



Recruitment Process Outsourcing (RPO) 4.0: Heralding a New Era

Arkadev Basak, Vice President

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Introduction

Since the turn of the last decade, the Recruitment Process Outsourcing (RPO) industry has successfully and continuously evolved in terms of service portfolio, value proposition, and business models. This evolution has ensured significant expansion for RPO services globally, with organizations of all shapes and forms leveraging RPO services extensively. Until early 2020, the industry was doing well, growing rapidly, trying out new things and providing the requisite support to its clients to help them with their talent acquisition requirements.

COVID-19 struck as a bolt from the blue in early 2020. But amid what can be called one of the most global and widespread humanitarian and economic crises in modern history, the RPO industry demonstrated commendable leadership and resilience. While the industry's initial response to the unprecedented disruption was marked by speculations and concerns around supply-side constraints impacting the fulfillment of services and quality levels, these were soon displaced by the industry's growing stability and incredible examples that demonstrated the expertise and commitment of organizations and individuals. While the industry swiftly adapted to Work From Home (WFH) delivery, ably fulfilled services as part of its flex-&-scale value proposition to cater to dramatic fluctuations in hiring requirements, and resolutely maintained service quality levels, it was clear that another major disruption was around the corner.

Albert Einstein once said, "In the midst of every crisis, lies great opportunity." Indeed, the COVID-19-induced crisis paved the path for the industry's evolution to RPO 4.0 – the next evolution for this sector that will be more dynamic, more reliable, and significantly more agile in driving and shaping clients' next-generation talent needs. The change will come by accelerating some of the current levers, as well as leveraging a few new ones, which have emerged as key during this crisis. This report explores these key levers and describes how they will shape the industry.

In this research, we answer key questions that will shape the RPO industry's future:

- What is RPO 4.0 and its value proposition?
- What are the key levers to realize value?
- What are the implications of the ongoing changes?
- What should industry stakeholders do to effectively capture value?

A dynamic world disrupted by COVID-19

Before the pandemic, the global business environment was already in a state of flux with four macro forces upending traditional business models: evolving customer expectations, technological innovation and disruption, the geopolitical environment, and challenges related to the workforce mix.

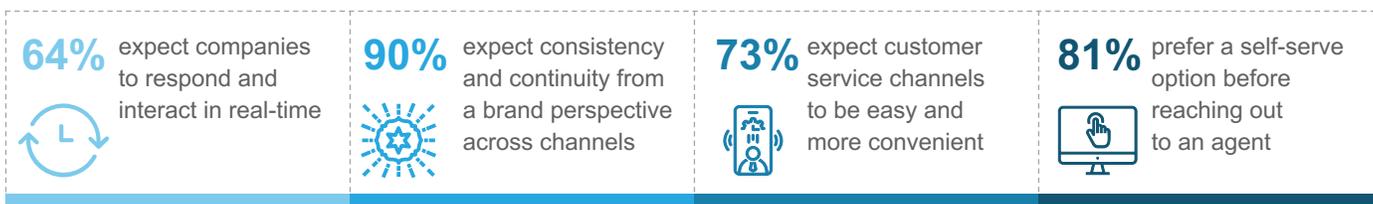
EXHIBIT 1

Four macro forces

Source: Everest Group (2021), Harvard Business Review, Aon, Accenture Strategy, Microsoft, Salesforce, US Patent and Trademark Office

