



Rise of Blended RPO

Addressing the Total Talent Acquisition Need

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Introduction

In the present hypercompetitive environment, companies are faced with multiple business challenges that underscore the need to hire the best available talent. Companies are under tremendous pressure to innovate, in order to remain competitive and drive growth. At the same time, as a result of the downsizing during the recent recession, companies demand more out of an employee than ever before. Add to this the need to respond to dynamic customer demands, and the significance of having the best talent cannot be overemphasized.

Unlike the past, the “war for talent” is no longer limited to permanent hires but increasingly involves contingent¹ hires as well. Apart from the blue collar workers, contingent hires also form an increasing portion of the white collar professionals. Many scarce and high-end skills are increasingly likely to be found among contingent workers. These skilled contingent workers are highly motivated individuals but in short supply, and hence, in a bargaining position vis-à-vis recruiters.

Underscoring the growing importance of the contingent workforce is its sheer growth in numbers. The American Staffing Association reported that the second quarter staffing revenue in the U.S. hit US\$16.9 billion, a 33 percent increase over the same period in 2009, and the largest year-on-year quarterly percentage increase since the association began tracking the industry in 1992.

Given this paradigm shift in the characteristics of the contingent workforce and its significance to companies, organizations need to increasingly employ the same kind of rigor in their hiring as they do in the case of permanent employees, and find better ways to engage this section of the workforce.

A total talent acquisition approach, where both contingent and permanent hiring find inclusion under one single, integrated hiring program, can answer some of these needs.

While outsourcing has emerged as an efficient and effective way to manage both contingent and permanent hiring requirements; to date, organizations largely followed a silo-based approach. One service provider manages contingent hiring, commonly known as Managed Service Provider (MSP), while another manages permanent hiring, commonly known as Recruitment Process Outsourcing (RPO), with non-existent collaboration and visibility across these two arrangements. In order to capture the value proposition of a total talent acquisition approach, organizations need to evaluate an integrated outsourcing model called “Blended RPO”.

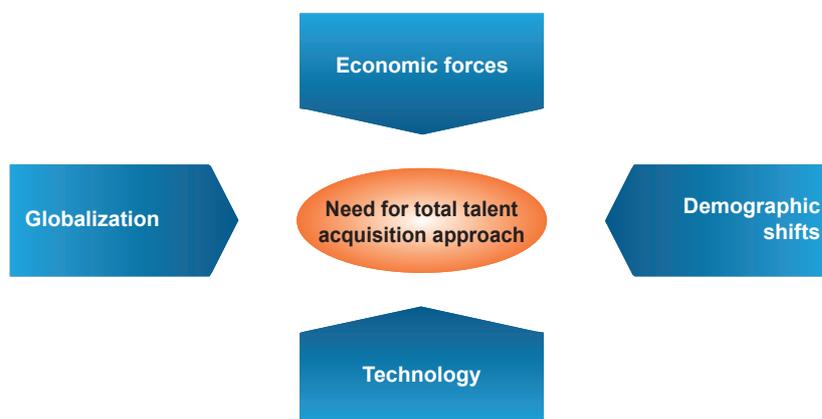
¹ Contingent hires refers to provisional workers who work for an organization on a non-permanent basis. It can include freelancers, independent professionals, temporary contract workers, independent contractors, and consultants.

Need for Total Talent Acquisition Approach: Key Drivers

There are multiple drivers behind the rise of contingent hiring that necessitate a total talent acquisition approach (see Exhibit 1).

EXHIBIT 1

Need for total talent acquisition approach: Key drivers



- Economic forces:** Contingent hires provide the flexibility to respond to the changing business and economic needs. Given the volatile nature of the economy, companies need to be flexible to scale up quickly in response to “booms” as well as scale down rapidly during “busts”. Contingent hires come with fewer legal obligations and retrenchment issues, compared to permanent employees and, hence, provide the necessary flexibility. The fierce nature of competition in a flat world necessitates companies to keep costs down, even in a healthy economy. Since contingent hires come with fewer liabilities related to benefits, health care, life insurance, severance packages, and payroll, companies can save on these aspects.
- Demographic shifts:** As workers belonging to generation X, i.e., those born during 1963–1980, approach mid-careers, many are deciding to voluntarily opt out of the permanent workforce and join the contingent pool in order to achieve greater work/life balance. Also the generation of Millennials, i.e., those born after 1980, will form an increasing portion of the workforce in the decades to come. This younger generation of workers places far greater emphasis on work/life balance, professional independence, and seeks varied challenges. They also place a far lesser importance on loyalty to their employer. Many of them, especially the knowledge workers, work as contractors for some time and as permanent at other times, leading to an increasing overlap between the talent pool for permanent and contingent workers. This further accentuates the need for a hiring approach that straddles both the talent pools.

