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GLOBAL GROWTH OPPORTUNITIES FOR HRO AND RPO

The use of human resource outsourcing (HRO) has become widespread in the United States in recent years. Non-core, transactional duties such as payroll and benefits administration are outsourced now more often than they are conducted in-house. Today approximately 85 percent of all U.S. businesses outsource at least a portion of their HR functions. A study by the Yankee Group shows that the worldwide HRO market will grow to \$80 billion by 2008, at a compounded annual growth rate of 12 percent. High quality, cost-saving HRO services have paved the way for businesses to increase their use of recruitment process outsourcing (RPO), a rapidly emerging and high-demand subset of HRO.

RPO can operationalize the entire recruitment lifecycle, from needs assessment to sourcing, screening and interviewing candidates, hiring, and onboarding. According to Pam Berklich, vice president of Kelly Services' Staffing Alternatives business units, "RPO can provide companies with cost savings, increased candidate quality, effective screening processes/tools, metrics, and new technology without major capital investments. By transitioning the hiring program to an experienced service partner, our clients can focus their internal HR resources on the strategic core business of the company."

To date, HRO and RPO have gained greater acceptance and use in the U.S. than in any other global market. However,

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future market trends suggest that many growth opportunities for both services exist in the U.S. and overseas. Emerging markets come cloaked in unique challenges—challenges that, if met, can reveal significant opportunities for global organizations as well as astute HRO and RPO service providers.

Growing the U.S. Market: Flexibility and Fast Response

The Bureau of Labor Statistics projects that between now and 2012, more job openings are expected to result from replacement needs (35 million) than from employment growth in the economy (21.3 million). Yet, if the current population trend continues, the total number of workers will increase by only 23 million. With the population leveling out and the economy continuing to expand, there is no end to the talent shortfalls in sight.

In addition, the face of America's labor pool is changing rapidly. As America ages, the up-and-coming ranks of potentially employable workers are thin and may not always be well-equipped with the skills required to succeed in a rapidly changing work environment. This problem poses a "knowledge gap" that employers are scrambling to meet.

Today's workers have decreased company loyalty, an increasing hands-on attitude about their careers, and expectations for more than just steady jobs. They want quality of life—which can include flexible hours, non-traditional work arrangements, and more. As a result, work options that formerly were almost summarily dismissed are pressing themselves into the mainstream work world, including home sourcing, job-sharing arrangements, and "free agents." Contingent workers (temps, consultants, and contractors) are expected to make up 25 percent of the U.S. workforce over the next five years. Businesses are also finding it necessary to draw from "non-traditional" labor pools: recent retirees, parents returning to the workforce after years of absence, non-native speakers of English, and other sources.

Today's HR departments are ill-equipped to keep up with these changes in labor supply and demand. They need to keep costs down while maintaining a full talent pipeline. Companies can't undermine strategic work that is integral to their business. To survive and thrive, they must embrace innovative ways to search, source, screen, hire, train, and retain employees. They must be able to respond to sudden surges in company growth and control fluctuations in long-term staffing requirements. All of these factors are prompting

U.S. companies to engage in more outsourcing to address this need for an expert that can help meet these challenges.

Within this heightened interest, mid-market firms are emerging as the greatest growth prospect for RPO services in the U.S. Their shorter decision time and desire to learn how to work with an RPO provider can help speed market penetration. However, mid-market firms also want to see evidence of demonstrable cost savings, ROI, and quality of services (enhanced employee talent) within a year. So RPO providers need to be highly efficient and cost-effective in their service delivery to this target market.

The most successful RPO providers in the growing U.S. market will respond quickly to these opportunities with flexibility, technology, fast response time, and quantifiable value for their services. The situation overseas poses different challenges but additional opportunities for RPO growth. Worldwide, the HRO market will reach \$80 billion by 2008 (Yankee Group), with RPO accounting for about \$30 billion of that number (Elixir Web Solutions).

Cultivating the Developing European Market

Virtually all recruiting in Europe is done either in-house or by "traditional" recruiting firms that are paid on retainer or with contingency fees. The labor market is highly regulated in mainland Europe. Such legal issues complicate the introduction of HRO or RPO in those countries. However, Germany has the largest economy of all mainland European countries, and as it expands globally, more RPO services will be used out of the necessity to bolster its labor pool. The first RPO contracts are just now being signed in Germany. It is an up-and-coming opportunity that needs multinational understanding and skills in order to be cultivated.

