WHITE PAPER

What are the pricing models for Recruitment Process Outsourcing solutions?

Assessing pricing models for RPO solutions

When assessing pricing models for Recruitment Process Outsourcing (RPO) solutions, there is a lot of confusion in the market. Most analysis tends to focus solely on the buyer or provider's perspective, rather than reviewing the impact on both. The choice of pricing model does not define the quality of service delivered by an RPO program, but it does have a significant bearing on how easy it is for the provider to deliver the level of scalability and effectiveness required. For example, if you require a highly scalable program with dedicated on-site resources, this will be attained much more effectively with a pricing model that involves some form of a fixed fee rather than transactional fees alone.

This paper attempts to demystify the pricing conundrum, reviewing various pricing models, their advantages, disadvantages and how they intrinsically affect the RPO service for both parties.

What is RPO?

The Recruitment Process Outsourcing Association defines RPO as: "A form of business process outsourcing (BPO) where an employer transfers all or part of its recruitment processes to an external service provider. An RPO provider can provide its own or may assume the company's staff, technology, methodologies and reporting."

At its fundamental level, RPO pricing is normally fixed to hiring volumes and is based on cost-per-hire or placement fees. However, exactly what these costs should be is dependent on the cost structure under which the RPO provider functions.

What does RPO pricing include?

An RPO provider takes into account numerous considerations when developing a cost structure, ranging from the geographical scope of the program in question to the type of hire required – internal versus external, repetitive hires etc.

While requirements vary from provider to provider, among the costs that an RPO typically must account for are:

- Recruitment team salaries, bonuses and on costs
- Facilities and real estate
- Implementation and transition costs
- Provisions for transferring staff including TUPE (in the UK) and redundancies
- Direct account management and governance
- Indirect leadership and executive sponsorship
- Sourcing and talent pooling technologies
- Job boards
- Employer marketing
- Social media management
- Corporate centers of excellence
- Reporting
- Continuous improvement
- Corporate overheads
- Gross profit (can vary by interpretation)

What pricing models are most commonly used for RPO programs?

1 Transactional cost-per-hire model

One of the most common RPO deal structures includes a fully-variable model supported by minimum hiring volumes or minimum revenue guarantees. A placement fee is normally paid for each category of hire reflecting the variance in process and effort associated with each category. Category of hire can be a combination of band, displace, or source. The key source of hires are direct, referral, agency or internal. For the provider to accurately develop pricing, they will require information around the mix of these hires, as under or over forecasting one category can impact the fees received by the provider dramatically. As such, it is important to have protection for both parties, making it possible to review and, if necessary, reset pricing for each category to reflect material changes in the mix through the life of the contract.

This approach is well suited to buyers with:

- Large hiring volumes for lower-end positions, with no dramatic change in volume from quarter to quarter.
- Business practices that are highly standardized and repeatable, transaction intensive and demand driven.

From a service provider's perspective, the ability to deliver profitably in a transaction-based pricing scenario is tied to achieving volume and scale, making this model best suited to high-volume programs. While transaction-based pricing can provide significant benefits to both buyers and providers, there are some associated challenges:

- **Complexity** - designing a transaction-based pricing model is complex and requires a good understanding of these transactions and their cost structure by both customers and service providers.
- **Predicting volumes** - predicting a reasonable level of accuracy, providing a minimum volume commitment for economies of scale and planning for volume variations is a complicated exercise that only a few buyers are able to perform in a systematic and consistent manner.
- **Lack of availability of benchmarking data** - lack of availability of reliable external benchmarks, in addition to unreliable internal benchmarks, can hamper the customer's ability to ascertain the commercial competitiveness of a service provider's quotes.
- **Organization change** - transaction-based pricing leads to changes in quite a few areas, such as budgeting (tracking inconsistent monthly/quarterly service costs); corporate finance (ensuring that invoices reflect accurate charges and credits); functional departments (affecting business process change); all departments (inculcating demand forecasting practices).