- Technology:** Cutting edge technology and innovations such as remote access, mobile devices, online collaboration tools, and myriad others are making it possible to do increasingly high value activities from remote locations. This kind of flexibility is further empowering, enabling, and encouraging the new generation of workers to opt for more independent working habits, lending them to the contingent workforce pool. From an organizational perspective, technologies such as expert location systems and services around these make it easier to find the right people from outside the company to provide the requisite knowhow in time. This makes companies less dependent on in-house expertise and knowhow.
- Globalization:** With globalization and the rapid blurring of borders, it is easier for companies to reach out across countries and tap into the global talent pool. Companies need to have the flexibility to vary the volume of talent sourced from different geographies. This is facilitated by making sure that contingent talent is an integral part of the overall workforce. For example, many U.S.-based companies are leveraging highly skilled technology talent from cheaper locations such as India.

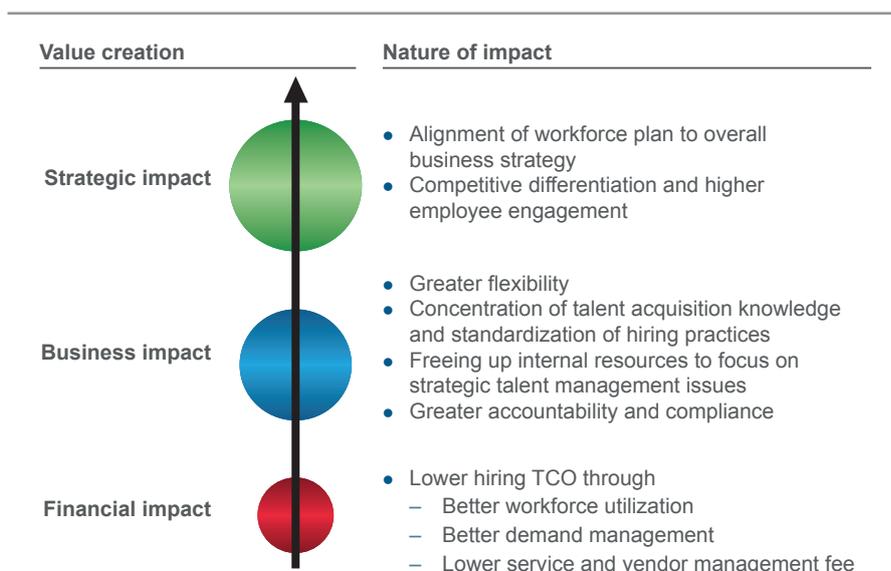
Blended RPO: Delivering Financial, Business, and Strategic Value

A blended RPO approach that addresses buyers' total talent acquisition needs in an integrated way through one service provider, can potentially create significant benefits by impacting an organization at multiple levels (see Exhibit 2).

EXHIBIT 2

Everest Group's Total Value Equation (TVE) Framework

Source: Everest Group



Financial impact

A blended RPO’s financial impact should be evaluated from a holistic business case perspective, which looks at the Total Cost of Ownership (TCO) of both permanent and contingent hires. Using a blended RPO, buyers can realize cost savings over and above that of an independent MSP and RPO arrangement. Everest Group analysis reveals that a blended RPO can increase savings potential over and above that of an independent MSP and RPO arrangement by nearly 25 percent (see **Exhibit 3**). The key levers of additional savings within blended RPO are:

EXHIBIT 3

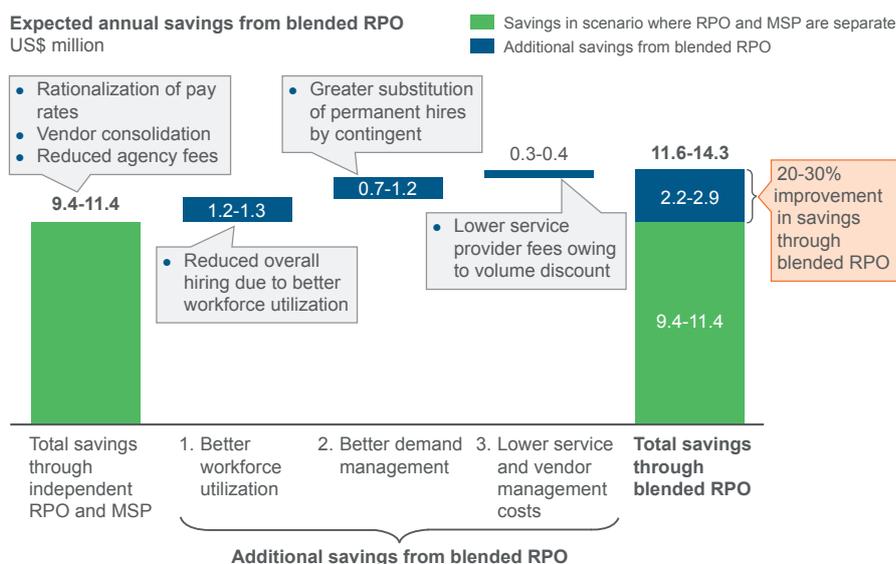
Financial impact of blended RPO

Source: Everest Group

Scenario analyzed

- An organization with primarily white collar workforce with an annual external hiring of 1000. The split between permanent and contingent hires is in the ratio of 70:30 with no RPO or MSP in place. The hiring is de-centralized with multiple external agencies and internal teams doing the sourcing
- The annual salary/hire for both permanent and contingent hires is US\$75,000
- The TCO/annum for permanent hires includes external agency fee, internal recruiter cost, and permanent hires’ annual cost to company
- The TCO/annum for contingent hires includes mark-up fee to the staffing firm, internal recruiter cost, and temporary hires’ annual cost to company
- The TCO/annum for all the hires is around US\$120 million

Expected annual savings from blended RPO US\$ million



- **Better workforce utilization** – Our analysis shows that a blended RPO can result in an additional 10-15 percent saving over and above that of an independent MSP and RPO arrangement due to better workforce utilization. A blended RPO enables a holistic and consolidated view of recruitment needs across the organization. It also provides a consolidated view of the talent available internally, thereby facilitating more efficient and accurate match between business demand and existing talent in the organization. In essence, it leads to better workforce utilization and reduction in external hiring volumes.
- **Better demand management** – A blended RPO can result in an additional 7-11 percent saving over that of an independent MSP and RPO arrangement, on the back of better demand management. This means that the provider can help the buyer understand and identify positions that can

be filled with contingent hires rather than permanent ones. Since the total cost of ownership for contingent hires is lower by 20-30 percent on an average, it can lead to significant cost savings.

- **Lower service and vendor management cost** – A blended RPO can result in an additional 3-4 percent saving over that of an independent MSP and RPO arrangement due to three factors. First, the buyer should expect a volume discount because of higher volume of hiring (combined permanent and contingent) handled by a single provider in blended RPO. Second, the buyer can expect a lower contingent to permanent conversion fee in a blended RPO. Third, a blended RPO will also result in reduction in vendor management costs, as instead of managing two separate MSP and RPO vendors and relationship, the buyer needs to manage just one provider.

Business impact

Blended RPO's ability to impact the business is associated with its effect on people and processes as outlined below.

- **Greater flexibility** – Demand for contingent hires outstrips the demand for permanent ones during the recessionary phase of the economic cycle. A single service provider for both, will provide the necessary flexibility to scale one up and the other down as demanded by the economy. Also, demand for different skills varies with business requirements. A blended RPO, by facilitating an on-demand staffing model, can act as a key enabler to staff the right type of hires, in the right numbers, and with the correct skills in the right time to meet these pressures.
- **Concentration of talent acquisition knowledge and standardization of hiring practices** – Contingent hiring continues to have a transactional flavor. However, given the increasing criticality of the roles performed by these hires and the high-end skills that they bring in, there is a growing need for a more quality driven approach, similar to the permanent side. Having a sole provider concentrates the talent-acquisition knowledge, enables the provider to have better end-to-end understanding of business requirements, and brings in higher degree of standardization of recruitment practices across the board.
- **Freeing up internal resources to focus on strategic talent management issues** – Managing and coordinating two separate MSP and RPO contracts requires greater time and effort compared to managing a single-blended RPO relationship. Also, a single provider helps coordinate activities between contingent and permanent staffing better and reduces the time and effort required. This frees up bandwidth of the HR department to focus on more strategic talent acquisition elements such as workforce planning and branding.

- **Greater accountability and compliance** – Multiple vendors for different types of hires also hampers the accuracy and increases the lead time for reporting and analytics. Consolidation with a single provider makes it easier to develop a holistic view for management and enables better reporting and analytics. It ensures a single point of accountability for all talent acquisition and enforces compliance across all worker types.

