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DIRECT SOURCED CONTRACTORS: Optimize Your Costs

CONTINGENT WORKFORCE INSIGHTS

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A straight forward 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 happening without a formal program to support it.

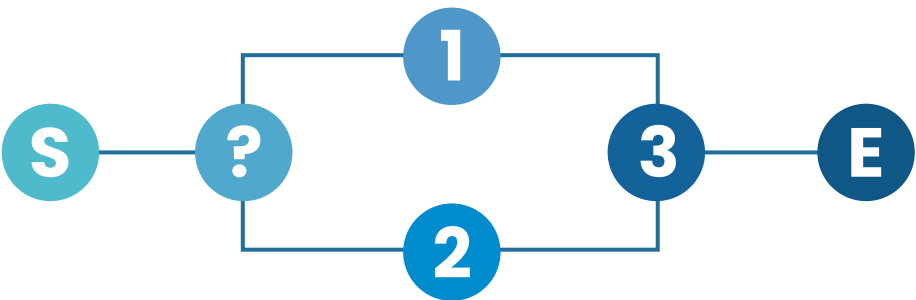
Why is this happening? Why are hiring managers resorting to direct sourcing when in many cases they have access to a contingent talent program office that has been set up to help them acquire talent?

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 (buying) 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, as opposed to someone who has not been proven to the hiring manager or the organization in the past.

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

Direct sourcing is on the rise, so much so that it comprises 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 by up to 18% more.



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, often 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% greater 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 but to be fair, it is a little more complicated than that.

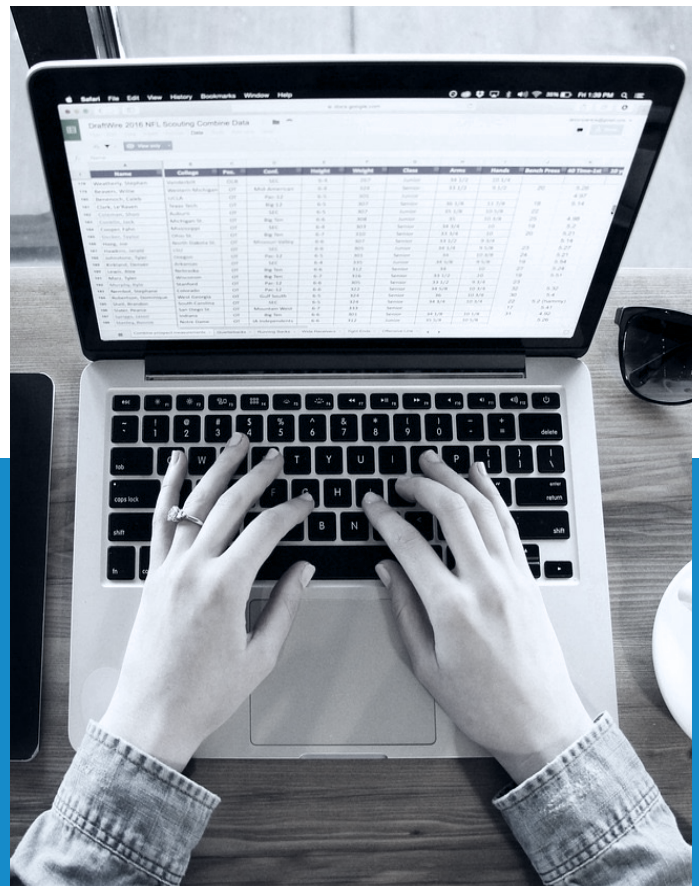
Consider a typical direct sourcing situation where a hiring manager identifies a resource that they would like to hire. Let's say the worker is either a referral from someone that is currently on the hiring manager's team or the individual is someone who has worked for that hiring manager in the past.

- 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?

Consider what these questions are really getting at.

For the first, think about the recruitment process. If you've recruited in your 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 on average a premium of 14% - 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.

Now think about the third question.

