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Position Paper

What is next for Recruitment Process Outsourcing?

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January 25, 2010

As we emerge from the 2008-2009 recession, it will become very important to understand the changes that are upon us in the RPO industry. Both buyers and providers must reflect on the evolution of this industry over the past decade and recognize that some conclusions have or will be drawn that will impact decision making about how to best implement RPO services.

As a starting point, there may be a parallel historical case study in the software industry.

Not so long ago, ERP was the hottest thing going in terms of automating and connecting all business processes within the enterprise onto a unified technology platform. The CFO was driving that bus, as he or she saw that it made sense to have controls over every step of the business process. It also made sense to streamline the back office HR, payroll, accounts receivable and payable pieces to eliminate cost and have better tracking.

The ERP providers went a step further in selling their systems as so-called “best practices” solutions that would bring the industry’s experiences and domain expertise into the various elements of the business process. That was fine when it related to back office functions but fell down a bit when it attempted to apply that logic to the business critical functions of the company.

TalentFusion was heavily involved with one of our clients that was trying to make an ERP implementation extend its reach from internal HR and Finance out to Sales, Recruiting and Engineering. The client was in the software professional services industry so people and the recruitment of people were core competencies.

The committee responsible for the implementation, headed by the CFO, felt strongly that the enterprise value drivers and cost and efficiency implications of the ERP implementation far outweighed any esoteric impact on subsets of the overall business process like Sales, Recruiting or Engineering.

We followed the committee’s directive, at first. When it came time for the business owners of Sales, Recruiting and Engineering to actually review and design their elements of the ERP implementation, concerns arose.

First of all, these are not back office functions for the firm. Sales, Recruiting and Engineering drove the entire business. To equate these functions with processing payroll turned out to be a bit of a misnomer. Efficiency within the three processes was desired, however any drag on that efficiency or effectiveness of the core business function for the sake of end-to-end connectivity was not desirable. In fact, any pick up in cost reduction in the back office could be potentially more than offset by the negative impact on revenue generating elements of the business. That drag could cripple the company strategically.

Furthermore, while the ERP vendor claimed that industry “best practices” came with the implementation, we quickly learned that only related to the back office. They had absolutely no clue about front office, customer facing, product development or any revenue generating functions at all.

On top of that the ERP provider had very little domain expertise. In other words, the folks who had promised “best practices” did not understand our industry. This was not their fault, as their business model began in the back office. I have not met too many Controllers, Accountants or Payroll Clerks that would know how to build, sell and deliver a product or professional service. So,

while the “best practices” as they relate to the back office may have been real, they fell down completely when they attempted to extend out to the front lines.

As a consequence of this stark reality, the business process owners within our client went in the opposite direction. The recruiting subcommittee I was on, as well as the sales and engineering subcommittees, decided to seek out “best of breed” solutions that delivered technology and process within our domain and business function.

As a result, like many companies, we decided to buy and customize a fully configurable Applicant Tracking System that we built into a platform that offered us a measurable competitive advantage in the marketplace for talent. Now we made some valiant attempts to connect that system to the ERP application and experienced some results, but our overarching driver was securing a competitive advantage for our business process.

The Sales and Engineering functions at the firm followed suit, much to the dismay of the CFO who could just not understand the problem.

So, at the end of the day we ended up with a “best of breed” model for each function, including the back office. Recruiting implemented the aforementioned ATS. Sales implemented a CRM application specific to the industry. Engineering went with proprietary technology to better manage and implement technology projects. It worked out extremely well and played a very large role in the success of the firm in a hotly competitive market.

Now, fast forward to where we are today in RPO.

In many ways, we have just gone through a similar cycle. The industry migrated from a whole bunch of disparate parts, i.e. search firms, job boards, ATS providers, contract recruiters, temporary staffing agencies, etc. towards an enterprise wide RPO view of the world.

It is understandable how we got here. Just like the ERP folks, the Enterprise RPO vendors told the same story. Single vendor, unified technology, volume purchasing, guaranteed ROI, cost efficiencies, uniform processes, etc. etc. Very appealing. Just like ERP.

The Enterprise RPO sales pitch centered on “process” outsourcing. So called “best practices”, just like ERP, revolved around defined processes as opposed to deep subject matter expertise in recruiting specific types of talent within specific domains.

From the RPO provider community, the desire to own the entire recruitment function is very understandable. Recurring revenue is good. Client dependency is good. Ownership of the entire process places the RPO provider in a powerful position and that is good.

Enterprise RPO got hot really fast as the big players moved in bringing their vast resources, infrastructure and global footprint. Also, they did and do possess that “process” knowledge in terms of taking over the enterprise-wide backbone of recruiting. Just like the ERP guys had.

The buyers bought in because the pitch on paper makes sense. To relieve HR of this complex business process was a blessing in some cases. Compound that relief with guaranteed cost reductions and ROI made the deals simply too attractive to ignore.

The problem, in many cases, is that the domain expertise and the skills needed to identify and attract hard-to-find skills are just not there. Managing the back office of a recruiting function is not the same as the front office. Furthermore, it is very different to recruit hundreds of the same rank and file profile than to recruit highly skilled professionals with specific technical knowledge and industry experience. It is virtually impossible to manage the span of control of global, enterprise-wide RPO AND deliver against the most difficult recruiting challenges that certain departments within the client company face.

So, what does this mean?

We believe that as hiring demand heats up, that cracks will form in the large scale enterprise deals. In fact, many larger RPO deals are already in trouble and that is during a soft economy when talent is easier to find.

