party recruitment model where retained search firms are used, a retainer must be paid for upfront and then another success based fee must be paid if, and only if, the position is filled. Likewise, while using a contingency search firm can save on up-front costs, there is no guarantee that the position will be filled as a contingency firm as no incentive to spend a significant amount of time on difficult to fill positions. Meanwhile, under the traditional in-house recruitment model, a major hiring up tick would first need to start with the hiring of a team of “mercenary” recruiters who are

often paid very well (up to US\$100 an hour in Silicon Valley before the downturn set in) and must be housed onsite. Once the hiring up tick is over, the recruiters are then given their severance packages and are laid off until the next hiring up tick begins.

In contrast, the RPO model offers more flexible arrangements – especially on price and scope of services. For example: a client may choose to pay a set monthly fee to have a dedicated resource servicing a portion of the recruitment process that is being outsourced (for RPO vendors with operations based in Manila, this monthly retainer fee may be in the US\$2,500 range for relatively low level sourcing and interview scheduling type of work while India based operations can charge significantly less). On the other hand, a client may choose to pay the RPO provider by completed transaction or use a pricing model that incorporates a retainer and payment for completed transaction. In general though, industry analysts estimate the value of end-to-end RPO service agreements to the vendor to typically be in the range of US\$2,000 to US\$5,000 per candidate hired and this can still depend upon the total number of hires, their job titles and other variable factors.

Thus, the potential cost savings with RPO over traditional recruiting models can be significant, especially when fees to headhunters and both in-house recruiter salaries along with office overhead costs are taken into consideration. Moreover, an RPO vendor can leverage the size of their existing recruitment operation and candidate database, their investments in specialized recruitment technology such

as expensive database and applicant tracking systems and the recruitment expertise of their specialized in-house recruiters to further bring down costs and raise overall quality in the talent acquisition process.



5. Potential RPO Pitfalls

However, there are potential pitfalls and potential costs associated with utilizing an offsite or offshore RPO vendor. In fact, a 2008 [Aberdeen Group survey](#) about the USA RPO industry found that 39% of some 200 companies surveyed had switched RPO vendors at some point in the past five years due to the fact that their RPO vendor did not meet their expectations for quality of service, cost savings or the number of job candidates sourced.

To avoid such problems, a client needs to initially define their overall recruitment strategy and how RPO fits into this strategy. If the client's current recruitment strategy is not working or the client has a negative perception in the marketplace, it is unlikely that RPO will work as there is a general belief that while executive search firms and staffing agencies have a built up brand value and can incorporate this along with their client's brand into the search process and even help to improve the image of a client, most RPO vendors, especially those that are new or not a division of an executive search firm or staffing agency, have a more difficult time in doing the same. In addition, RPO vendors are also perceived as having more difficulty in communicating a client's culture to potential job candidates as they tend to offer a less personalized service than traditional executive search firms.

Moreover, the proliferation of new RPO type vendors over the past few years has increasingly driven down prices along with the quality of service that some of the new and smaller vendors are providing. For example: while some RPO vendors will bid rock-bottom rates to provide a client with a so-called "dedicated" resource or "seat," the so-called dedicated resource may in fact not be so dedicated after all as some RPO vendors have been known to resell the same dedicated resource two, three or more times in order to earn a profit.

Likewise and as with any outsourcing initiative, the client must still control and monitor the entire process to ensure that its implementation is done properly and that everything continues to be done correctly over the life of the service agreement. After all, separating a function or a process and moving it offsite or offshore where it becomes much harder to monitor is one of the pitfalls of outsourcing in general and this can be a particular pitfall when separating the recruiting function from the parent organization as this can lead to a disconnect between the current workforce and the organization's intended recruitment strategy. Moreover, if a client is already considered to be an employer of choice in the marketplace and already has an efficient and organized recruitment function, the benefits gained from RPO will be negligible and not worth the effort.

6. How to Choose the Right RPO Vendor

Hiring the right people is critical to an organization's long-term success and hence, choosing the right RPO vendor to handle talent acquisition and talent management is more complicated than choosing a vendor for other outsourcing needs. Hence, in addition to the general criteria used for selecting other outsourcing vendors, the following questions should be kept in mind when selecting a RPO vendor – especially for any major talent acquisition initiative:

- Is the RPO vendor involved in any potential merger and acquisition deals?
- How large is the RPO vendor and what is its overall financial condition?
- Does the pricing sound to good to be true or in other words, can the RPO vendor earn a profit by providing the services and the service level that it claims to provide?
- What are the RPO vendor's client retention rates?
- Does the RPO vendor have the technological and resource capacity to scale up or down its operations on an as need basis?
- Can the RPO vendor offer a global delivery solution for all of your potential recruiting needs?
- How well is the RPO vendor able to incorporate employer branding into the search process?
- Will the RPO vendor be able to effectively understand and communicate your culture to potential job candidates?
- What types of applicant tracking systems and other technologies is the RPO vendor using and do these systems integrate into your current systems?
- What expertise in delivering measurable impact through better hiring decisions does the RPO vendor had?
- Furthermore, what business metrics is the RPO provider using to measure success rates?
- Does the RPO vendor use validated assessment tools to ensure the quality each and every hire?

In other words, many of the same questions that would be asked when evaluating the services of an executive search or staffing agency partner should be asked when selecting an RPO vendor.

7. Conclusions

Not only does the basic RPO model offer an improvement over traditional talent acquisition methods, it has the potential to offer significant savings. However and as with other forms of outsourcing, RPO has its potential pitfalls that can easily be avoided if the right questions are asked of an RPO vendor. Hence, and especially once the current economic and hiring downturn is over with, expect to see RPO become a standard talent acquisition and talent management tool used on a both a global and local scale.

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