Generally in the negotiation process, a buyer has leverage in a negotiation if he or she is armed with product/service knowledge (including price options) and has several suitable options they can choose from.

When you then think about direct sourcing, the reality is that an individual hiring manager is usually only looking at a single candidate through the process and in most cases, the only pricing information that 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'd think.

Contractors often talk to each other about rates and they tend to know what an organization is prepared to pay for skills, specifically from a bill rate perspective.

What do we mean by that?

Contractors target their rate against what they believe an organization will pay for the skills they possess, paying little or no regard to an intermediary such as a staffing agency. The focus is on the maximum rate that they can get from the client for the skills they provide.

At worst, this is an opportunistic approach and at best, it is a great strategy for a contractor to employ if the company that they are looking to work for doesn't take a strategic approach to rate negotiation with them.

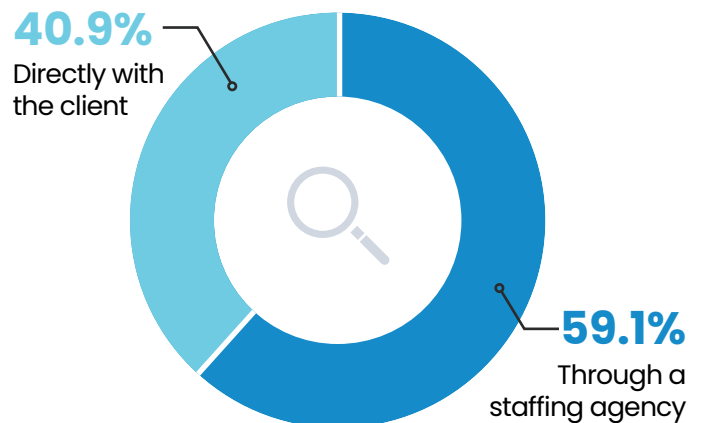
If the contractor uses a bill rate for their rate request from a hiring manager, ask:

- 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 rates?

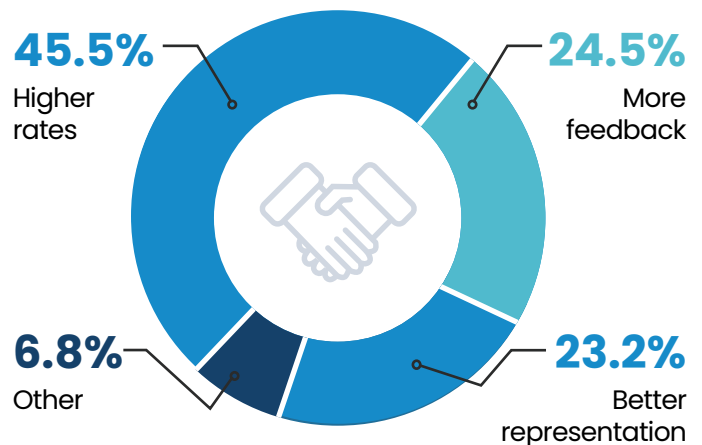
Survey: Agency or Direct?

We often get asked to explain why the practice of direct sourcing is increasing. We could give you our opinion, but the reality is that it's better to hear it directly from the contractors themselves. Procom surveyed over 2000 job seekers to try and understand their preferences when looking for a contract job. The results are as follows:

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
- Less process
- True rate information is withheld by staffing agencies

Negotiating with directly sourced contractors: an actionable plan

We've created a straight forward 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, even better. Use it and compare it against your hiring results, paying particular attention to the use of "niche" or "other" worker types. If you are using these, dig in to 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 step 1 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, as there is a difference.



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 needed to do it, or by leaning on your contractor payrolling provider. Whatever you decide, the end result should be that all direct sourced contractors should have their rates negotiated.



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 and the results of the negotiation efforts. What are you finding? Are there certain hiring managers that are less compliant? Are there specific roles that you have less success negotiating with? This is powerful 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 as 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.





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.
