

TheJobPost

The Effectiveness of
Preferred Supplier Lists
in Recruitment



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Introduction

In a recent Talent Leaders Connect poll, conducted on behalf of TheJobPost, 77% of employers said that they had struggled to find the right specialist recruiter to help with their hard to fill roles. This was not surprising to us as it's a challenge we hear time and time again from TheJobPost's clients, but actually qualifying the extent of the issue really brought home the magnitude of the problem and we were curious to investigate further.



Given the increasing polarisation of the recruitment market (there are now more than 19,000 recruitment agencies in the UK) it appears increasingly difficult for organisations to run an effective Preferred Supplier List. In conducting this research we set out to understand the effectiveness of a Preferred Supplier List, the types of agencies included and the changing ways in which agencies are engaged and measured on Preferred Supplier List's and how it impacts the hiring activities of today's organisations.

We hope you find our insights as interesting as we did.

Ken Brotherston
Chairman



2013

16,000
UK Recruitment agencies



2014

19,400
UK Recruitment agencies

Source REC

Executive Summary

This research provides a detailed insight into the effectiveness of a Preferred Supplier List, the types of agencies that are included, the changing ways in which agency performance is measured and how this impacts today's organisations. It represents the views of 158 HR and Resourcing Professionals making over 200,000 hires per year.

Our conclusions, in summary, were:

One size does not fit all

Of the respondents, 36% worked for an organisation that had chosen not to run a Preferred Supplier List, with individuals citing the restrictions of this method as being the: increased specialisation of hires; geographical requirements of roles; and volume of hires needed. Results led us to question the value of the Preferred Supplier List and conclude that it is not the right resourcing tool for all organisations.

Market knowledge is more powerful than individual relationships

For the 64% of respondents working for organisations choosing to run a Preferred Supplier List, the most important factors when selecting an agency were cited as: depth of market knowledge (67%); cost (48%); ability to provide specialist hires (47%); and access to candidates (47%).

Almost **1 in 2** unable to fill specialist roles via their PSL

64% of respondents have rejected a suitable candidate from a non-preferred agency



“ Due to the various specialism of the roles and locations, a PSL would have been too restricting. ”

*HR Development Manager
Engineering*

In support of this, the perceived organisational benefit mirrored the selection criteria with cost competitiveness (49%); attracting the right candidates (69%); and communication of the employee brand (45%) being the most valued benefits.

Factors featuring significantly lower in level of importance when selecting agencies for a Preferred Supplier List and the associated benefits of a Preferred Supplier List included: strength of relationship with recruiters (29% & 39%); and service level commitments and compliance (25% & 29%). Reflecting that market knowledge is far more important than relationships.

Organisations should not be overly reliant on their Preferred Supplier List

Featuring highest on the list of challenges managing a Preferred Supplier List were: the time taken to manage agencies (65%); hiring managers using non preferred agencies (63%); and the number of agencies (60%). With 44% of respondents stating that they struggled to identify agencies that performed best.

45% of respondents also reported the ongoing challenges relating to specialist hires; declaring that they struggled to find the hires they needed via their Preferred Supplier List.

This is evidence that organisations should not be overly reliant on their Preferred Supplier List, as Hiring Managers will seek their own solutions – whether compliant or not!

Recruitment market growth is driven by niche/specialist recruiters

81% of respondents reported having 'up to 50 agencies' on their Preferred Supplier List, with 51% stating that this was 'less' than five years ago. However, specialist/niche agencies are bucking the trend (national and executive search agencies are down 42% and 15% retrospectively) with 5% of respondents stating that they had more specialist/niche agencies on their Preferred Supplier List than 5 years ago.

It's time to ensure the process fits the needs of the business

77% of respondents identified quality of hire as the most important metric of success. Featuring more highly than cost (52%) and time to hire (51%). However, 64% of respondents had rejected a suitable candidate from a non-preferred agency, suggesting that candidate suitability is directly linked to a Preferred Supplier List. Position this against 68% of respondents stating that Hiring Managers regularly engage with organisations outside the Preferred Supplier List and people projecting that this will continue. It definitely seems time to update the Preferred Supplier List process to ensure it meets the needs of the business.

The future

Future trends were identified as:

- ❖ A continued rise of specialist recruitment agencies
- ❖ The increased need for technology to assist with Preferred Supplier List management
- ❖ Hiring Managers continuing to recruit from non-approved agencies

Methodology & Respondents

The findings from this report are based on an online survey of 158 HR and Resourcing professionals, conducted over a three-week period throughout April 2015.

84% of respondents held a managerial role within HR, with 40% being a Director or Head of Function.

Respondents came from a mix of sectors with the largest representation coming from IT, Digital & Telecommunications and Professional & Business Services.

44% of respondents worked for organisations employing more than 500 people, with 37% working in those employing between 1,000 and 10,000+.

In total, respondents represent over 200,000 hires per year

158 HR & Resourcing Professionals

40% Director or Head of

37% working for organisations employing between **1,000 and 10,000+** people

Representing over **200,000** hires per year



To PSL or not to PSL?

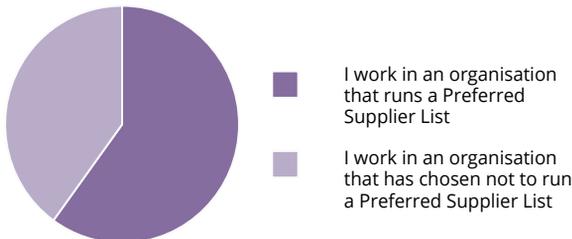
A useful place to start was to understand whether organisations were operating a Preferred Supplier List as a resourcing tool, and if not, why not?

