

What is Direct Sourcing?

Early generation contingent labor programs tended to focus on preferred vendor sourcing. More recently, companies have recognized the benefits of sourcing resources themselves, including better cost control measures and improved overall program management and performance.

In this white paper, we define direct sourcing, identify the trends driving its popularity, address common myths and share our recommendations for client contingent workforce executives.

Direct sourcing is the practice of recruiting and hiring contractors directly, as opposed to indirectly through a staffing agency or services supplier.

Most organizations are unaware just how much direct sourcing they do and are shocked to discover that it often makes up more than half of their overall contingent labour program. As a result, direct sourcing becomes the most utilized acquisition channel in their contingent workforce program.

Newer generation contractor programs are recognizing the related inefficiencies and are tackling direct sourcing activities head on, with measures designed to improve transparency and control costs.

Procom has over 25 years' experience supporting large employers with their direct sourcing and contractor payrolling services. This paper will address some of the most common concerns when establishing a program. In future white papers we will discuss various program structures that help ensure optimal compliance and risk management.

Check out our entire direct sourcing reading series

This paper provides an introduction to direct sourcing basics. Check out our publications on [Cost Optimization](#) for more in depth detail.



Direct sourcing in context

Employers have many choices on how to identify and engage contingent workers. Options vary based on the size of the transaction, complexity of the acquisition and line of sight to the identity and contributions of the individual workers. Here is what it looks like:

Traditionally, direct sourcing has been favored by managers for its simplicity, and relative freedom from the red tape that usually accompanies a structured managed services provider (MSP) program.

The Sourcing Continuum

- ▶ Higher visibility
- ▶ Less complexity
- ▶ Smaller transactions

- ◀ Lower visibility
- ◀ More complexity
- ◀ Larger transactions



Why are organizations choosing direct sourcing?

Direct sourcing occupies a sweet spot in contingent worker recruiting. It is effective, easy to do, and not heavily burdened with rules or red tape. All this has made it an attractive complement to traditional competitive sourcing options.

Specific trends include:

Technology has made it easier: For both formal and informal direct sourcing, it's easier than ever to use technology, social media and referrals to solicit candidate recommendations from colleagues and reconnect with past contractors (alumni).

There is a perceived opportunity to save: Many believe direct sourcing is more cost effective as they are able to avoid the fees associated with an external vendor.

Access to better candidates: Direct sourcing offers access to stronger, more senior candidates who would not be available under a typical program rate card built around market average pricing with cost control in mind.

Less anxiety in the hiring process: When a candidate is referred to a hiring manager from someone they know and trust, the hiring manager places a large value on the referral vs. potentially unknown candidates introduced through a competitive search process.

Greater control: When a hiring manager is able to use his or her network to source talent directly, they often retain greater control over the process and outcomes as compared to the service received through a structured MSP program office.

In many programs, direct sourcing doesn't involve the program office until the onboarding stage. By then, the selection process is already over.

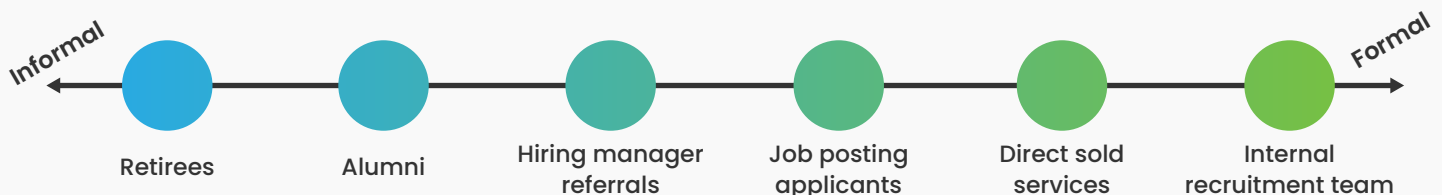
Better Service: Some hiring managers prefer the additional service they receive from a recruitment provider (which is typically prohibited in most formal MSP/VMS preferred vendor programs).

Direct sourcing – common strategies

Direct sourcing is a broad term that can cover a variety of different candidate acquisition strategies. Informal strategies are present in all organizations to some degree, but formal ones generally require higher resource and financial investment.

Staffing Industry Analysts, a leading contingent

workforce consultancy, defines direct sourcing as “A term commonly used to refer to the process by which a company leverages its own internal candidate pool [i.e. former employees, retirees, applicants from its own applicant tracking system] to place within the company as temporary employees. The temporary employees are most often placed on the payroll of a third party payroll provider.”



Direct sourcing channels, informal to formal

Direct sourcing myths and concerns

Despite its wide use, direct sourcing is not always well understood – here are the top misconceptions we hear in our practice.

I. We don't do much direct sourcing

Due to lack of data tracking, many organizations tend to directly source contingent workers more than they realize. For many programs we are involved in, direct sourcing makes up 50% of total contingent labor, even without any supporting initiatives, while some organizations with formal direct sourcing programs can go as high as 75%.

II. Direct sourcing is more cost effective

The answer to this one is “it depends”. In theory, removing the vendor fee should result in directly sourced contractor savings, but this doesn't always work out in practice.

Procom's research has shown directly sourced contractors can be 10-15% more expensive than comparable competitively sourced contractors. Directly sourced contractors are frequently able to negotiate higher rates overall by dealing directly with client hiring managers who may by-pass the usual rate card negotiation process. Alternatively, without a formal direct sourcing program in place, hiring managers may shift job categories or grant rate card exceptions for contractors, which also results in higher pay rates than are likely necessary.

III. We only need direct sourcing

Direct sourcing isn't a good fit in all situations. We recommend also having a well-managed preferred

vendor program. The two channels complement each other and serve different purposes in the overall sourcing spectrum.

Importantly, direct sourcing can sometimes appear easier and more effective than competitive sourcing, but this can point to problems in the structure of your preferred vendor program.

Good direct sourcing programs should place similar compliance and rate rules on both sourcing channels, so that both are aligned with the organization's business strategy, deliver strong procurement value and meet similar risk management imperatives.

For all types of direct sourcing, well-structured programs will use a single, third-party contractor payrolling (contract administration) provider to drive management efficiencies, standardize the contract compliance framework and provide a front-line presence for risk and issue management.

IV. You don't need direct sourcing

Despite the challenges to get it right, direct sourcing, including an informal program, is an important relief valve in a contingent workforce management strategy that can help meet hiring manager expectations and mitigate performance challenges that can crop up in your competitive sourcing channel. It's critical to ensure you are doing your direct sourcing intelligently and optimally.

Our top recommendations to get started with direct sourcing

Check out our publication [How to optimize your costs with directly sourced contractors](#) to learn more about direct sourcing and cost savings. In the meantime, here are a few things to keep in mind:



Embrace direct sourcing, but make sure you have the right controls.



Track all direct sourcing activity, and protect the integrity of your rate card.



Don't focus on direct sourcing alone – it should be complemented by vendor sourcing.



Never forget risk – ensure you have a good partner to manage your directly sourced workforce.

About Procom

Since 1978, Procom has been providing organizations with support for their contingent workforce needs across North America.

With a specialized contractor payrolling and direct sourcing practice, Procom helps organizations reduce their costs, mitigate their risks and improve their processes through expert advice and innovative service offerings.

Learn more about Procom at www.procomservices.com.