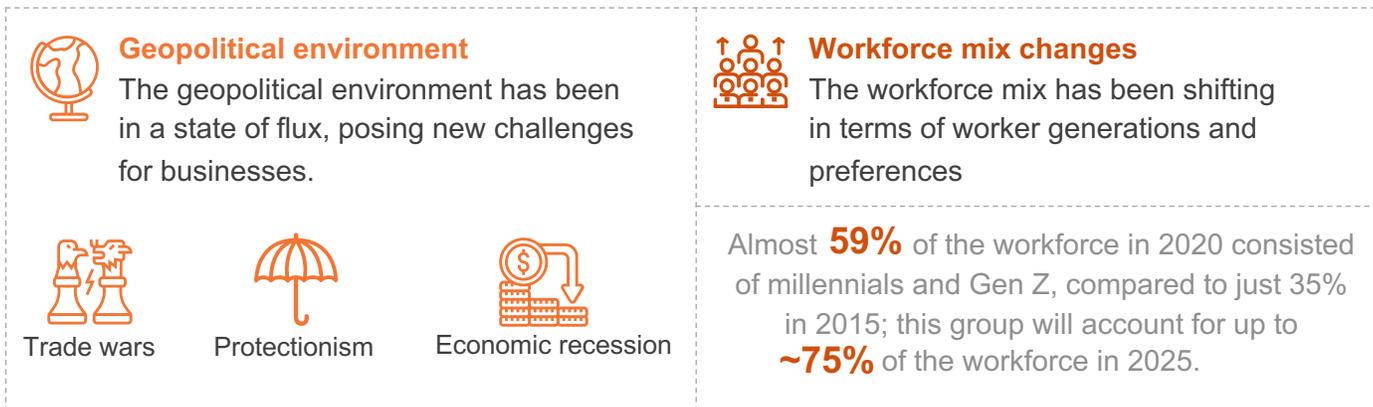
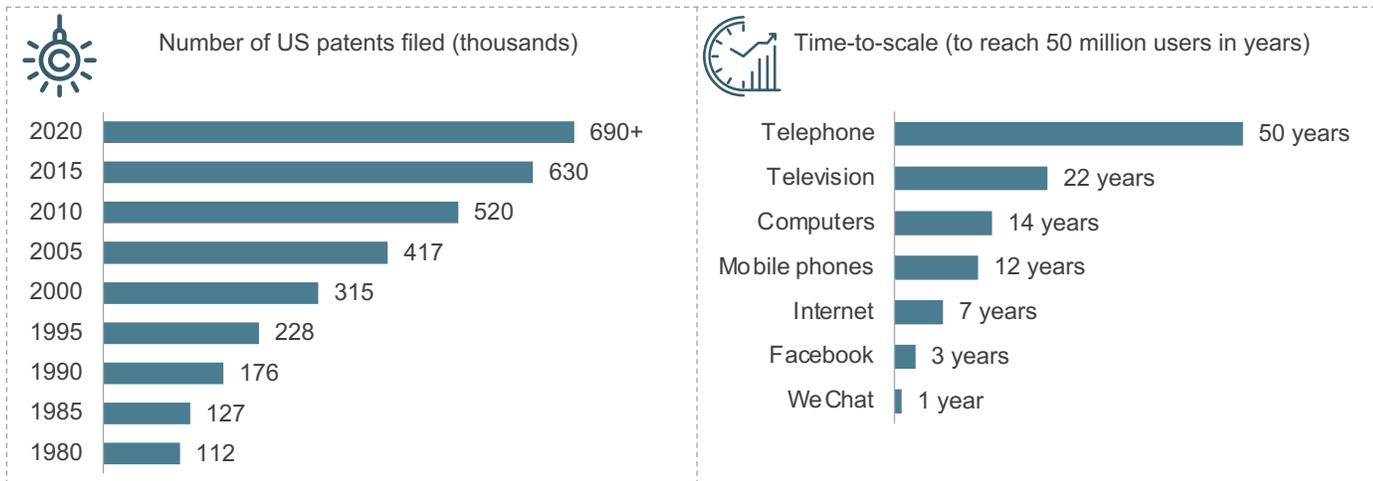
Evolving customer expectations:

Consumer expectations have transformed radically in the last few years



Technological innovation and disruption:

Technology has been advancing at an accelerated pace, with large-scale adoption



COVID-19 ushered in further disruption in 2020 and introduced a fifth element – increased focus on risk management.

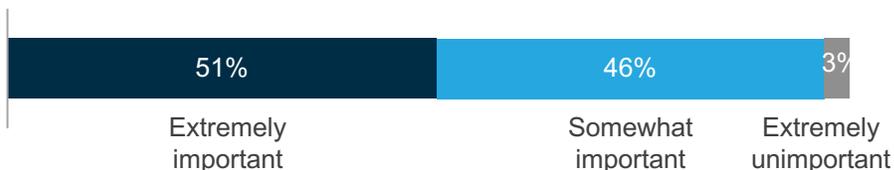
EXHIBIT 2

Fifth macro force

Source: Everest Group (2021)



Importance of embedding more robust business continuity plans
% of respondents



The RPO story so far and the emergence of RPO 4.0

The RPO industry has undergone successful evolution in the past 15 years to meet changing business requirements as illustrated below.

EXHIBIT 3

Evolution of RPO

Source: Everest Group (2021)

RPO 1.0



Key value proposition / focus

- Cost
- Speed and efficiency
- Quality of hire (linked to hiring manager’s satisfaction)

Coverage

- Functional: core recruitment functions (sourcing, screening, applicant tracking)
- Technology: Applicant Tracking System (ATS)

RPO 2.0



Key value proposition / focus

- RPO 1.0 value proposition
- Agility, scalability, flexibility
- Access to scarce talent
- Improved employer brand
- Reduced early-stage attrition

Coverage

- Functional: core recruitment functions + basic value-added services (employer branding, talent communities, basic analytics)
- Technology: ATS + Candidate Relationship Management (CRM) + ad hoc leverage of selective add-on tools

RPO 3.0



Key value proposition / focus

- RPO 2.0 value proposition
- Superior candidate experience
- Quality of hire (linked to employee performance)
- Competitive advantage

Coverage

- Functional: core recruitment functions + comprehensive value-added services (employer branding, talent communities, advanced analytics, workforce planning, demand management, on-boarding)
- Technology: comprehensive talent acquisition suite (including ATS, CRM, an array of add-on tools), automation

