Recruitment Process Outsourcing (RPO): Definition, Cost Models and Goals

How an **RPO** program can work for you – including keys to selecting an RPO provider

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Introduction

Many companies are looking for ways to increase their recruiting capability and effectiveness. While some start by rebuilding their internal recruiting infrastructure, many are turning to Recruitment Process Outsourcing (RPO) to help improve their recruiting capability and efficiency.

But many companies are confused about what RPO is and how it can benefit their company. This short eBook will help you:

- **Understand What RPO is (and isn't)**
- **Typical Cost Models for RPO**
- **Goals for an RPO Program**
- **Keys to Selecting an RPO Provider**

While this eBook may not answer all of your questions about RPO, it should provide a good basis for understanding how a program might fit into your organization and how you can engage an RPO provider.

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What is Recruitment Process Outsourcing (RPO)?

A Definition

According to the Recruitment Process Outsourcing Association (RPOA), RPO is:

> *"An RPO provider acts as a company's internal recruitment function for a portion or all of its jobs. RPO providers manage the entire recruiting/hiring process from job profiling through the on-boarding of the new hire, including staff, technology, method, and reporting. A properly managed RPO will improve a company's time to hire, increase the quality of the candidate pool, provide verifiable metrics, reduce costs, and improve governmental compliance."*

One of the key phrases in this description is "acts as a company's internal recruitment function." RPO is the outsourcing of some or all components of internal recruiting for candidates who will become direct employees of the client. This can include sourcing candidates through to the offer and on-boarding processes. This is sometimes confused with "headhunters", or "perm placement" services, but RPO is a sustained, typically exclusive agreement for outsourcing recruiting for the entire enterprise, a specific hiring drive, or a known project length.

An RPO program can replace the need for internal sourcing or recruiting resources or can augment resources already in place. For example, the RPO partner can source slates of qualified candidates and pass them to internal recruiters or into Applicant Tracking Systems (ATS) for recruiters or hiring managers to review. An RPO partner can also perform screening, testing or credential verification and coordinate interviews and offers. Many RPO engagements include all elements of the recruiting process from sourcing to the eventual offer for the successful candidate; completely outsourcing the internal recruiting function.

For those of you who are out there trying to make heads or tails of what exactly RPO is, it's as much a process (P) as it is recruitment (R). Both are coordinated and integrated services with specific outcomes and expected performance measures.

Types of RPO

RPO programs can also be defined by the major types of programs typically in use today. They fall into three broad categories:

1. **Enterprise RPO**
    Typically, this category reflects a company-wide outsourcing of most or all of the sourcing and recruiting processes to an RPO provider. As the name suggests, the intent is to outsource the HR recruiting function and centralize it through the provider. Typically all of the recruiting processes, including posting of jobs and

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sourcing are done by the provider working on behalf of the customer, using the customer's logo and employment brand identity. This can include only parts of the total recruiting process, but typically the idea is to completely outsource the function and free-up internal resources. The contract period is in years (two to three or more).

2. **Project RPO**
    This type can include the same elements as enterprise RPO, but they are done for a specific scope of time and/or positions. For example, you might use project RPO to hire for a new location or to staff a team that will need to be in place by a specific time or, as the name suggests, for a specific project. Project RPO typically is used when the number of hires is set or confined to a particular area of the company and the duration of the contract varies, but is not as long term as enterprise RPO, possibly as short as six months.

3. **Point-of-Service RPO**
    This is the outsourcing of specific parts of the recruiting process to increase the quality of candidates, the efficiency of the process and/or reduce costs. For example, this can include the sourcing slates of candidates or screening applicants then handing them off to an internal HR staff.

What RPO Isn't

RPO is not simply an on-call permanent placement service or a "head-hunter" that is available to fill permanent positions. It's also not for the occasional opening or need for a quick list of candidates. It is a sustained and clearly defined process with related expectations for timing and performance that provides a predictable and customized sourcing and/or recruiting engine for your business.

RPO is often misunderstood and confused with Human Resources Outsourcing (HRO). While RPO is focused on the sourcing and recruiting aspects, HRO is more concerned with the functional HR processes, such as input of information into HR systems, on-boarding paperwork administration, benefits administration or performance management.

While some RPO process, such as on-boarding, may include some aspects of HRO, the intent is that the RPO program is related to sourcing, recruiting and/or hiring and typically involved processes related to candidates rather than employees of the customer.