In contrast, the situation in the United Kingdom is ripe for development. Eight out of 10 UK companies plan to increase offshoring to cut costs (for example, using a firm based in India to provide technical support). This mindset has helped set the stage for the introduction of RPO. Today, RPO providers deliver only three percent of the recruiting services in Europe; half of that activity is happening in the UK.

The UK faces significant needs in recruiting. Major inefficiencies exist in handling human capital processes, which get overhauled every three years. Employment levels are at a record high, pressuring the public sector to compete with the private sector for talent. Perhaps the biggest factor influencing

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the expected outsourcing boom is the government’s efficiency agenda to cut more than 80,000 civil service jobs by 2008 and achieve £21.5 billion (about \$39 billion USD) in savings.

The UK as a whole is still unfamiliar with the concept of RPO. Inroads into this market require an RPO provider to establish a strong identity and make a case for their services based on their prospects’ goals and challenges, economic and market conditions, and weaknesses of alternatives.

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Seeding Immature Overseas Markets

If the European market is budding, the markets in other countries are still seeds that have not yet sprouted. Many Asian firms are almost totally unaware of the HRO concept or its providers. The most frequently outsourced HR functions today are “low-end” transactional duties like payroll, benefits administration, and education. This market is growing, albeit very slowly.

Of all the overseas markets, India holds the greatest promise because it is experiencing 22 percent growth in the job market across many industries and in many areas of the country. Growth can be attributed to both multi-national companies, as well as mid-size and small companies setting up shop, and this employment boom is creating a talent shortage. For example, India needs research and development talent in the automotive industry. India also has significant shortages in middle and senior management personnel, engineers, MBAs, workers in niche industries (such as biotech and IT product development), and English-speaking employees for retail and call center jobs. By necessity, Indian firms will look to recruit executive and specialized talent from overseas.

India’s needs are tempered by distrust born from inconsistent pricing and substandard deliverables from past vendors. Moreover, Indian firms generally feel that it is more economical to manage HR functions internally. There is an opportunity to convince these firms of the various cost benefits association with outsourcing these functions. Finally, they are concerned about maintaining confidentiality of data and corporate security.

The most successful RPO providers in immature foreign markets will meet diverse and complex challenges with cultural sensitivity and forethought in their approach. A successful approach requires that an RPO provider first assess its existing services and then spend time developing a community of trust. Once trust is established, then dialogue can commence about the unique value an RPO provider can bring to help foreign markets adapt to ongoing changes.

Building Partnerships to Meet Challenges

Despite differences in the global marketplace, one theme emerges: the need to provide customized solutions to differing needs. As more companies look to RPO services to meet their challenges for high performing talent, a true strategic business partnership can develop.

Kelly Services, a leading global staffing firm, has addressed the growing RPO market trend by establishing a specialized business unit, Kelly HR*first*, which focuses on providing RPO programs for clients worldwide. Since its launch in 2000, Kelly HR*first* has experienced the strongest year-over-year growth of all Kelly’s business units. And global RPO trends suggest that this significant rate of growth and expansion will continue in the coming years.

In 2004, the Kelly business unit hired more than 15,000 people through its client RPO programs. According to Berklich, “HR*first* designs and implements complete hiring solutions and provides a dedicated team of professionals to closely partner with the client. We deliver our programs onsite or from HR*first*’s hiring centers, or sometimes through a blend of both approaches.”

The July 2005 issue of *HRO Today* ranked its “Baker’s Dozen” top RPO providers by surveying providers and buyers alike to determine the best full-service RPOs. Kelly HR*first* was ranked high on their list for its flexible, innovative recruitment strategies and technologies, its end-to-end hiring programs, and dedicated program teams.



Kelly HRfirst is a highly specialized and rapidly expanding business unit of global staffing provider, Kelly Services, Inc. Launched in 2000, Kelly HRfirst provides effective talent acquisition systems and recruitment process outsourcing (RPO) services to employers with very high volume direct hire needs. For more information, visit www.kellyhrfirst.com.

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