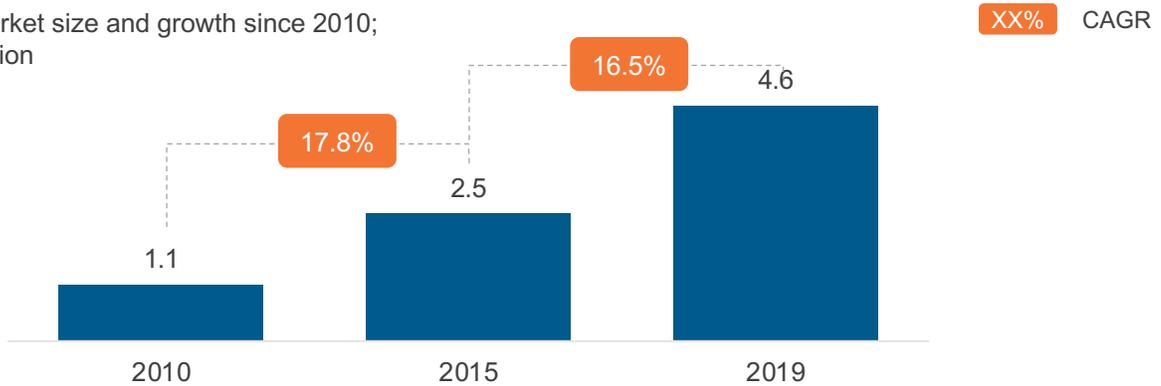
Over these years, the industry has demonstrated increased global adoption, as seen below.

EXHIBIT 4

RPO industry market evolution

Source: Everest Group (2021)

Global market size and growth since 2010; in US\$ billion



Even in the face of COVID-19, the RPO industry demonstrated strong resilience. Most customers were satisfied with their providers' response to the pandemic, which helped the industry demonstrate a V-shaped recovery.

EXHIBIT 5

Satisfaction with service providers' COVID-19 response

Source: Everest Group RPO buyer survey with 124 respondents

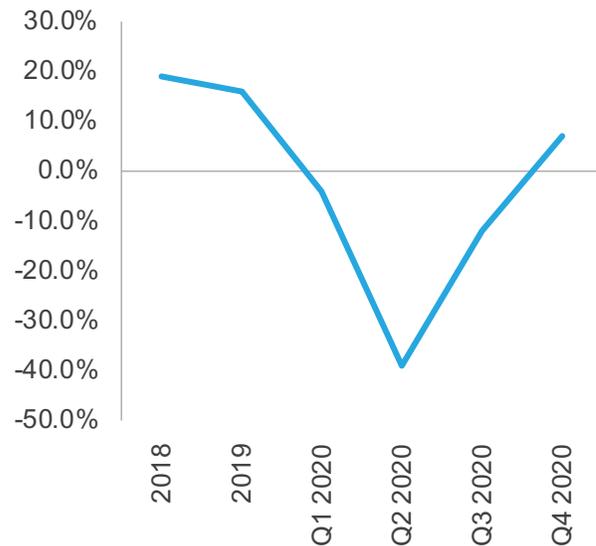
Average RPO buyer satisfaction **increased by 4.1%** from 2019 to 2020.

Almost **57%** of RPO buyers were highly satisfied with their providers performance in 2020, and an additional 32% were moderately satisfied.

EXHIBIT 6

RPO industry growth

Source: Everest Group (2021)



This resilience in the face of the pandemic has paved the way for the next generation of RPO or RPO 4.0.

RPO 4.0: The future of RPO

RPO 4.0 will create transformative value for stakeholders through a 5D-approach.

EXHIBIT 7

Key value propositions of RPO 4.0

Source: Everest Group (2021)

