



We want to work with you.

The background of the top half of the page features a close-up, black and white photograph of interlocking metal gears. This image is partially obscured by large, overlapping geometric shapes in various shades of blue and teal, creating a modern, industrial aesthetic.

# **DIRECT SOURCED CONTRACTORS: Optimize Your Costs**

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CONTINGENT WORKFORCE INSIGHTS

[www.procomservices.com](http://www.procomservices.com)



A straightforward and practical plan to help get your directly sourced contingent workforce aligned with your cost saving objectives.

## How to Optimize your Costs with Directly Sourced Contractors

Whether you refer to these contractors as pre-identified, non-competitively sourced or something entirely different, the one thing that all these names have in common is that they refer to what is called directly sourced contingent workers.

### What is direct sourcing?

In the world of contingent talent acquisition, direct sourcing refers to the efforts of an organization in acquiring its talent through internal recruitment efforts rather than through the use of an external staffing or services vendor (indirect).

Direct sourcing can be accomplished formally through an internal recruitment program and informally through the efforts of individual hiring managers looking to add talent to their teams.

### Why do organizations choose direct sourcing?

When you look at organizations that track the source of their contingent labor, direct sourcing can account for up to 50% of the contingent talent working at the company.

What’s surprising is that in many of these cases, this level of direct sourcing activity is occurring without a formal program to support it.

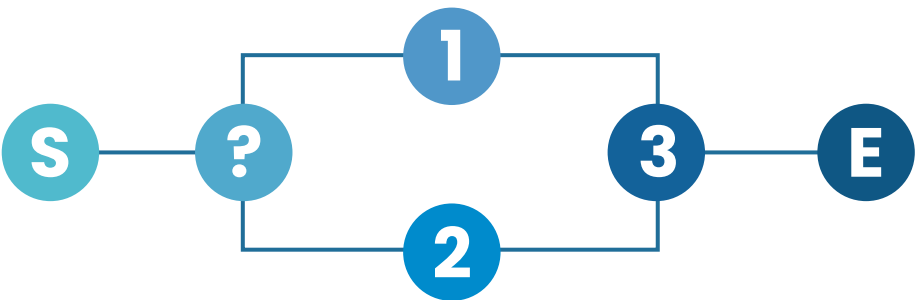
Why is this happening? Why are hiring managers resorting to direct sourcing when, in many cases, they have access to a contingent talent program office that has been set up to help them acquire talent?

There are a number of reasons that this is happening. The workers who are being directly sourced may be returning to the organization with previous experience or, at the very least, with a great reference from someone already working at the company.

In both cases, the direct sourcing channel makes for a much less stressful hiring decision for the hiring manager. Hiring previous workers (alumni) will often result in a much shorter learning curve and a reduced ramp-up time. To add to the appeal, proven resources can lead to better results once they are working in the organization in comparison to someone who has not been previously approved by the hiring manager or the organization.

## Does your organization have a formal program to support direct sourcing?

Direct sourcing is on the rise, as it can take up 50% of an organization's workforce. However, many organizations are not prepared to manage the costs effectively. Without a planned approach, chances are high that most organizations are spending more than is necessary. Sometimes, this can amount to 18% more in terms of costs.



## What about the challenges with direct sourcing?

Having shared with you the benefits of direct sourcing, it would only be fair that we discuss the challenges as well.

Perhaps the biggest direct sourcing challenge occurs when a hiring manager is acquiring talent informally, as these types of “buys” tend to happen in a non-competitive fashion. The hiring manager is focused on getting the best possible resource to help deliver their project successfully. This is often done without the competitive pressures or practices that help the organization leverage the best possible value.

### What does the data say?

Procom conducted a study into contractor pay rates; specifically into whether there are/were any differences in pay rates when a contractor was sourced through the competitive channel (multiple vendors competing against each other on a role) versus when a contractor was being sourced directly through the efforts of a hiring manager.

The results were surprising.

What we found was that directly sourced contractors were paid an average of 10% to 14% more than their competitively sourced counterparts.

### Why is this happening?

The easy explanation as to why this is happening would be to blame hiring managers for not being good corporate citizens. However, to be fair, it is a little more complicated than that.