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What are the Cost Models Associated with RPO?

One of the most common questions with RPO relates to how the costs for an RPO program compare with a traditional in-house recruiting program.

Depending on the RPO services, there are many different ways a provider can charge for the service. Costs for RPO are generally through a few different models:

* **Management Fee Model (typically monthly)**
  A fee is paid to the RPO provider for working on an agreed-upon number of positions. The fee may change depending on the agreement, or may have escalation factors if the number of hires increases over a period of time.

* **Cost Per Hire Model**
  A fee is paid for each candidate who is successfully brought through the program and hired (or other action such as offered a position) by the customer.

* **Management Fee Plus Cost Per Hire**
  This is a combination of the above two. This combines the consistent recruiting effort under the management fee, with payments for the success (hires) of the program.

* **Cost Per Slate**
  This is a sourcing model where the RPO provider charges a fee for a set number of sourced, screened and qualified candidates for each open position. From there, the candidates are provided to the internal recruiters for continuation of the recruiting and hiring processes.

* **Cost Per Transaction**
  A fee is charged for a specific process to be completed by the RPO provider, such as initial screening or reference checks.

Because of thedegree of change and resources involved, RPO contracts for enterprise services are typically for two to three years. For project-based service the term of the contract will correspond to the need. For example, a six-month hiring drive in a specific area or a one-year ramp up of a new facility.

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Comparing Costs

When comparing costs to a traditional model, you should begin by evaluating the total cost of internal resources. The first thing that comes to mind is wages paid to recruiters. This should include benefits and the costs to hire, employ, manage and terminate internal employees. But that's only the beginning.

For internal processes, there are often many HR resources who contribute to the process overall, but are not dedicated to it. These include those processing documents and inputting information into HR systems, those performing on-boarding duties (including hiring managers) and those responsible for maintaining equipment, computer systems and information. Also, costs for space and utilities should also be taken into consideration.

Other considerations are costs for maintaining multiple seats for an applicant tracking system (ATS), sourcing technology, or subscriptions to various job boards.

The Value of Accountability and Focus

Lastly, when comparing your costs and the expected outcomes of outsourcing vs. internal recruiting, you should consider the increased focus that typically comes with an RPO program. In particular, you should consider these questions:

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   Do you have dedicated resources or are some functions spread among generalists? This is not only a cost issue, but also an issue of efficiency and the possibilities for risk related to hand-offs or bottle-necks in the process. Things that fall through the cracks or take longer than they should may increase your costs and risks.

•
   Do you hold your internal recruiters to Service Level Agreements (SLA's) or performance metrics? While they may be doing the job, are they held to standards for performance and quality? Be sure to look at all of the steps and workers involved.

•
   Do you get specific reporting and tracking related to internal recruiting? Regular updates and relevant data are necessary to manage recruiters and adjust resources as needs change. A good process should include good reporting.

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   Do recruiters specialize in specific areas or have technical knowledge? Many recruiters source for multiple areas, but in some cases knowledge of a specific technical area or previous experience can lead to better results. This may not apply to all areas, but it may be critical for other areas.

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- **Who owns your internal recruiting function?** This is different than just managing the function. Ownership and accountability should be clearly defined and should include the authority to make changes if needed. Many internal programs involve individuals from multiple departments which can create unnecessary delays and a lack of efficiency when no one clearly owns the program.

RPO represents the most cost-effective alternative to large internal recruiting or HR staffs. Typically the cost per hire charged by an RPO partner is less than the cost of employing recruiters directly and in almost all cases it's a more cost-effective solution to paying fees to permanent placement vendors continuously.

The value that comes from increased focus and accountability is also a factor to consider when evaluating whether or not to outsource. While internal recruiters and others in HR may have other duties, the RPO provider is "on the hook" to maintain service levels and provide tracking and reporting on the program at all times.

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Goals for an RPO Program

One of the first steps to take in considering an RPO program is to understand what is motivating you and your organization to make a change. In many cases this is also part of the process for creating a business case for change.

Below are a few of the common questions to ask when establishing your program.