Strategic impact

Organizations can accrue significant long term strategic benefits from a blended RPO.

- **Better alignment of workforce planning to overall business strategy** – Contingent workforce is an increasingly important part of the organization, performing many a critical role. Given this, in order to best align workforce planning with business strategy, senior management needs a holistic view of the organization's workforce. When there is a separation of contingent and permanent hiring, HR finds it difficult to develop this kind of a holistic workforce plan. Even if it does so, execution is difficult given the organizational disconnect between the two. A blended RPO, by bridging this disconnect, helps establish and execute an integrated workforce planning closely linked to business.
- **Competitive differentiation and higher employee engagement** – With human capital becoming the key competitive differentiator and an increasing percentage of this resident in the contingent labor pool, companies that can successfully tap into it have a competitive advantage. For this, the contingent hiring mindset needs to change from getting bodies to searching for talent and fit, more of a permanent hiring mindset. This is facilitated by integrating contingent hiring with permanent through a blended model. Also, it can facilitate a more efficient and accurate match between skills and jobs, resulting in higher employee engagement.

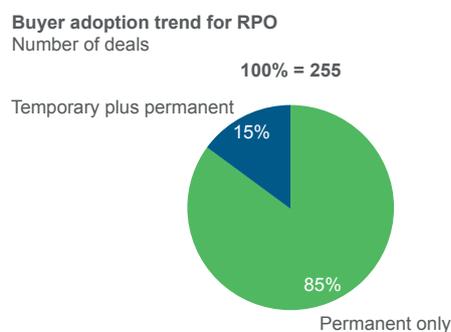
Challenges in Adoption of Blended RPO

In spite of the growing case for a blended approach and increasing awareness around its benefits, its adoption has been slow (see **Exhibit 4**).

EXHIBIT 4

Buyer adoption trend for RPO

Source: Everest Group



Sample Size: 255 RPO deals signed between 2007 and August 2010 for which type of hire data is available

The reason behind the slow adoption of the blended approach is the existence of multiple challenges that need to be overcome to truly capture its value proposition. Some of these are:

- Organization related** – Traditionally permanent hiring is primarily owned and managed by HR, while contingent hiring spend is owned by procurement, with the hiring managers responsible for the day-to-day recruitment. These different stakeholder groups often work in silos and have varied objectives. Hence, integrating permanent and contingent hiring represents a challenge from the perspective of bringing disparate stakeholders on to a common ground. Some parts of the organization may even perceive it as a potential loss of control and reduction in their importance.
- Service provider concentration risk** – Buyers perceive that placing all recruitment (both contingent and permanent) in the hands of a single provider can lead to overdependence on the vendor and heightened risk. If the service provider fails to deliver the desired quality, then the buyer's entire hiring will get impacted, whereas, previously in an independent MSP and RPO arrangement the impact was restricted to one particular category of hires. Buyers are also concerned about the possibility of the provider becoming less focused on either permanent or contingent side, given the widely expanded mandate in a blended model.
- Technological** – Technology is a key enabler to implement an effective blended workforce strategy. To be able to source, manage, and deploy the right type of talent at the right time and in the right place, organizations need to have a holistic view of different talent categories and that is possible through a single unified technology solution. A single unified solution not only can improve the efficiency and effectiveness of the overall talent acquisition process, it also helps organizations to use analytics to enable

better decision making in terms of workforce planning and deployment. Unfortunately, the traditional silo-based approach to contingent and permanent hiring management is also reflected within the recruitment technology space with the lack of a robust, integrated technology that caters to both permanent and contingent hiring management, especially in a multi-country situation.

- **Outsourcing market issues** – Only a few providers have a robust MSP offering as well as a mature RPO offering. Even among these, only a few have demonstrated market success in the blended RPO space (see **Exhibit 5**). The dearth of publicly available success stories makes the buyer community hesitant to take this approach.