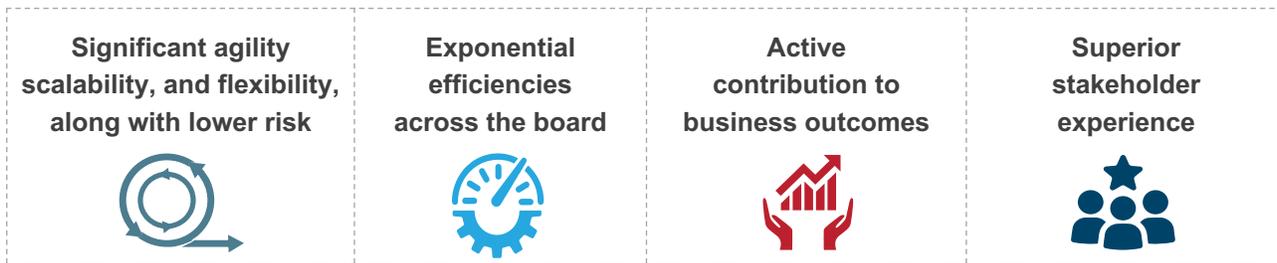
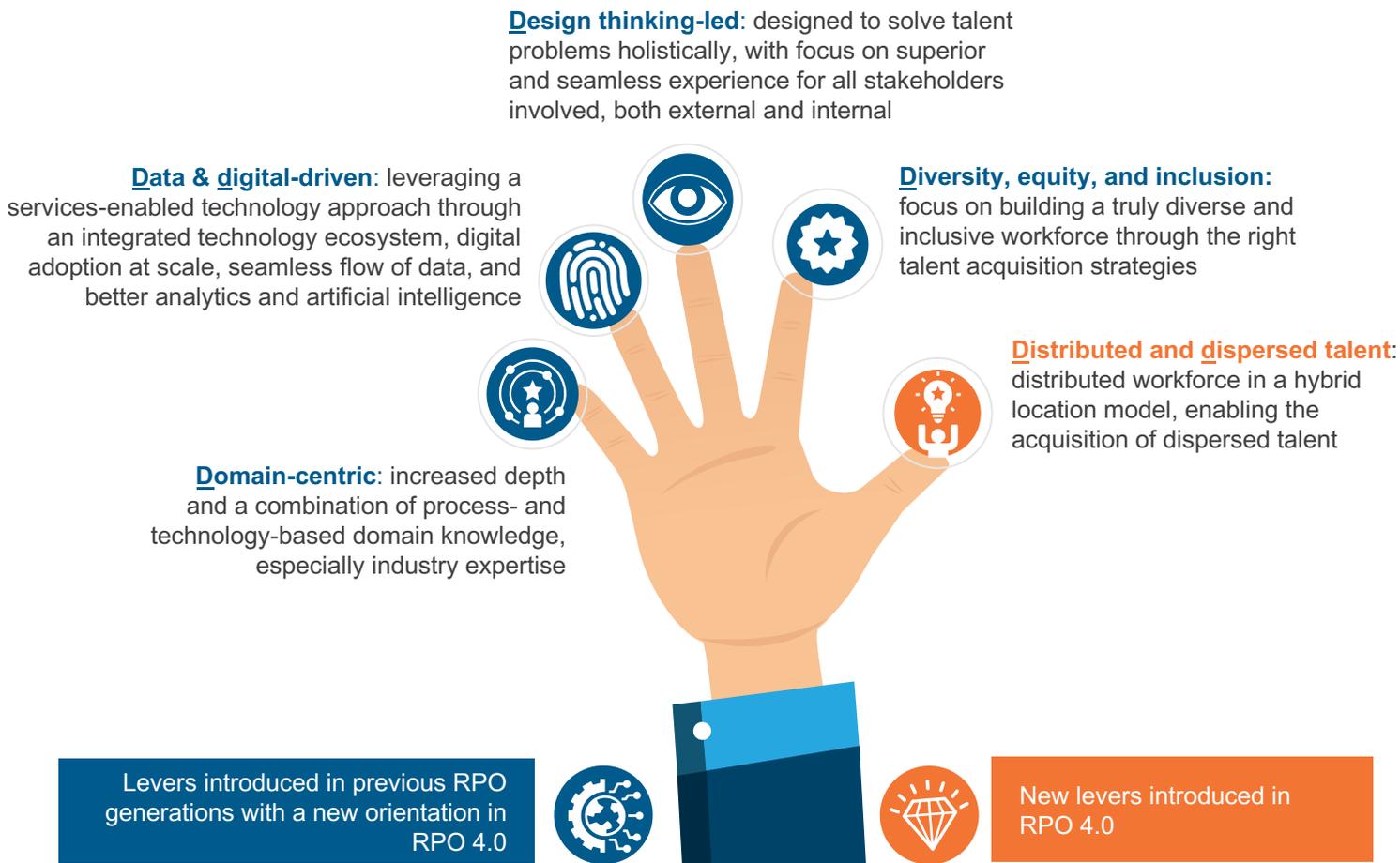


EXHIBIT 8

Key enabling levers of RPO 4.0: the 5Ds approach

Source: Everest Group (2021)



Let's take a closer look at each of these levers.

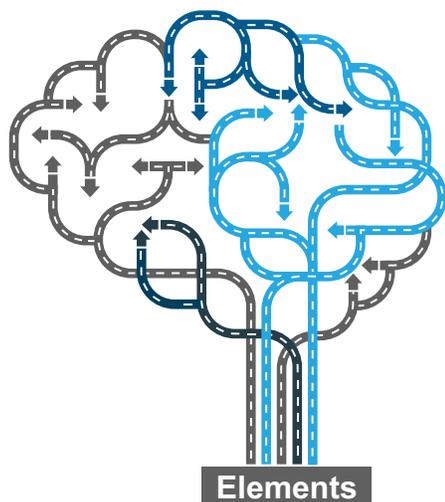
Design thinking-led

A design thinking-led approach is characterized by multiple elements as illustrated below.

EXHIBIT 9

Design thinking elements

Source: Everest Group (2021)



 <p>Design thinking in a holistic manner Design thinking is applied to address overall enterprise talent and business objectives, and not just talent acquisition goals</p>	 <p>Superior experience for all involved It is used to improve the experience for not just candidates, but for all stakeholders</p>	 <p>Hyper-personalization It is used to find the right balance between standardization and contextualization to provide a hyper-personalized experience to stakeholders</p>	 <p>Design thinking-led process reengineering Design thinking will be a critical part of process reengineering, helping to identify the elimination of touch points for manual intervention and achieve better experience and efficiency</p>
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Data and digital-driven

