

## / MARKETPLACE RECRUITING, VENDOR MANAGEMENT, AND A PEEK INTO THE FUTURE OF TALENT ACQUISITION

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SAN FRANCISCO (Dec. 10, 2014) — Let's say you're looking at doing some hiring and you don't have the resources internally to do the recruiting. In the past, the options could be daunting and riddled with challenges. You could hire a recruiter, maybe one who specialized in a particular area. You could also use a staffing firm or an independent headhunter — either on a retained basis or for a contingent fee. A more recent option would be to use a recruitment process outsourcing (RPO) company that could take on some or all of your recruiting load.

In the last few years, many companies — especially larger ones — have said yes to all of the above. They have internal recruiting teams, staffing agencies, and headhunters they contract with, and recruitment process outsourcers that take some of the load.

And guess what. There's a lot of complexity and cost built into an "all of the above" approach to talent acquisition.

A niche market has opened up, specifically for managing contingent or retained search professionals and agencies. They have a few different iterations, but we'll lump them under what we'll call a **marketplace recruiting model**.

The marketplace concept has been proved in the contract and temporary staffing markets. Eighty percent of large employers and a rapidly growing number of midsize firms have adopted vendor management systems (VMS) to manage all of their contingent hiring. Contingent hiring efforts are normally managed by procurement, IT, or operations. Achieving cost and efficiency gains by having all contingent and temporary staffing firms using one platform, agreeing to a standardized set of terms, receiving job orders, and submitting candidates has been considered *de rigueur* for nearly 15 years now.

Further validating the marketplace model for contingent hiring, companies like **Elance-oDesk** help firms hire freelance workers via a marketplace model and boast 8 million freelancers and over 2 million companies using their services globally in more than 180 countries. Now operating as one firm since announcing their merger in 2013, investors seem to agree with the potential and the model. They have just announced a \$30 million investment round from Benchmark Partners.

But the market hasn't yet fully embraced a marketplace model for full-time employment (FTE) placement. The decentralized nature of the FTE process and related costs have made this category of recruitment spend difficult, if not impossible, to gain control over for most employers. It's been estimated that as much as \$72 billion annually is spent on recruiting services, products, and staff in the U.S. alone. Though this challenge has been addressed by service and technology vendors before, as the market has matured, so have the approaches to the solution.

### **Bringing Employers and Staffing and Headhunting Providers Together**

We've heard it described in a variety of ways, but in the simplest sense, marketplace recruiting companies connect employers, headhunters, and staffing companies while reducing complexity and/or cost in some way. Given the seemingly never-ending "war for



talent,” they’re also gaining traction, attracting investment, and seeing increased competition in the market.

- **BountyJobs** is the leader in the U.S. market and is one of the best-known and longest-active players in this market. A straightforward model, where employers set their price and headhunters deliver candidates, has evolved into a more fully throttled VMS for recruiting. CEO Mike Hard tells us that companies are trying to clean up the mess of — at times — hundreds of separate headhunting or staffing arrangements into a single neat agreement. BountyJobs sees market growth potential not just here in the U.S. but also overseas where headhunters have a significantly higher usage rate.

Internationally, they see solutions like JobTender by **Placement24** out of Germany or **TalentPuzzle** out of the U.K. as being competitors. In Europe and elsewhere, placements by staffing agencies and headhunters come in at around 20 to 30 percent of total recruiting activity (in the U.S., it has hovered somewhere between 3 and 6 percent, according to CareerXroads’ annual source-of-hire report).

- **RecruitAlliance** has been around longer than BountyJobs — and most others who are still around — and has a loyal following. They’re different from most other marketplace models because they have a flat fee for headhunters to be part of their network, rather than charging a percentage per each placement. Although that’s attractive to recruiters and free to employers, the low margins seem to limit the ability for RecruitAlliance to market and sell a possibly disruptive marketplace and VMS.

Newer companies have also looked to use some iteration of the marketplace model to varying degrees.

- **RecruitiFi** takes the marketplace model and removes some of the winner-takes-all aspect that is the norm with contingent recruiting agreements and spreads the wealth among headhunters who submit quality candidates. Like some of the other players in the marketplace-recruiting niche, there’s a way to rank and sort the quality of headhunters working on your job. As CEO Brin McCagg told us, the best rise to the top and those who don’t deliver quickly move to the lower rankings.
- Australia-based **RecruitLoop** is a newcomer to the United States and they have another tweak to the model: headhunters who work on an hourly basis (companies can also use their concierge service, which matches companies with the best recruiter for the job). They call it elastic recruiting and it feels like a cross between the marketplace model and recruitment process outsourcing. Rather than hiring an internal recruiter on a contract basis, you get one on demand, only paying for the time they work. CEO Michael Overell tells us their success in Australia is starting to translate here in the U.S., as well.

### Marketplace Strengths: An Attractive Play for Employers

We’re bullish on marketplace-based recruitment solutions in general, as we are the entire talent acquisition market. Recruiting is going to become more important, not less, in the coming year and beyond. The vendor management roles that many of these solutions play are also becoming increasingly important, not just for talent acquisition services but for service across the entire enterprise.

They also play an important part in containing some costs and liability for the employer, while also offering flexibility. If you look at the emergence of recruitment process outsourcing, you can see its origins trace to the high cost of staffing and search agencies and headhunters, and the difficulty of bringing that to scale across larger organizations.