2 Transactional cap model – Transactional fee by volume band

This model is designed to provide increased flexibility to the previous approach. The 'cap' refers to the maximum volume of requisitions that can be recruited within the band at the designated fee. As with the previous model, some of the risk of the variable pricing component is mitigated by the various caps. This provides price discounts for the buyer as volumes rise reflecting economies of scale, and protection to the provider in the event volumes decrease.

Some key advantages of the cap model versus the previous model are:

Choice

Buyer can pre-select their hiring requirements for the upcoming quarter, like a prepaid phone plan.

Flexibility

This model provides the flexibility needed to change volumes in line with business requirements - when working this way, AGS flexes allocated resources accordingly.

Rebate Potential

Opportunity for quarterly or annual rebates in the event hiring volumes exceed pre-selected cap.

3 Fixed monthly management fee plus transactional fees per hire

In this model, some of the risk of the variable pricing component discussed above is mitigated by the use of a fixed monthly management fee. This fee should be mapped against agreed resourcing and service levels, ensuring the provider has a sufficient revenue stream to continue funding the minimum resources and infrastructure required to sustain the RPO program during periods of low volumes. This partially-fixed structure gives the buyer greater influence on the retention of service provider resources and can help to manage internal chargeback mechanisms.

" Finding the sweet spot between a fixed and variable fee makes it easier for the provider to provide the buyer with the level of protection needed. "

The pricing model does not dictate the quality of service, but striking the right balance between the fixed fee and variable fee can make achieving the necessary standard much easier; when this balance is achieved, the provider is able to sustain a more stable delivery model that can retain key recruiters and continue strategic planning during low-volume periods. Essentially, the buyer is able to take advantage of having a set team in place to support the RPO program.

Finding the sweet spot between a fixed and variable fee makes it easier for the provider to provide the buyer with the level of protection needed to cope with fluctuating volumes and sustain the fixed components of the solution without substantial losses. While the same level of service will provided regardless of pricing model, this approach is the most effective for ensuring the consistent long-term effectiveness of the RPO program.

Despite its strategic benefits, this model can be limited by the need to ensure the fees structure can support volume changes. We have addressed this with a slight variation on the pricing model below.

4 | Fixed cap model – Monthly fee by volume band

This model is designed to provide increased flexibility to the previous approach and designed to provide protection to the buyer from changing volumes, while also offering some certainty to the provider that they can resource in line with expected volumes. The 'cap' refers to the maximum volume of requisitions that can be recruited within that band at the specific monthly fee before transitioning to a different bands fee. In this approach, the fixed fee is calculated within the contract according to agreed volume bands. This provides price discounts for the buyer as volumes rise reflecting economies of scale, and gives both parties certainty of infrastructure support as volumes increase and decrease.

Some key advantages of the fixed cap model versus the previous model are:

- No need to invoice for each transaction
- Allows the buyer to pre-select requirements for the upcoming quarter, like a prepaid phone plan
- Requirements are based on buyer's forecasts
- Gives flexibility to change volumes in line with business requirements
- Opportunity for quarterly or annual rebate in the event hiring volumes exceed pre-selected cap
- Given the certainty around billings and limited risk on behalf of the provider, the fixed billing structure is often discounted compared to the fully transactional model

5 | Simple flat management fee model (typically monthly)

With this model, a fee is paid to the RPO provider for working on an agreed number of positions for a set period. The fee may change depending on the agreement, or may have escalation factors if the number of hires increases over a period of time. This model is well suited for project work and out-tasking services.

AGS' strategic RPO solutions and delivery options have the scalability and flexibility to suit your specific recruitment needs. Learn more about our approach to RPO by visiting our website: www.allegisglobalsolutions.com.

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We deliver scalable, flexible and tailored solutions, shaped around our clients' unique business requirements and culture. We draw upon decades of industry expertise and market insight to design strategies that work. We develop innovative tools, products and processes that deliver results.

Our passion for talent is the driving force behind everything we do. We live to match exceptional companies with outstanding people. By creating a culture devoted to great talent, we can deliver client-focused solutions that make a difference for businesses across the globe.

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