

RPOs and Search Firms: Striking a Price Balance

The use of a third-party firm may be unavoidable. RPOs and their customers need to make sure they can reach an accord on who pays for this service. By Lisa Maxwell

A properly managed recruitment process outsourcing program will improve a company's time to hire, increase the quality of the candidate pool, provide verifiable metrics, and reduce cost. Buyers who use an RPO provider are looking for process improvement and a more cost effective way to identify talent. For RPO to be effective, both provider and buyer want to feel like there is a real benefit.

Generally, RPO is ideal for jobs that are definable, repeatable, and abundant. These providers are set up to have readily available candidates and to be able to produce them quickly. Regardless of the arrangement, service firms are expected to reduce recruiting costs and increase efficiencies, or at least maintain cost and service neutrality. They also enhance the quality of the candidates delivered to hiring managers and are expected to demonstrate the effectiveness of their sourcing methods.

The current economic climate has led many large companies to reorganize their workforce. For companies who contract with RPO firms, the nature of the relationship and expectations may shift more to include filling out-of-scope positions. When there is a large and complex RPO deal, beware of situations where there are divergent types of positions thrown in the mix.

For example, a large insurance company may need to fill hundreds of administrative and customer service positions. At the same time, it may have a few actuary positions open. To save cost, these positions are included in the RPO contract. This creates a potential dilemma for the RPO firm if it is unable to fill these few specialized positions.

"It is entirely possible for an RPO provider to perform in an excellent manner on 99 percent of the positions. At the same time, if it does not perform well on one percent of the out-of-scope positions, the entire working relationship could be at risk," stated Patrick Beharelle, COO of Seaton Corp, whose subsidiary PeopleScout is a provider of RPO in the domestic market.

One option is for the RPO firm to subcontract to a recruitment agency and build that cost into the pricing structure of their contract with the buyer. This arrangement allows the RPO firm to retain full respon-

sibility for the recruitment function, and the company benefits by putting the risk on the provider. If you are a provider, you want to be sensible about what positions you agree to take on. As a buyer, you want to be shrewd about what positions you include in the contract. If there are difficult positions, a buyer wants insurance that positions will be filled.

This may require the RPO provider to use a third-party agency to fill the positions. For the buyer wanting to remove the recruitment agency position, this is very advantageous. Rather than pay a \$25,000 fee, it might pay just \$1,000 under the terms of the RPO contract. The buyer is motivated to move as many positions as possible to the RPO firm, which may be required to pay a search firm if it fails to present any qualified candidates within 30 days of the requisition. Therefore, the RPO firm may need to build that cost into its pricing.

If this type of subcontracting is only required on an infrequent basis, it is still cost-effective for both parties. However, if the frequency of these situations increases dramatically, it could disrupt the providers' original financial model. At the same time, if the buyer continues to require the provider to recruit for more specialized positions outside the scope of the RPO contract, it could potentially undermine the original concept of the RPO.

One alternative solution is for the RPO firm to maintain a streamlined contract and recommend that the company go with an in-house model or work with a search firm for the more specialized positions. The RPO provider may still provide technology and process for the internal recruitment team, but not end-to-end recruiting.

In a market where there are fewer new outsourced recruitment opportunities and where firms are focused more on taking incumbents away from each other, the RPO provider may be inclined to commit to recruiting more specialized positions. However, RPO can only succeed in the context of a well-defined strategy. The buyer and provider must agree on realistic parameters in terms of positions included in the contract and must continue to monitor progress to assure desired results on both ends. **HRO**



Lisa Maxwell is the founder and managing partner for Gerard Stewart, an executive search firm specializing in HRO. She can be reached at 404-250-3204 or lisa.maxwell@gerardstewart.com.