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Recruitment Process Outsourcing

A global growth market

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Introduction

Recruitment Process Outsourcing (RPO) has been gaining remarkable traction over the last two decades, as companies have sought to balance their needs to recruit talent whilst also managing costs.

More recently, there has been a proliferation of technology tools addressing different steps in the talent acquisition process, which could both facilitate and disrupt the market.

We talked to ten leading RPO players, several talent acquisition technology providers, and a number of multinational corporates to understand how the RPO model has evolved and their expectations for the next few years.

Sources and references

¹ Key RPO services used – Korn Ferry, The Talent Forecast, 2017

² US churn rates – Compensation Force

Market intelligence – Grant Thornton research and interviews

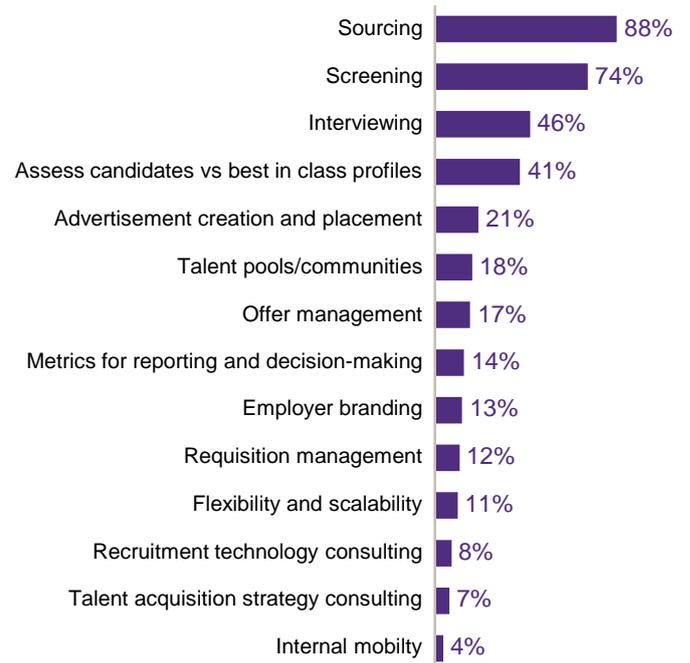
Development of recruitment process outsourcing

RPO involves the transfer of responsibility of all or part of the recruitment processes or activities (eg sourcing, screening, assessment) on an ongoing basis, as illustrated in figure 2. RPO providers typically tailor the mix of their services for the specific requirements of a client.

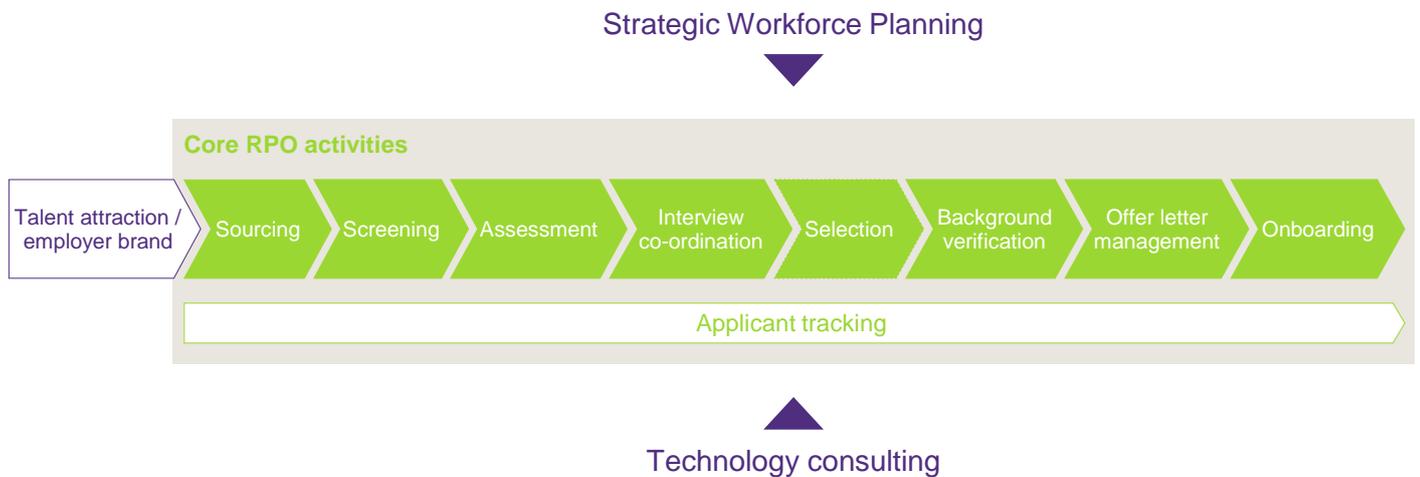
RPO first developed in the 1990s in the US and UK, and has evolved significantly since. RPO providers have been proactively expanding the scope of their activities, from traditionally focusing on sourcing and screening services, towards 'total workforce management', which encompasses a unified approach to contingent and permanent employees. However the most frequently outsourced activities are still sourcing and screening of candidates (see figure 1).