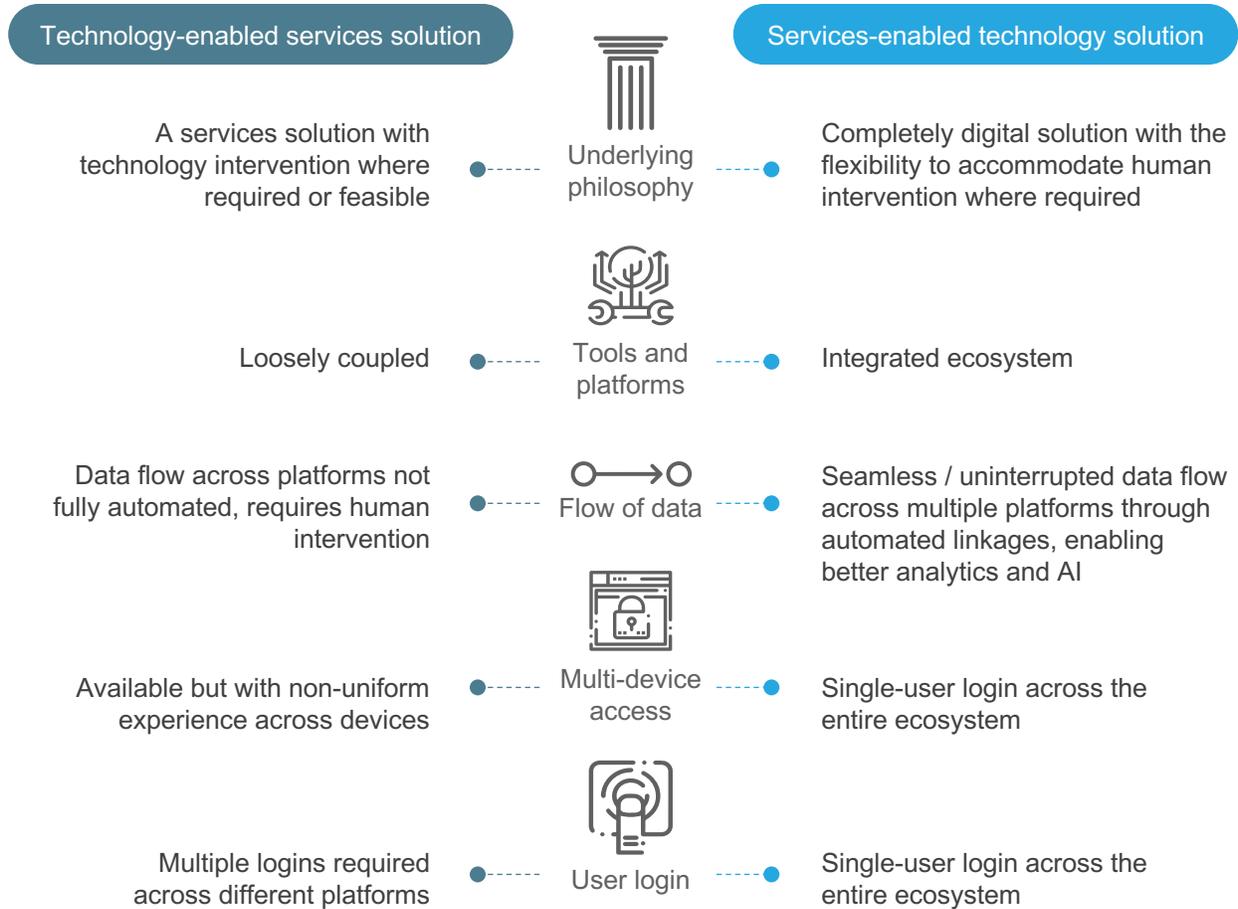
A key defining aspect of RPO 4.0 is services-enabled technology solutions supported by an integrated ecosystem, replacing technology-enabled-services solutions. Services-enabled technology brings in all the benefits of digital, with digital elements being deployed at scale, while satisfying the technological expectations of a diverse set of stakeholders to provide a superior experience to everyone.

The differences between the traditional technology-enabled services solution and the emerging services-enabled technology solution are described below.

EXHIBIT 10

Differences between two approaches to technology solutions

Source: Everest Group (2021)



Domain-centric

A combination of process- and technology-based domain orientation, along with industry / job family-oriented expertise will be key to achieve success. It will be important to have deep domain knowledge to deliver strategic processes such as consulting/advisory, strategic workforce planning, Employer Value Proposition (EVP) design, and diversity strategy design. As the technology landscape becomes more complex with a vast array of tools to choose from, providers will need to bring in the expertise to help curate the most appropriate set to help create an optimal technology ecosystem.

Industry-specific expertise, in terms of the ability to source, screen, and engage the best talent, especially for niche skills and difficult-to-hire roles will be absolutely critical. As sector-specific nuances increase (such as in healthcare and life sciences) and talent for various types of job families (such as in niche tech skills or healthcare) reside in different silos, verticalized domain expertise will be an increasingly critical success factor going forward.

Diversity, equity, and inclusion (DE&I)

DE&I has always been a part of the RPO industry, but barring a few enterprises, it has often been a nice-to-have tick-box. However, DE&I is likely to be central to most organizations' talent strategy going forward. With talent acquisition being the most critical cog in building a truly diverse organization, the role of RPO providers is more important than ever before.

RPO providers can play a critical role in terms of benchmarking an organization's DE&I current state, advise on devising a DE&I strategy, and, most importantly, help source a diverse slate of candidates and identify/remove inherent biases in the screening process.

Distributed and dispersed talent

As the world moves to a more distributed work model, away from strictly centralized office locations, talent sources will also become dispersed as talent moves away from concentrated hub locations, especially around tier-I cities. This will necessitate a change in the RPO delivery model, which will also become more distributed in the future vis-à-vis centralized hubs or on-site delivery. The rise of the gig-economy will make talent type an important consideration, in addition to the location. The combination of location flexibility and gig-talent flexibility removes geographical limitations, only opens newer and bigger talent pools for organizations, and also helps acquire more diverse talent. RPO providers can play a key role in formulating and executing a strategy to engage talent across geographical boundaries.