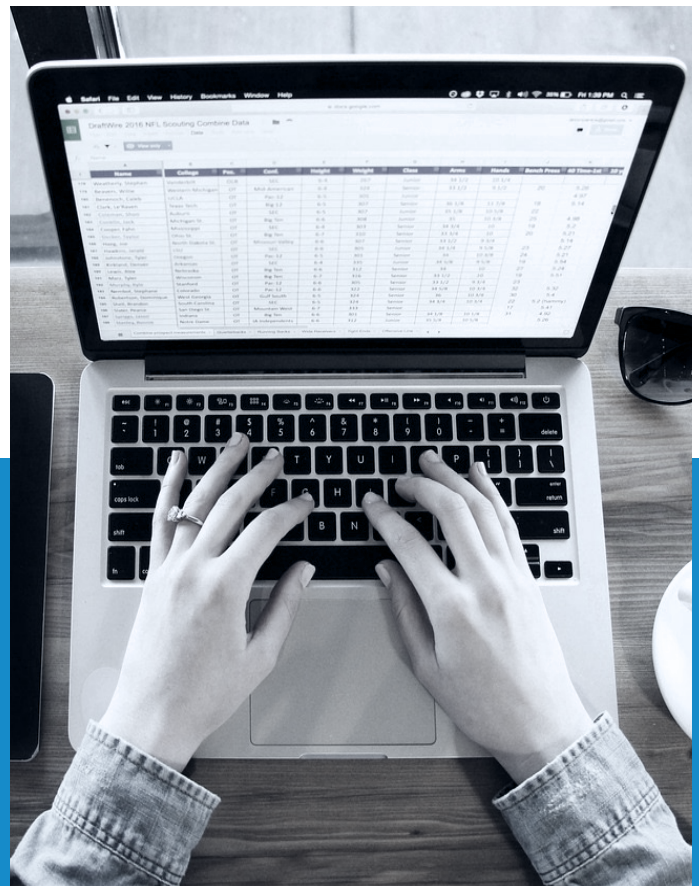
Consider a typical direct sourcing situation where a hiring manager identifies a resource that they would like to hire. Let's say the worker is either a referral from someone who is currently on the hiring manager's team or the individual has worked for that hiring manager in the past.

Think about the following questions:

- 1) Are the hiring managers negotiating these rates?
- 2) Are there competitive pressures?
- 3) Who do you think will have the upper hand during the negotiation process?

For the first question, think about the recruitment process. If you've recruited in the past, you know that there is almost always a difference in rate between a candidate's initial ask and what the candidate will accept for a role with the presence of competitive pressure and negotiation.

**Directly sourced contractors are paid an average premium of 14% to 18% over their competitively sourced counterparts.**



What it means is that you are paying too much if you are not negotiating pay rates with your directly sourced candidates.

Think about the third question.

Generally, a buyer has leverage in a negotiation if they are armed with knowledge about the products and services, and has several suitable options from which they can choose.

An individual hiring manager is usually only looking at a single candidate through the process. In most cases, the only pricing information they have is their knowledge of what they might have paid for similar skills in the past (usually the bill rate) and what the contractor is asking to be paid.

We would offer that contractors know a lot more about an organization's appetite for rates than you would think.

Contractors often talk to each other about rates and they tend to know what an organization is prepared to pay for skills.

Contractors target their rate against what they believe an organization will pay for the skills they possess, paying little regard to an intermediary such as a staffing agency. The focus is on the maximum rate that they can get from the client for their skills.

At worst, this is an opportunistic approach and at best, it is a great strategy for a contractor to employ if the company they are looking to work for does not take a strategic approach to rate negotiation.