The RPO model involves the firm assuming the role of a client's recruiting department by owning and managing the recruiting process on-site or through off-shore delivery centres, using their own tools, technologies and methodologies.

1. Key RPO services used¹



2. Typical RPO services



A variety of RPO models exist including:

- Resource augmentation – providing additional resource into a corporate HR team
- Project-specific
- Hybrid – providing outsourced services for specific activities above, or for a particular division / job type

Rationale for outsourcing

The rationale and perceived benefits of RPO include:

- **Flexibility and scalability** – effectively managing peaks and troughs in demand
- **Talent sourcing and recruitment expertise** – they have the benefit of resources and tools
- **Navigating new technology** – often have a dedicated team in place to test and evaluate new tools
- Compliance
- Cost and process efficiency

First generation contracts tend to focus more on cost, primarily achieved by reducing recruitment agency commissions through sourcing candidates directly, as well as reducing internal HR headcount.

Later generation contracts tend to place a greater emphasis on factors such as improving the quality of candidates and navigating new technology. Service level agreements evolve from quantitative measures, such as cost and time to hire, to include more qualitative measures, such as hiring manager and candidate satisfaction.

By the 3rd generation, the RPO model has often been rolled out to other geographies and service lines as a result of the firm gaining the trust of their respective clients.

Once a company has outsourced, it can be difficult to bring the process back in-house, especially after a third generation contract, as the SLAs have evolved and have been tailored to the client's needs across multiple countries. Furthermore, a significant investment in in-house resources and infrastructure would be required.

Large companies that do not outsource cited a number of reasons including:

- Taking a strategic decision to invest in in-house talent acquisition capabilities and to own the candidate relationship, particularly common in skilled jobs, or where there is a candidate shortage
- To maintain control of employer branding – several considered it was easier to control the story and culture presented to candidates in-house
- Poor previous experience with RPO – often due to a misalignment between provider SLAs and the client's expectations. Experiences were cited where quality of candidates hired was below expectations, or staff turnover seemed to be increasing as a result of an RPO

Some have sought to replicate the cost and process efficiency benefits through a shared service centre approach. These corporates considered they might still work with providers on a project basis to help with specific short-term recruitment needs, or to help recruit in certain geographies.

US versus UK

The US is considered to be the most mature market in terms of penetration of RPO, but is behind the UK in terms of breadth of services adopted.

UK contracts typically include a broader range of services (ie from sourcing through to on-boarding), often also including value-added services such as employer branding, talent acquisition strategy and technology consulting – which are less likely to be included in US-based contracts. Also, in the UK, it is more common for an outsourcing provider to offer a total talent solution, incorporating elements of RPO and contingent workforce recruitment.

The difference in the two markets may be because US corporates moved into RPO earlier and had gone through a phase of bringing selected activities back in-house, though there are signs that this may be reversing. The differences should not be over-emphasised since these are shades of grey, varying by sector and by client.

The RPO market

Market size and growth

The overall global RPO market size by average annual contract value is estimated by analysts to be between \$3bn and \$5bn, depending on the definition of RPO breadth in terms of minimum number of processes outsourced.

US and UK-led contracts account for more than two thirds of the global market, which is concentrated amongst large (>15,000 employee) businesses. Early adopter sectors have been financial services, manufacturing and pharmaceutical services, which together account for about two-thirds of the market.