The global preference for the Work From Home (WFH) and hybrid (a combination of office-based and WFH setups) models will be equally applicable to RPO service delivery. The existing hub-and-spoke delivery model will evolve into a hub-spoke-edge delivery model, wherein the edge will be leveraged primarily for WFH service delivery. The edge can also comprise more revolutionary models, such as those leveraging crowdsourced recruiters, which can be especially helpful in managing any spikes in hiring requirements.

Key implications of RPO 4.0

The RPO industry is poised for an era of robust growth

The RPO industry is expected to return to a robust pace of growth once the economic uncertainty driven by COVID-19 tapers down. As organizations look to hire talent to rebuild their businesses, RPO is expected to be a popular choice, given the all-round domain expertise providers bring in. This will be especially applicable for organizations that have downsized their internal talent acquisition departments. The continued and potentially accelerating talent demand-supply mismatch in various roles such as technology and healthcare will also drive the RPO model's adoption, given that the RPO industry is still relatively underpenetrated compared to other major outsourcing market segments (Exhibit 11). Exhibit 12 illustrates the potential growth in RPO market over the next five years.

EXHIBIT 11

Global penetration of sample market segments

Source: Everest Group (2021)

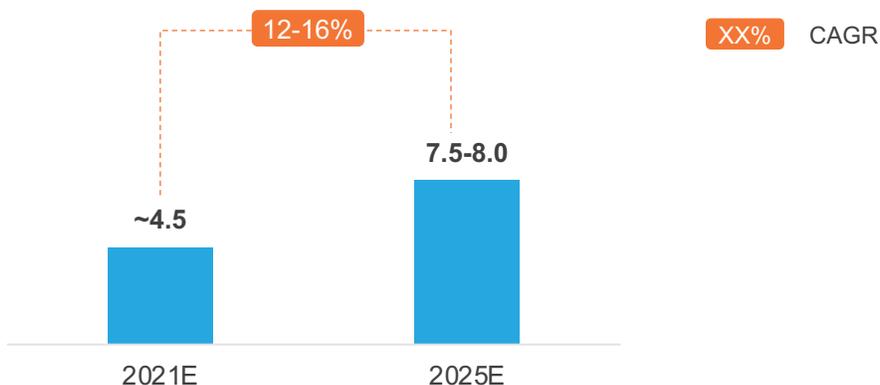


EXHIBIT 12

Global RPO market size

Source: Everest Group (2021)

US\$ billion



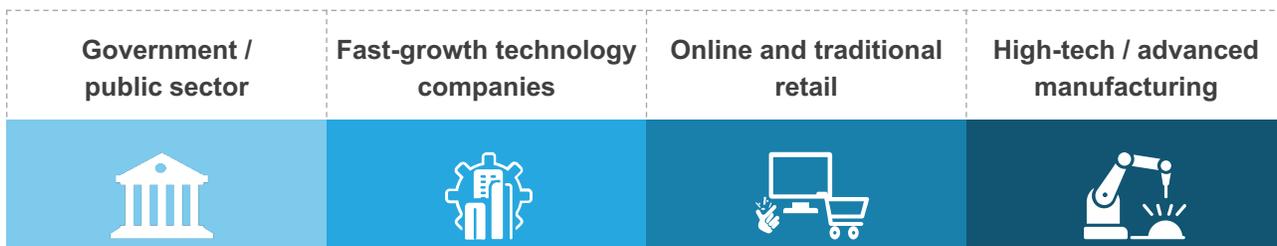
The strong RPO market growth will be driven by both first-time RPO buyers from newer sectors and mature buyers demanding more strategic services from their providers:

- New sectors:** Newer industries are opening up to the RPO model; these include the government / public sector, which tasted success with the RPO model during COVID-19 for roles such as contact tracing, and fast-growing sectors such as digital companies or online retail. Other sectors that have traditionally not been major RPO adopters, such as traditional retail, are also likely to come aboard as massive efficiencies generated by digital intervention make the RPO model more attractive.

EXHIBIT 13

Newer sectors adopting RPO

Source: Everest Group (2021)



- **More strategic services:** Many buyers are likely to demand strategic services from their RPO providers, as the nature of engagement between buyers and providers undergoes a fundamental shift

A fundamental shift between the nature of engagement between enterprises and RPO providers

Execution to orchestration: RPO providers need to have a holistic strategy around the 5D levers as they look to fulfill the RPO 4.0 value proposition related to active contribution to enterprise business outcomes, superior stakeholder experience, and resilience and agility with lower risk. The nature of engagement will transform from piecemeal or siloed execution of individual processes to a strategic and coordinated orchestration of multiple different elements, with the ability to make fundamental differences to an organization’s talent-related objectives. Going forward, RPO providers will play a larger role in enterprises’ HR and talent plans through more interaction with the CHRO and other senior HR and business leaders and will play the orchestrator’s role to impact business outcomes.

Consequently, RPO providers will play a far more significant role beyond the vanilla sourcing of candidates by working as talent advisors guiding enterprises in their talent journeys, as well as driving/executing those strategies. This can take various shapes and forms, such as digital/technology consulting and advisory, skills advisory, location advisory, DE&I consulting, and EVP formulation. RPO providers will play a more active role in strategic workforce planning and talent management as they help enterprises predict the *when* and *where* of talent needs.