Marketplace solutions can help drive down overall recruitment costs if they're used effectively.

That said, they're not a silver bullet. If you're using internal recruiters or RPOs, a recruitment marketplace solution probably isn't going to change much about that. If you're using headhunters and staffing agencies, it could significantly change the way you do business with your current vendors — or maybe even force you to switch.

We don't see an end to a multifaceted approach to talent acquisition anytime soon. But the marketplace model may help simplify the management and reduce the costs associated with using agencies and headhunters.

### Marketplace Weakness: What's in It for Headhunters and Agencies?

There are at least two sides of a marketplace and there are certainly two here. Though one side may love the arrangement, the other may not. And although there may be a certain appeal to the marketplace model for many recruiters, there's also some resistance to the idea from the folks who ultimately perform the services needed to make a marketplace successful.

For traditional marketplace and VMS recruitment solutions, taking a percentage of the fee is a hard-to-swallow prospect for many recruiters — even for the benefits that they offer both sides as a broker of the transaction. For a solution like RecruitLoop, the concept of working hourly for people who are accustomed to making five figures (or more) on a placement could place them outside of favor. And though RecruitAlliance seems to offer the best of both worlds with a flat fee, they seem to lack the traction needed on both sides of the marketplace to really take off.

That leaves the marketplace model with a two-sided risk:

1. **A marketplace that is attractive for employers may not always attract the best headhunters and agencies.** A marketplace that is attractive for agencies and headhunters may not look attractive to employers. And although we believe that all of these platforms have been built earnestly to try to serve both sides of the equation, they have to constantly balance that risk and straddle the line between the two sides.
2. **Low investment in marketplace models by employers means a better mousetrap can come along pretty quickly and gain momentum in a hurry.** We've seen investment in this area of talent acquisition by employers, and they're starting to see results. However, if there is a better way to serve both employers and headhunters and agencies, it could quickly get both on board because the marketplace model lacks stickiness, especially if you don't use the VMS component of the service.

Recruitment marketplaces, like a lot of talent acquisition plays, aren't exactly recession-proof, either. Some smaller players left the scene after requisitions dried up in 2009–2010 and we're just now starting to see a lot of renewed interest in the category over the last year. It's a highly variable business.

### Where Do We See Things Going?

We believe that two high-level market trends may be establishing the need for these solutions in the employer's HR technology stack:

- **The rise of the contingent workforce.** The contingent workforce is expected to represent 50 percent of the workforce by 2020. The decision to hire an FTE vs. a contract staffer is becoming more of a game-day decision. There is no longer a "fork in the road" when it comes to a hiring decision here. Moves like the acquisition of Fieldglass by SAP reflect the directional shift to a "total workforce" view. This view isn't just strategic to the budgeting and procurement process. It's becoming a requirement for a growing number of hiring decisions.

Across departments in companies of all sizes, the decision of whether to go contract or FTE is made based on the available talent and possible time to full ramp up based on the budgeting process. The visibility the employer has via a VMS to quality of source, availability of talent, and timing expectations for agency submittals trumps what is available in the FTE hiring process. Cost containment and ROI become the icing on the cake. And the CFO likes cake.

- **The growing use of recruitment analytics in talent attraction, acquisition, and marketing.** The emergence of recruitment analytics is starting to give talent acquisition professionals a view to source metrics across channels that the employer manages directly, such as job postings, social recruitment, employee referrals, mobile platforms, etc. However, the ability to look at staffing firms as one of these sources and compare time to submittal and candidate quality, and do so with the ability not just to control agency spend, but be more strategic, seems like a logical next step.

Talent acquisition leaders should require the analytics to decide what jobs to release to agencies, when, and on what terms, based upon the experience they've had filling a candidate pipeline for one position, or a category of open positions. Agencies represent one channel in their recruitment mix — a channel that represents high value and high cost.

A well-executed talent marketplace integrated into the rest of the talent acquisition strategy and technology stack would be a strategic advantage for any organization that gets there ahead of their competition. As recruitment marketing tools, analytics, and VMS solutions increase employers' ability to spend more deliberately and control cost creep in other facets of recruitment, there will be more pressure to manage the spend on FTE agencies in the same strategic manner.

The move to the VMS marketplace model in contract and temporary staffing took third-party staffing firms along kicking and screaming in the late '90s. Fast-forward to today, where most large staffing firms have fully adopted this approach and even offer VMS solutions of their own to their customers as part of a managed services provider (MSP) solution.

In the short term, we'll see continued adoption of the solutions offering the talent marketplace concept to employers. The ability to sustain the value of these solutions for the employer over the long term doesn't depend solely on the employer-side value proposition we outlined above, but in being able to provide the supply side of the talent marketplace with the opportunity to make more placements and generate more revenue.

This is why, albeit kicking and screaming, contract and temporary staffing firms ultimately followed suit and worked within the VMS model. Like it or not, staffing firms had access to more jobs and more "starts" if they played along. This experience bodes well for vendors leaning more toward VMS and less toward discounted fees at the core of their models.

In an emerging category like this one, we expect to see more entries from both new, innovating startups and via acquisition and product development from leading talent management vendors. Talent management systems to date have offered more of a rearview mirror look back at agency spend. Talent management platforms offering more capabilities here first will have some differentiation, which is becoming a rare thing for them.

It's inevitable that the future for employers and talent acquisition service and technology vendors includes a required view to all sources of talent in order to address a growing \$72 billion problem.



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