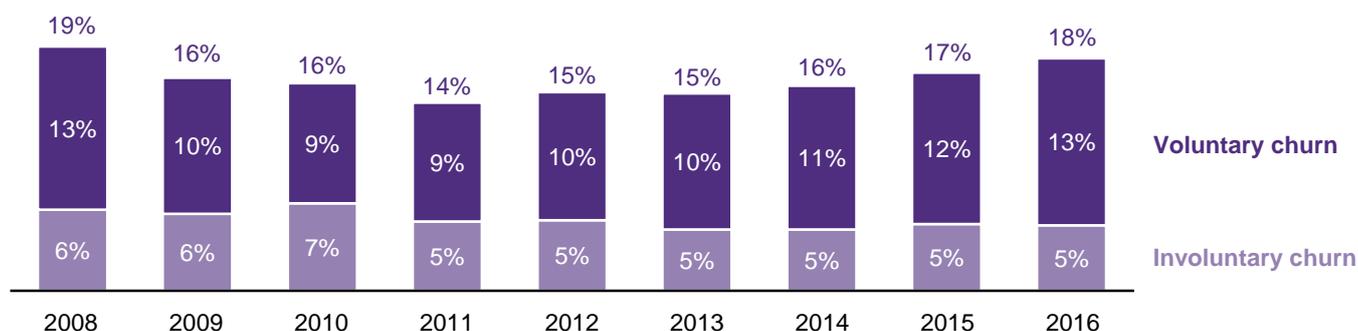
The 2008/9 financial crisis led to a sharp fall in recruitment volumes, as a result of hiring freezes and employees not moving jobs as frequently: for example, US voluntary churn reduced by one third from c.13% in 2008 to c.9% in 2010 (see figure 3 below). However, recruitment volumes subsequently recovered as the economy stabilised and employee confidence returned.

Over the last five years, the market has delivered a mid-teens growth rate driven by a combination of recovering recruitment volumes, as voluntary churn steadily returned to pre-recession levels, and increasing RPO penetration.

“The RPO market declined during the 2008/9 recession in the US; but as the economy bounced back, it definitely helped RPO to increase penetration”

RPO provider

3. US employee market churn % (2008 – 2016)²



Outlook

The market is expected to continue to show double digit growth by analysts. This is supported by our discussions with the major RPO providers, who were all optimistic about the current growth rates that they are experiencing. Interestingly, a significant proportion of new deals that they win are still first generation contracts.

The UK and US is expected to see growth from a broader range of sectors and increased targeting of mid-market corporates (c.3,000 to 15,000 employees), leveraging RPO providers' technology and off-shoring capabilities.

Most RPO providers are also optimistic about growth in continental Europe, which has hitherto shown relatively lower penetration and reflects a more conservative attitude to RPO. The Asia-Pacific region is also expected to show high growth, driven to date by Western multinational corporates' investment in that region, but increasingly also by domestic players.

That said, RPO growth has historically benefitted from the recovery in recruitment volumes following the recession. Therefore, sustained growth at current rates will need to be largely driven by increased adoption of the RPO model at a rate faster than has hitherto been achieved.

Competitive dynamics

Competitive landscape

The RPO industry is fragmented, comprising global, regional and national players. For large multi-regional contracts, the top 10 providers in the US and EMEA account for c.70% of the market, with EMEA being slightly more consolidated. A large proportion of the EMEA share will be driven by decisions made by multinationals headquartered in the UK.

There are only a handful of players that can credibly deliver on a global basis. In general, these competitors come from a variety of backgrounds, with many having entered through acquisition:

- Senior headhunting firms, such as Hays and Korn Ferry Futurestep
- Broader recruitment firms, such as Randstad Sourceright, ManpowerGroup Solutions and Pontoon (part of the Adecco Group)
- HR / payroll outsourcing, such as ADP (which acquired TheRightThing in 2011)
- BPO / technology players, such as IBM Kenexa
- 'Pure play' competitors, such as Alexander Mann Solutions, Allegis Global Solutions and Cielo
- There are a number of smaller providers, such as Talent Fusion, Peoplescout, Sevenstep, Accolo and Pierpoint, which focus on recruiting for niche sectors and / or in specific regions.

Differentiation between providers tends to be based on breadth / credibility in global delivery, low cost off-shoring capability, and the quality of staff (on-site and off-shore for senior client stakeholder and candidate experience respectively). It does appear to be harder to differentiate between the major global providers, who all have similar global capabilities, such that the client selection criteria is driven by sector expertise and the credibility of the senior client relationship managers.

The industry has experienced consolidation activity to capture scale and build geographic presence. Over the last few years, notable deals have included:

- TrueBlue's (owners of PeopleScout) acquisition of Aon Hewitt's RPO business, increasing their global delivery capabilities in North America, EU and APAC

- Allegis' acquisition of Talent2, giving them a footprint in APAC
- The merger of Adecco's Pontoon and hyphen, combining their MSP and RPO services into a single business unit
- Ochre House and Pinstripe's merger to form Cielo, in 2013, creating an end-to-end RPO solution

Barriers to entry

At a local, single country level, there are relatively low barriers to entry, and this has led to a proliferation in the number of small local players (often from a recruitment parent). Such providers tend to win share based on price, and focus on volume roles and / or specific niches in which they have expertise.