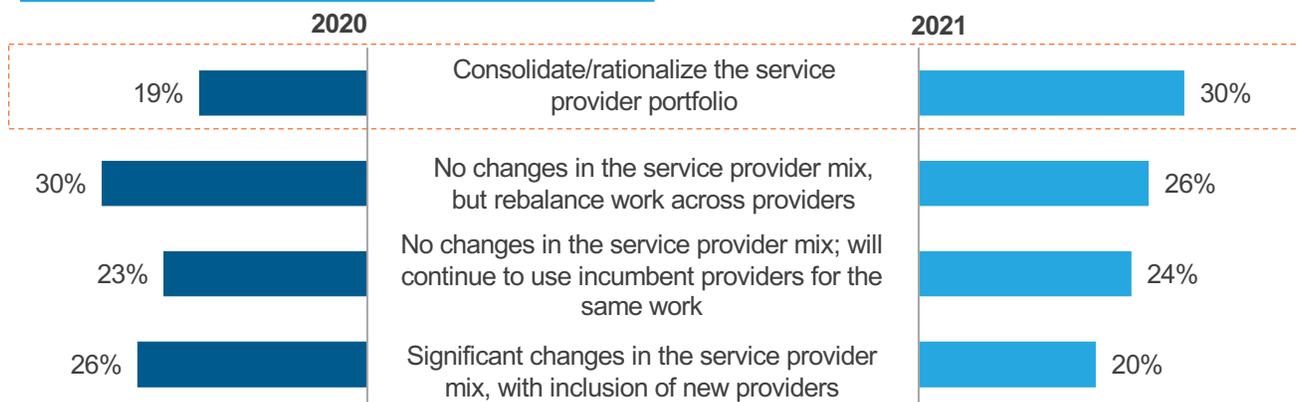
Provider portfolio rebalancing: As enterprises look to elevate their relationships with RPO providers, they will also look to rejig their provider portfolios with particular focus on provider rationalization, i.e., fewer but more strategic relationships (Exhibit 14). This desire to rejig their service provider portfolio is driven by multiple factors, such as:

- Better visibility across global operations
- Improved risk management
- Ability to better orchestrate the 5D elements and achieve transformation
- Cost advantages

EXHIBIT 14

Percentage of enterprises

Source: Everest Group Key Issues Survey, 2019 and 2020)



Technology will assume centerstage in RPO 4.0, especially through platform-based services

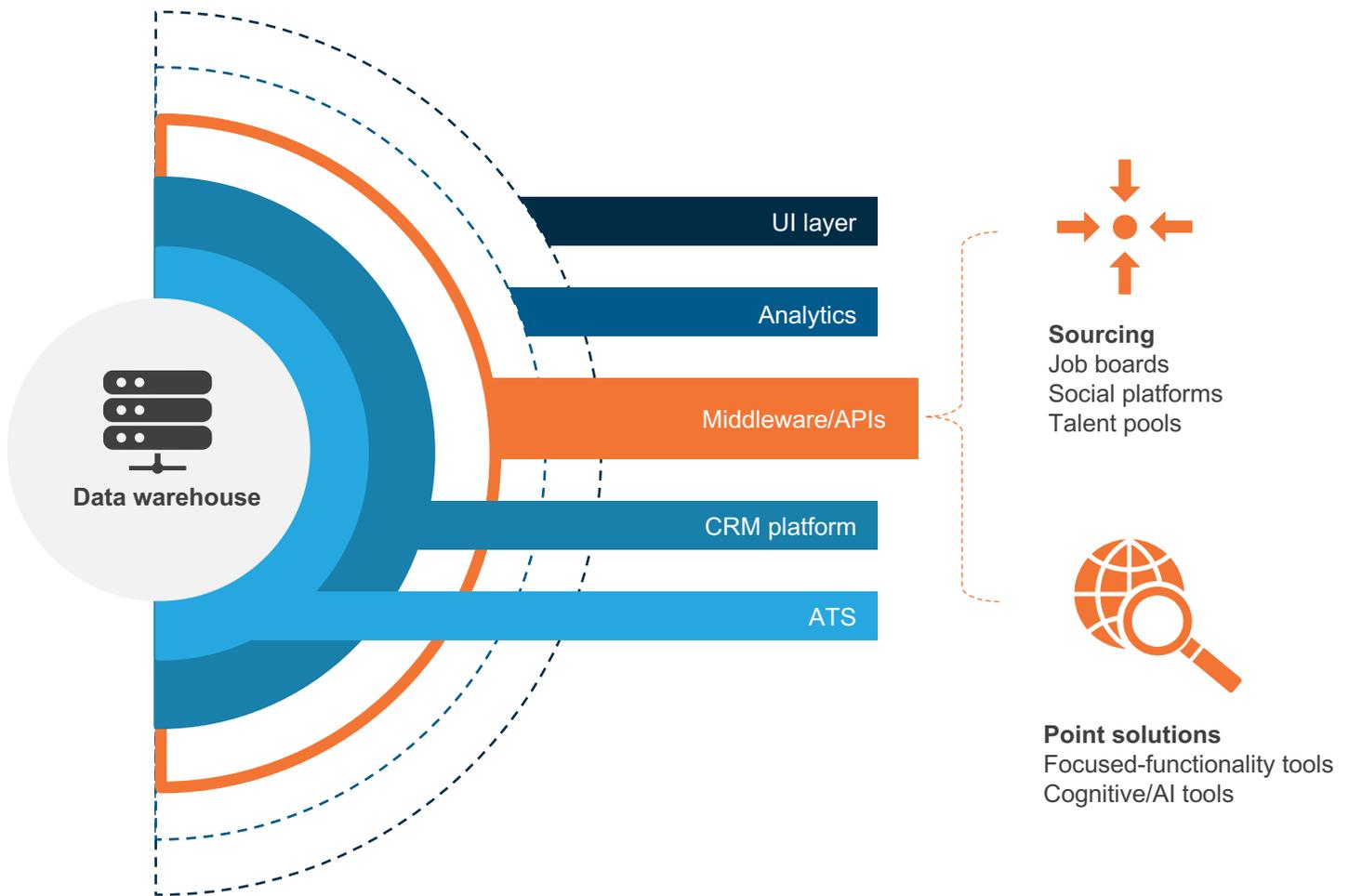
While multiple technology and digital levers will play an enhanced role in RPO 4.0, the two most critical digital elements will be:

- **Platform-based services:** Service delivery on a Digital Capability Platform (DCP), which integrates various digital elements into a holistic, integrated ecosystem (Exhibit 15) and enables seamless flow of data across discrete elements
- **Data management and analytics:** The ability to manage fragmented data from multiple sources to enable deep insights and better artificial intelligence

EXHIBIT 15

A seamless, integrated technology ecosystem

Source: Everest Group (2021)



RPO impact will be measured in a more holistic manner

In the future, enterprises will assess RPO based on more holistic metrics as illustrated below.

EXHIBIT 16

ROI measurement metrics

Source: Everest Group (2021)



Fulfilling the promise of RPO 4.0

All constituents of the RPO ecosystem need to work together to fulfill the promise of RPO 4.0 in the next four to five years in terms of the following key action steps.

EXHIBIT 17

Key action steps for various market constituents

Source: Everest Group (2021)



Talent-related investments

Talent holds the key to achieving the promise of RPO 4.0, and RPO providers will have to double down on their talent-related investments across the hire-to-retire cycle. This will have to:

- Make RPO an attractive industry to join for prospective employees through better branding and an improved employee value proposition
- Focus on continuous, multi-dimensional upskilling and reskilling
- Ensure better ways to engage talent in a distributed work environment



Technology-related investments

With technology being a key ingredient for the future success of RPO, providers will need to have a strategy for continuous investments to keep pace with rapid digital evolution. This will require a flexible approach and a multi-pronged strategy including:

- Making organic investments by leveraging the right talent components
- Developing a partnership ecosystem
- Capitalizing on value-adding and complementary inorganic investments

RPO providers will need to build a sustainable and scalable structure for their technology, pricing, and partnerships to fulfill buyer requirements for technology uniformity across their organizations to work in a hybrid (in-house + outsourced) environment.



Industry-mindset transformation

The RPO industry needs to firmly believe in the promise of RPO 4.0 and, accordingly, bring about a transformation in mindsets, both at an organizational level and at an individual stakeholder level. This transformation needs to be multi-dimensional in terms of:

- Showcasing the readiness to embrace new and rapidly evolving paradigms and models
- Repositioning the industry in the minds of clients and employees
- Having a higher risk appetite and following a fail-fast strategy (embrace fast, fail faster, and learn fastest) to keep pace with the dynamic business environment



Co-opetition

The RPO industry needs to work together in the spirit of cooperative competition to help achieve what individual organizations alone cannot, especially in terms of working with the government and repositioning the industry in the minds of clients and employees. Industry constituents need to work together to elevate the value proposition of RPO and build more sustainable and effective partnership models.



Role of enterprises

Enterprises will need to evolve their organizational mindset on talent and talent acquisition to take advantage of RPO 4.0's potential. This will involve:

- Evolution of the relationship between talent acquisition and broader HR and other organizational functions
- Openness to challenge old norms
- A more comprehensive business case for the RPO model by measuring its impact through a more holistic set of parameters
- A partnership-oriented approach vis-à-vis RPO providers, especially in terms of sharing more information, involving them in decision-making, and giving them the opportunity to provide value-added/strategic services



Role of government

The government will have an important role in deciding the future of RPO. Some of the steps that governments can undertake include:

- Create/update regulations and standards on the role of technology/AI
- Create/update data privacy regulations
- Develop a more evolved DE&I policy
- Continue to invest in skilling and talent building - design thinking should be an integral part of the curriculum, domain-specific courses
- Develop a blockchain-enabled national worker/skills database to capture the market's talent overview

All constituents of the market working together can help fulfill the promise of RPO 4.0 and help solve organizations' talent- and talent-acquisition-related challenges of the future.



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For more information about Everest Group, please contact:

+1-214-451-3000

info@everestgrp.com



For more information about this topic please contact the author(s):

Arkadev Basak, Vice President

arkadev.basak@everestgrp.com

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