EXHIBIT 5

Service provider capability

Source: Everest Group

Service provider	RPO offering	MSP offering	Experience in blended RPO
Hudson RPO	✓	✓	●
alexander mann	✓	✓	●
HAYS Recruiting experts in Senior Finance	✓	✓	●
SourceRight	✓	✓	●
KELLYOCG OUTSOURCING & CONSULTING GROUP	✓	✓	●
Manpower	✓	✓	●
Adecco better work, better life	✓	✓	○
Aon Hewitt	✓		○
accenture <small>age performance. Delivered.</small>	✓		○
futurestep	✓		○
Kenexa <small>BE SUCCESS. MANUPUS.</small>	✓		○
ochrehouse	✓		○
pinstripe <small>TALENT IN SIGHT</small>	✓		○
peoplescout.	✓	✓	○
THE RIGHT THING	✓		○

ILLUSTRATIVE

Capability in both RPO and MSP and at least medium experience in blended RPO

Experience in blended RPO

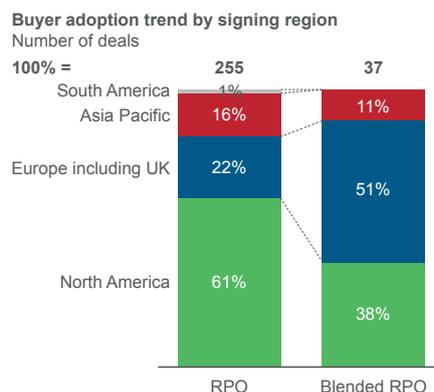
- High
- Medium
- Low or none

Lastly, the adoption of blended RPO by global organizations is made more difficult by the variation in blended RPO maturity across various regions (see **Exhibit 6**). While North America is fairly mature from a stand-alone RPO or MSP angle, a blended RPO is less prevalent there. On the other side, Europe is a more mature market for blended RPO.

EXHIBIT 6

Buyer adoption trend by signing region

Source: Everest Group



Sample Size: 255 RPO deals signed between 2007 and August 2010 for which type of hire data is available

Key Considerations for Buyers As They Approach the Blended RPO

In order to overcome some of the challenges mentioned in the earlier section and capture the benefits of a blended RPO to the fullest, buyers need to approach its adoption in a mature and measured manner.

- **Creation of a holistic business case** – The value proposition of a blended RPO approach and the benefits should be clearly articulated right at the beginning, in the business case itself. As much as possible, all costs and benefits should be quantified. Quite often, it is the lack of quantifiable benefits that deters senior management from giving the go ahead. A well-structured business case can be the lever to dispel some of the vagueness attached to the idea of a blended RPO and sell it to the internal stakeholders. Other important elements of a business case are: identify key stakeholders, outline the high level plan and approach along with schedules, clearly delineate key dependencies and business risks, and list metrics to measure progress.
- **Alignment of stakeholders' objectives and change management** – Aligning the objectives of various stakeholders to the objectives of the undertaking is critical to its success. Especially important is the CXO-level buy-in, given the cross-functional nature of this initiative. Scientific tools, such as change-readiness surveys, should be used upfront to identify any issues or insecurities from the perspective of the various stakeholders that can hinder their acceptance or restrict their participation in the endeavor. This should be followed-up with specific interventions through the medium of communication, awareness sessions, and cross-functional training. The benefits enumerated in the business case should be leveraged to present the answer to the question “what’s in it for me?” to each stakeholder. Culture related interventions may also be required, especially from the aspect of rolling out the program in multiple geographies and countries. Some degree of organizational realignment along roles and jobs may be necessitated, when consolidating all talent acquisition activities at one point, from a previously scattered organization. This calls for careful organization design activities.
- **Right selection of service provider** – Few service providers can boast of an equally robust capability on both the MSP and RPO side. Further, even if they have established independent MSP and RPO offerings, fewer service providers have a well-defined blended RPO offering and experience. For these reasons, it is necessary to invest in service provider due diligence before awarding the contract. Some of the key aspects that buyers need to carefully evaluate include providers' scale and experience to manage a large engagement (typically the case with blended RPO), ability to bring in change management capabilities, ability to provide insights into the changing talent market across permanent and contingent hires, and the

know-how to capture the opportunities therein. Additional evaluation factors that reflect the buyer's unique situation and requirements also need to be incorporated.