At a global, multi-country level, the barriers to entry are significantly higher. Larger (>15,000 employee) clients typically look for evidence of the provider's ability to handle significant volumes, provide consistency across a multi-country environment and demonstrate local market knowledge (including legal / regulatory), in addition to the ability to manage global stakeholders and report on KPIs.

Barriers to switching

Companies will often go through some form of a tender process at the end of a RPO contract to test the market for price and service levels. This is quite common at the end of a first or second generation contract, and thereafter tends to be rarer if the same provider has been used consistently. This is perhaps inevitable, given the degree of mutual trust and knowledge that the incumbent has built up with the client over that period.

“Repeat contracts have increased from 75% five years ago to 80-85%. Switching is more likely at the end of a 1st generation contract, while in 2nd or 3rd generation contracts corporates have invested in the relationship and RPO providers have also evolved from a transactional role to an advisory / value-added role”

Analyst.

Technology landscape

Technology has the capability to reduce the cost of delivery as well as to improve client and candidate experience (eg to improve the speed of response). Whilst technology could enable a corporate to disintermediate RPOs, our discussions suggest that it is primarily seen as an enabler to help improve candidate quality whilst managing costs. Furthermore, RPO players are seen as best placed to advise clients on the adoption of new technology, such that they are evolving into a higher value-added partnership role.

All the RPO players have developed technology strategies, most commonly by partnering with tech providers, together with some development of own proprietary solutions.

Most interest has been focused on screening, sourcing and scheduling. For example, optimising the use of LinkedIn and other online platforms to build candidate profiles, automatically screening CVs for key words, and 'self-scheduling' of interviews. The next stage for innovation is around improving candidate engagement through the use of 'chatbots', or clever assessment tools such as gamification.

In the longer term, there is the potential to combine artificial intelligence, analytics, and insights on corporates' existing workforces to enable a constant match of labour supply and demand, ultimately improving strategic workforce planning.



“Technology will only make RPO models more effective – a lot of the technology is additive and aids RPOs and staffing firms”

Talent Tech Labs

Technology tools at each process step

Broad process	Process step	Description
Attracting / sourcing	Employer strategy and branding	• Platform to communicate a company's image and encourage candidate engagement through live chat events, automatic re-engagement, and search engine optimisation
	Job marketing & distribution	• Distribute jobs automatically to the right audiences and right sites, and provide real-time analytics to help determine the best mix of job advertising channels
	Job aggregators	• Platforms that aggregate job listings from multiple websites
	Mobile recruitment	• Enable candidates to apply for jobs from mobile devices
	Resume parsing	• Convert free-form CV documents into structured information of XML format, suitable for storage, reporting and manipulation
	Referral platform	• Enable HR managers to collect candidate recommendations from current employees to fill job openings
	Candidate relationship / engagement	• Help corporates manage and communicate with their talent pipeline, aggregating candidates from various channels, and sorting candidates for specific jobs. Recruiters can use CRM to proactively engage, organise, and manage potential applicants to accelerate the process
Screening	Matching	• Use matching algorithms to match candidates to companies
	Assessment	• Neuroscience assessment tools used as a first stage filter, instead of a resume screen. Helps mitigate unconscious bias. Advanced platforms incorporate gamification, and workplace simulation
Interview / background checks	Interview scheduling	• Automated interview scheduling and diary management, incorporating self-scheduling
	Video interviews	• Automated video interviews for screening candidates, so candidates and interviewers do not need to be online at the same time
	Referencing	• Automated, online reference checking tools, post interview check ups, and employment verification. Enable recruiters to view an in-depth report about a candidate within days
Other	On-boarding	• Creates a personalised on-boarding page for new hires, detailing the tasks, tips, contact information and files which every new hire will need before starting work.
	Analytics / benchmarking	• Provide salary and workforce benchmarking data, enabling companies to compute the cost of human capital and test workforce strategies by bringing together employee and non-employee data

Key: ● Technology currently available ● Medium term potential

Conclusion

The RPO market has seen significant growth over the last five years, reflecting an improving economy and recovery in employee churn, but also growing penetration as corporates increasingly appreciate the benefits that an RPO partner can bring.

Whilst the market is starting to mature, particularly in the financial services and pharmaceutical sectors in the UK and US, continued growth is expected from other sectors, other regions, and from targeting of and adoption by mid-market corporates. With technological advances such as automation and AI creating both complexities and opportunities for improved efficiency, this should benefit RPOs as they seek to add value and / or reduce costs for their clients.

Going forward, RPO players will need to consider which market segments they are best-placed to compete in, as well as proactively integrate new technology into their methodologies, in order to maximise their growth potential as the tailwind of recovering employee churn can no longer be relied upon.



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