What am I looking to achieve? While this may seem like an obvious question, there are typically several answers and in many cases it may not be possible to address all of them with a single program, or you may have to prioritize them. But the key is knowing what's most important to you. Some of the common goals are:

- **Improved quality of talent**
- **Increased availability of talent**
- **Scalability – the ability to scale up or down**
- **Less reliance on costly placement fees**
- **Improved workforce planning**
- **Reduced time to fill**
- **Reduced cost per hire**
- **Reduced administrative burden**
- **Improved process efficiency**
- **Centralization and/or standardization**
- **Best practice process improvement**
- **Improved compliance**
- **Improved tracking and metrics**

What is our appetite and organizational readiness for change? This is important, especially for a new RPO program. A new recruiting process can touch many different departments and functions and must be as integrated as possible to ensure success. As such, it's critical that there is as much buy-in and support as possible at all levels. Are there other changes taking place at the same time, such as technology changes, that may complicate or add to the change management challenges? Also look at past experiences for clues as to how your organization handles change.

Have you outsourced similar functions before or do you regularly outsource services to outside partners? While it's not critical that you have outsourced before, it may be an indication of the time and process that may be involved for a first-time implementation. It may also mean that a pilot program or phased approach might help ease the change and provide a proof of concept.

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What Will You Measure and What Does Success Look Like?

Once you have an idea of the reasons and goals for establishing a program, it's time to think about how you will measure your program and the goals for a successful program.

Most RPO providers will want to establish a Service Level Agreement (SLA) to set performance expectations and allow them to structure their processes, teams and reporting to meet your goals.

Along with this are the metrics that will be tracked. Examples of these can include:

- **Number of qualified candidates per position**
- **Minimum required candidates per slate**
- **Time to respond with qualified candidates**
- **Time to offer or fill**
- **Time to interview**
- **Time to process (specific function, applicants, on-boarding, HRIS, etc.)**
- **Number processed per time period (applicants, screening, etc.)**
- **Hires per time period (month, quarter, etc.)**

These metrics and other measures will help both you and the provider adjust the program as necessary. For new programs the first months of a program typically includes a benchmarking period where the baselines for future metrics are established and adjusted and the program is implemented.

Your RPO provider should be able to provide comprehensive periodic reports that provide insight into the sourcing and recruiting processes they manage.

A Note About Technology

Most RPO programs that include sourcing and recruiting involve an Applicant Tracking System (ATS) that is either part of the customer's systems or brought into the program by the RPO provider (typically through a partner). The implementation of a new system is another aspect of change that should be taken into consideration. There are also costs involved with the use of an ATS.

Regardless of who owns the system, an ATS is critical for tracking all sourcing and recruiting activity.

Other technology involved in an RPO program may include:

- **Online partners for job postings**
  This is the use of a company to distribute jobs (such as Jobs2Web) may be used to quickly post jobs to a variety of websites and job boards.

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- **Job Boards**
  Both large job boards like Monster.com and smaller niche boards. The company may already have a contract or the RPO provider may bring the capability with them.

- **Background checks**
  There are many third-parties that provide online background checks and screening services. The RPO provider may have partnerships in place, or the customer may have established procedures and providers in place that can be used by the RPO partner.

- **Testing**
  There are online tests available for many occupations. The customer may already utilize a provider for these or the RPO partner may provide a third-party to

Some of these technologies are integrated into ATSs or can interface with them to provide updates.

Regardless of which specific technologies are involved, the use and setup of these systems is critical to the ability monitor and report on RPO activity.

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Keys to Selecting an RPO Provider

Selecting an RPO provider should be an intentional process that sets the stage for a successful RPO program. Preparing for the selection process is probably as important as the process itself.

Over the years, we've seen many good requests for proposals (RFPs) that ask a variety of questions that would seemingly lead to a good choice of providers. It's also painfully obvious on the not-so-good RFPs how vague questions, incomplete information and a lack of commitment will probably lead to a failed implementation or unrealized results.

The first steps that are often lacking, even in good RPO provider selection efforts, relate to internal preparation and planning. Taking the time to look at a few of these areas prior to developing an RFP can pay dividends in the long run.

1. **Understand your RPO provider selection process today**
    You need to map out your organization, your processes, compliance needs, in-house resources, and stakeholders. This will help providers develop a more accurate assessment or potential bid, and will also help you start the change management process.

2. **Understand your reasons for choosing RPO**
    The motivations and reasons for choosing an RPO solution should be clear to all the stakeholders and shared with potential partners. If saving money is your only driver, you might not be headed in the right direction.

3. **Ask RPO providers specific questions**
    Develop very specific, tactical questions regarding how a provider will accomplish the goals you have in mind. Also, prioritize your requirements beforehand.