- **Careful designing of outsourcing contract** – There are multiple things to look at, while designing the outsourcing contract, and there are three elements that need special attention for blended RPO. The first element is the pricing structure. The prevalent pricing structure for RPO and MSP is different. RPO pricing is typically based on per-hire, while MSP is typically based on a percentage of managed spend or bill rate, making the pricing strategy for an integrated approach a complicated decision. The second contractual element is service levels. While the performance area (e.g., time-to-fill) can be similar for both permanent and contingent hires, the target metrics (e.g., number of days required to fill a position) should reflect the reality of different types of hires and needs to be different. And lastly, instead of separate minimum hiring volume commitment for permanent and contingent hires, buyers should have a single minimum hiring volume commitment across both these categories, to ensure flexibility to scale up or down without any spend wastage.
- **Right implementation approach** – A phased approach, where the buyer first includes only a particular category of hires in scope across certain job families, either permanent or contingent, reduces risks compared to a “big-bang” approach where both kinds of hires are included in scope, right at the beginning.
- **Prudent technology approach** – A technology solution that can cater to both contingent and permanent hiring needs, in an integrated way, can greatly facilitate the implementation of a blended RPO model. Increasingly, permanent and contingent technologies are converging either through IT development, or via the merger or acquisition of technology providers with complimentary offerings. We believe this trend will increase as technology providers recognize the growing market demand for integrated permanent and contingent solutions. However, there are very few such off-the-shelf software available currently in the market, which becomes more critical in a multi-country situation. Hence, buyers and service providers may need to carefully evaluate the trade-off between the functional richness gained from purpose-built, yet, separate permanent and contingent solutions and the strategic benefits gained from having all talent housed in a single system. For now, more pragmatic considerations need to guide these decisions, such as, where the volume of hiring will take place (permanent or contingent) and the ease, speed, and cost of customizing the existing system.

Blended RPO in Action

Some buyers are already leveraging the blended RPO model and are experiencing multiple benefits from the same. Perpetual, a financial services firm, needed a robust hiring solution that could match the demands of its ambitious growth plans. Moreover, it wanted to increase access to quality candidates, have greater flexibility, reduce costs, and increase visibility. In order to achieve this, Perpetual entered into a blended RPO contract with Hudson. Hudson now provides Perpetual with end-to-end recruitment services across all permanent and contingent hires, for all roles, in each state of Australia .

Case study: Blended RPO enables Perpetual to decrease dependency on hiring agencies, standardize hiring practices, have greater flexibility in hiring, and increase visibility

Buyer details

- Company – Perpetual
- Industry – Financial services
- Size – 1,550 employees
- Operations – Australia
- Revenues – US\$457 million

Contract details

- 2006: Permanent recruitment for internal and external roles business wide, and agency management
- 2009: Solution expanded to include management of contingent recruitment including direct sourcing for contingent roles, payroll services, onboarding, off boarding, and agency management
- Duration: Six years, renewed every 12 months
- Annual hires managed: 431 permanent and 152 contingent positions in 2010
- Scope: All job families business wide
- Geography in scope: Australia

Situation

- Perpetual needed to streamline hiring in order to facilitate the planned growth across the entire business
- The company desired greater flexibility in responding to the variability in demand for different types of hires
- Wanted to increase access to quality candidates
- Needed to reduce recruitment costs
- Achieve better visibility, control, and measurement of recruitment
- Establish procedures to improve engagement and management of contingent staff

Results achieved

- Decreased agency use for permanent hires from 100 percent to 20 percent
- Decreased agency use for contingent hires from 100 percent to 30 percent
- Increased candidate talent pool to 31,990
- Reduced average time-to-fill to 20 days from 45 days
- Achieved greater flexibility in order to manage recruitment peaks, volume campaigns, and to downsize
- Increased quality outcomes with higher re-use of skilled contingent candidates
- Smoother conversion of contingent to permanent
- Greater standardization of hiring practices across both categories of hires
- Established management reporting and analytics, and consolidated invoicing for both categories

“Hudson has developed trusted advisor status across our business, delivering high levels of client service... our dedicated team now fills 83 percent of all roles directly. We are delighted with the partnership.”

— Janine Stewart, Group Executive People & Culture – Perpetual

Conclusion

A blended RPO can provide a number of benefits over and above an independent RPO and MSP arrangement. However, buyers need to evaluate their own unique situation and considerations and invest time and effort to design the solution that best suits them. Buyers, who succeed in doing so, will be able to better leverage the total talent acquisition strategy as a source of competitive advantage, as well as, derive substantial financial, business, and strategic benefits.

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About Everest Group

Everest Group is an advisor to business leaders on next generation global services with a worldwide reputation for helping Global 1000 firms dramatically improve their performance by optimizing their back- and middle-office business services. With a fact-based approach driving outcomes, Everest Group counsels organizations with complex challenges related to the use and delivery of global services in their pursuits to balance short-term needs with long-term goals. Through its practical consulting, original research and industry resource services, Everest Group helps clients maximize value from delivery strategies, talent and sourcing models, technologies and management approaches. Established in 1991, Everest Group serves users of global services, providers of services, country organizations, and private equity firms, in six continents across all industry categories. For more information, please visit www.everestgrp.com and research.everestgrp.com.

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