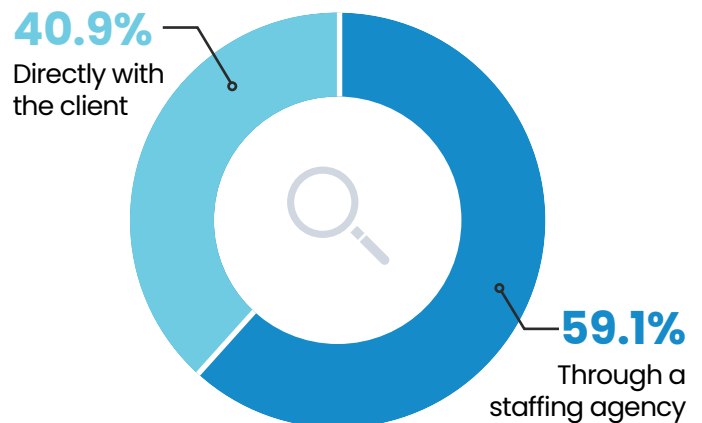
If the contractor uses a bill rate for their rate request from a hiring manager, ask:

- 1) How many hiring managers would call out the difference between a bill rate and a pay rate?
- 2) How many hiring managers would understand that they should be negotiating contractors to the pay rate rather than the bill rate?

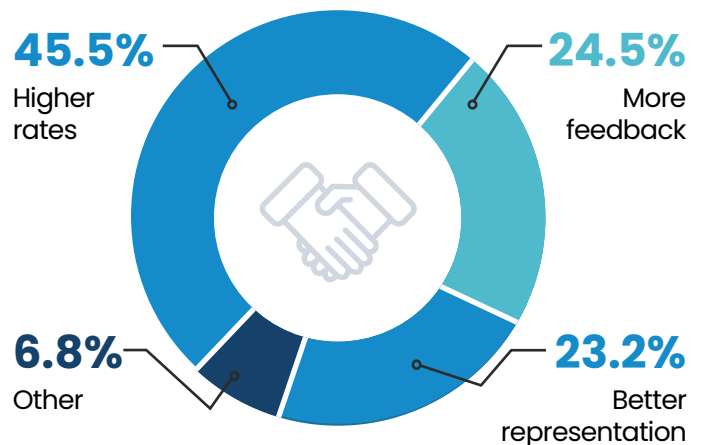
## Survey: Agency or Direct?

Procom often gets asked to explain why the practice of direct sourcing is increasing. We could give you our opinion, however, it's better to hear it directly from the contractors themselves. Procom surveyed over 2,000 job seekers to understand their preferences when looking for a contract job.

### What is your preference when finding contract work?



### Why do you prefer finding work directly with clients?



### Other reasons provided for applying directly to a client:

- It may lead to full-time work
- Better ability to assess suitability for a position
- Shorter process
- True rate information is withheld by staffing agencies



## Negotiating with directly sourced contractors: an actionable plan

We've created a straightforward and easy plan for you to follow to align your directly sourced workforce with your cost saving objectives.

### STEP 01

#### Gather your rate data

Use your hiring data to establish benchmarks on what you pay for specific roles. If you already have a rate card, then it and compare it against your hiring results. Pay particular attention to the use of "niche" or "other" worker types. If you are using these, then find out why. These usually mean that someone is working around rate.



### STEP 02

#### Create a pay rate card

Creating a contractor pay rate card is a simple math exercise. Take your existing rate card or the results of your efforts in the first step and subtract your average competitively sourced vendor markup. What you have now is a contractor pay rate card. Now, you have real insights into what contractors are or should be getting paid in your organization rather than what your company is paying for them.



### STEP 03

#### Start negotiating

You need to ensure that you are negotiating with your directly sourced contractors. This can be accomplished either by giving hiring managers the tools and information require or by leaning on your contractor payrolling provider. Whatever you decide, the end result should be that all directly sourced contractors should have negotiated rates.



### STEP 04

#### Track your results

We've all heard the saying that if you can't measure it, you can't manage it. This is no exception. Make sure you track your hiring efforts and the results of your negotiation. What are you finding? Are there certain hiring managers who are less compliant? Are there specific roles that you have experienced less success with in terms of the negotiation process? This is useful information for your contingent worker program.



### STEP 05

#### Keep it updated

It's important to keep your contractor pay rate card in tune with the market because this is your benchmark for your negotiating efforts. Ensure you know when the market is changing and that your program is reflective of these changes. Doing so will help your organization be competitive in your quest for talent.





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Procom is an award-winning provider of talent acquisition and contingent workforce management services to enterprise organizations across North America.

We are committed to establishing trust in our relationships, creating long-term value and consistently delivering creative and innovative solutions.

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