We feel that it is incongruous to both own the entire recruiting enterprise within large organizations and to own all of the recruiting niches within the enterprise that are most critical to the business and most difficult to serve.

Like the ERP solution providers, as Enterprise RPO players extend their reach out of the rank and file hiring silo, they have and may continue to fall short of expectations. Like ERP, it is not their fault. They are driving a value proposition that makes perfect sense when it is the process that is critical and the talent is plentiful. The enterprise players are and will continue to struggle to deliver high touch, high value-add services in sold out talent environments to discriminating business process owners.

The VP of R&D or Sales will not care about the value proposition of the enterprise deal. The head of sales is under severe pressure to field the best possible team of sales professionals. He or she will not care that the enterprise deal has guaranteed to reduce the cost per hire by x. Their job is on the line and tied to the team they must assemble through world-class recruitment.

Therefore, we believe the RPO industry will migrate towards a “best of breed” model. That is not to say that Enterprise RPO is going away, but to recognize the natural evolution from process ownership transfer to optimized delivery excellence.

We believe that buyers will demand “best of breed” across the enterprise. If they have selected an Enterprise RPO vendor already, they will demand that the vendor either possesses “best of breed” capabilities within their domain or that the vendor partner with a firm that does.

In this new model, sourcing capabilities become a key differentiator. We believe that, by definition, the large scale Enterprise RPO players are not “best of breed” in sourcing and talent identification. It is simply a matter of span of control and core competency.

Therefore, we see a rising demand for On Demand RPO as an alternative or in addition to the enterprise deal for organizations that view recruiting as a core competency and/or that drives revenue such as in professional services or IT services firms. We believe that many companies of that ilk will forego the enterprise deal and remain in an ownership position of the overall recruiting function as so much of their overall success is tied to recruiting.

Many other large firms will see the inherent value of Enterprise RPO. Even in those deals, we believe a more On Demand, flexible and truly scalable model will be expected from their RPO provider in addition to deep domain expertise and true sourcing capabilities.

Many RPO buyers realize that they do not source well, so they will engage with firms whose core competency is identification, direct sourcing, filtering, screening, managing and pipelining large volumes of talented prospective candidates ahead of demand. Whether On Demand or Enterprise RPO, the expectation will be that sourcing expertise is deep and wide within the service provider and not treated as simply one component of RPO but rather core competency itself.

Furthermore, the front-end, top of the funnel phases of the recruiting process are most transactional in nature and need to scale quickly up and down as hiring demand ebbs and flows within the company.

Enterprise RPO providers will be well served to seek out “best of breed” partners that bring the domain and sourcing expertise into the deal pursuit. The client will expect that. The client may feel very good about the Enterprise RPO provider taking over the ownership of the entire process. They may still find the financial rewards and ROI associated with Enterprise RPO to be very attractive. Depending on the industry, the client simply may not want to own the recruiting function. They will, however, expect “best of breed” sourcing capabilities embedded into the RPO solution.

The sophisticated RPO buyer that does not desire enterprise outsourcing will engineer a solution that includes all “best of breed” components. From technology to process design to sourcing expertise to marketing and employment branding, these buyers will string together the best mix of elements that serve their needs and maximize industry capabilities across the hiring spectrum.

Smaller RPO buyers will correctly hone in on sourcing and customer service as the only really critical elements to an RPO solution. It will be understood that the smaller RPO providers will also deliver a well-designed process, a technology set that works and the other elements of a successful recruitment department in a box. However, the overarching success factor is recruiting the right people and delivering consultative value to the company and its hiring managers. We do not believe the larger Enterprise RPO providers will be able to satisfy those smaller company needs particularly well, leaving a significant window of opportunity for boutique RPO firms to deliver higher touch, yet technology enabled delivery models.

Technology will continue to play a critical role in the delivery of world-class recruiting solutions. From web 2.0 CRM tools to social networking and media management, the best RPO providers will push out beyond the cutting edge and deliver solutions to their clients that are a step ahead of the competition that the client faces for talent. The RPO vendor is at least incrementally better positioned to outpace even the most enlightened client through that learning curve, which is and should be an important piece of the value proposition for using the right RPO provider. The thought leading service provider is not tied to any one solution set or technology approach and is constantly pushing the boundaries of RPO seeking methods to increase value to the client. Recruitment is their only core competency.

This is a natural evolution for the RPO industry. We have gone from no definition to some definition to enterprise process definition and now will evolve into a more mature industry with boundaries that represent the edge of the art. The big players that have moved into the RPO space have provided the structure for such evolution to occur and stability for the space to even have a set of boundaries to push. It is now incumbent upon innovative firms to engage in a serious

conversation, in advance of demand, about where those current boundaries reside and how best to push them.

The organizations that entertain such conversations and then have the ability and willingness to act upon their findings will establish a new edge to the art. Once established as such, those visionary firms have the opportunity to lead and even outpace the ongoing evolution of RPO. By being bold, buyers and providers right now have a golden opportunity to achieve a major and sustainable competitive advantage in the soon to be renewed war for talent.

TalentFusion

TalentFusion is a Recruitment Process Outsourcing provider that offers selective and on demand RPO solutions to Fortune 500 as well as small to mid-size firms seeking a competitive business advantage through recruitment. TalentFusion has been in business for over ten years and has played a pivotal role in the evolution of the RPO industry, providing highly consultative services to organizations seeking to implement scalable and cost effective recruitment programs.

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