4. **Commit to a strategic RPO relationship**
    An RPO solution is a collaborative process that starts with a strategic relationship with your RPO provider. Unlike other outsourcing engagements, there shouldn't be a "set it up and walk away" mindset.

5. **Look for a cultural as well as business fit**
    An RPO partner will be integrated into your organization in some way. Make sure your partner understands your culture, mission and values and can support them.

6. **Plan for change**
    It's important to make sure key stakeholders understand the "to-be" state and how it will affect them. Get started on the right track — workarounds, exceptions, and non-compliant behaviors are not easily changed later.

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While not everyone will be comfortable talking to a provider before some of the steps above are done, if you already have a good workforce solutions partner, you should consider asking them to advise or assist with some of these steps.

Whatever you do, just make sure you prepare before you start sending out RFPs. What's that old John Wooden saying? "Failing to prepare is preparing to fail." That certainly holds true for setting up an RPO program.

Selecting an RPO Provider for Project-Based or Point-of-Service RPO

Most companies believe that they must take the plunge and commit to an enterprise-wide RPO program on a grand scale. While this is certainly realistic in some cases, in others, a project-based or point-of-service RPO program makes sense for peak-season sourcing, rapid recruitment projects, or other hiring events, like expansion.

In fact, some of the most successful RPO engagements start out as smaller projects. Sometimes this is considered a pilot program. Other times, when a specific need arises, a smaller scale RPO program is an easy way to quickly scale recruiting resources.

Although this is greatly simplified, here are some basic steps to determine how you can start using a project-based or point-of-service RPO program to help meet your recruiting goals.

1. **Determine level of need and priority**
   Look at your hiring needs over the next 12 months or so. Determine which areas have the most pressing needs, and as much as possible, group hires into the broadest categories possible. For example, group them by skill, project, department, or location.

2. **Match needs and resources**
   Next, consider your list and determine the level of in-house resources available, along with the priorities. Look for areas where you do not have sufficient coverage or expertise. For example, geographies that are not covered, skill sets or specialties (i.e. sales, IT, R&D), and new or upcoming expansions. Identify "weak spots" in either your resources or the process. Consider the logistics and resources required to source, screen and on-board these groups on your own.

3. **Divide and conquer**
   Determine the focus of your in-house resources and look for opportunities to outsource others. Look especially at hiring that must be ramped up quickly or that requires completion by a certain date — Those are excellent candidates for project or point-of-service RPO. Evaluate providers with project-based experience or experience in the functional areas you want to outsource.

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4.   **Measure and monitor performance**
        Your RPO partner should be able to provide tools, reporting and a willingness to get paid, at least partially, for performance and delivering results within areas they control. Monitor and evaluate results for future efforts.

Project-based or point-of-service RPO can take the pressure off overworked (or non-existent) in-house resources and also provide the quick ramp-up that will give your company greater agility.

A smaller project might be the way to dip your toe into RPO, but don't think of it only as a prelude to a full enterprise program. Look for ongoing ways to leverage project RPO programs for specific areas and needs that make sense for your company.

And don't get talked into a full enterprise program if it doesn't fit your immediate needs. A good RPO provider should help you understand your needs and provide the appropriate enterprise or project RPO program to fit those needs.

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Conclusion

Recruitment process outsourcing is typically the most cost-effective way to create a scalable and effective recruiting process. It provides an alternative to building a large, internal recruiting structure and can help improve efficiency and compliance.

Before you consider an RPO program:

• **Understand what RPO is and isn't**
• **Explore the different types of programs and cost models**
• **Set your goals for the RPO program and what you will track**

By taking advantage of the information and tips for selecting a provider contained in this eBook, you will be ready to make informed decisions that will help make your chosen RPO program a success.

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For over 70 years, Yoh has provided the talent needed for the jobs and projects critical to our client's success, by providing comprehensive workforce solutions that focus on Aerospace and Defense, Engineering, Federal Services, Health Care, Life Sciences, Information Technology and Telecommunications. Yoh fulfills immediate resource needs and delivers enterprise workforce solutions, including Managed Services, Recruitment Process Outsourcing, Vendor Management Systems, Independent Contractor Compliance, Statement of Work, and Payroll Services. For more information, visit www.yoh.com. Yoh is a part of Yoh Services LLC, a Day & Zimmermann Company.

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