Of the 158 respondents to this survey, 36% worked in an organisation that had chosen not to run a Preferred Supplier List. The reasons given can be categorised into a variety of areas, with respondents referring to them as 'old fashioned' and 'restrictive.'

Broad categories include:

- ❖ Increased specialisation of hires
- ❖ Geographical requirements
- ❖ Volume of hires
- ❖ Direct sourcing only model
- ❖ Hiring manager led recruitment

How would you describe your involvement with a Preferred Supplier List?



“ A Preferred Supplier List restricts the channels available to source candidates from.

Managing Director
Professional & Business Services

Comments included:

“We work in a very niche area within IT and sourcing for us is all about building and tracking talent pools.”

“Senior Managers are leading who they utilise.”

“Accepting speculative CVs is very important in our industry and a PSL would limit this.”

“We have niche roles, and volume of other recruitment is sporadic and can be handled via use of media campaigns.”

“Restrictive for niche hires. Don't have time to effectively manage.”

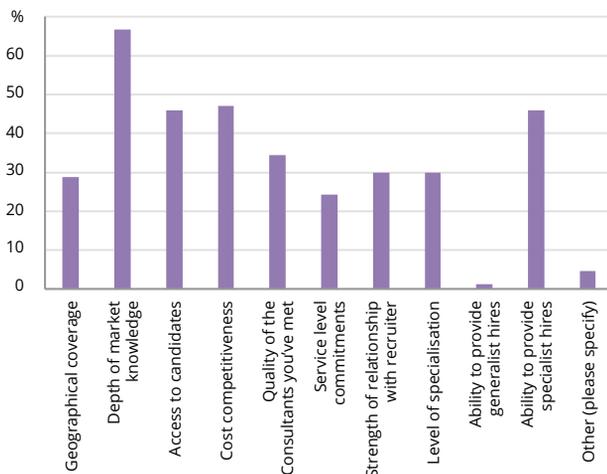
“We have needs in highly candidate driven areas of Intellectual Property and Law. To restrict our pool of candidates by only instructing a select few agencies, regardless of whether that secures us a preferential rate is potentially damaging to the business needs. The traditional suppliers, with whom we have non-exclusive terms of business, are still the majority suppliers to the business but we like to retain the option to react to speculative CVs if they are relevant.”

These findings set against the backdrop of increasing polarisation of the recruitment industry led us to question the value of the Preferred Supplier List and further findings of this research would conclude that a poorly managed Preferred Supplier List is not worth having.

Advantages of a PSL

For those respondents whose organisation had opted to run a Preferred Supplier List, we sort to understand the most important factors that were considered when selecting agencies and the benefits that they felt a Preferred Supplier List brought to the organisation.

What are the three most important factors when selecting agencies for your organisations' Preferred Supplier List?



When selecting agencies, the most important factors were highlighted as:

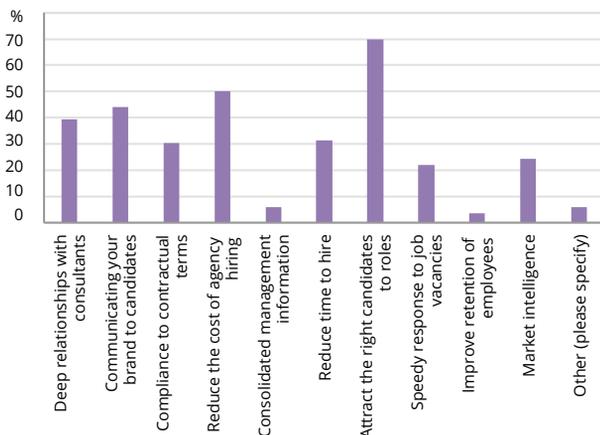
- ❖ Depth of market knowledge (67%)
- ❖ Cost competitiveness (48%)
- ❖ Ability to provide specialist hires (47%)
- ❖ Access to candidates (47%)

Perhaps unsurprisingly the perceived organisational benefit mirrored the selection criteria, with cost and attracting the right candidates featuring heavily alongside communication of the employee brand (45%)

Perhaps the most insightful of these results, however, are actually those featuring significantly lower in level of importance. Namely:

- ❖ Strength of relationship with recruiters (29% & 39%)
- ❖ Service level commitments and compliance (25% & 29%)

What are the top three benefits of a Preferred Supplier List to your organisation?



There is a frequent misconception of many agency recruiters (and in particular for generalist hiring) regarding the importance of a relationship, whereas a professional offering, market knowledge and the skills to partner with clients in order to find the right candidate, at the right price are much more important. This doesn't simply mean cutting fees, it means offering a service that's considered value for money for clients.

Challenges of Managing a PSL

So if the benefits of running a Preferred Supplier List are as clear as the previous data suggests, we wanted to investigate why 36% of our respondents had still chosen not to pursue this resourcing method. What are the everyday challenges associated with running such an important tool – one which could be the difference between an organisation or its competitor attracting the key talent they need?

The time taken to manage agencies and the number of agencies needed to compete in today's highly specialised world featured highest for respondents (65% & 60%).

With 63% of respondents reporting the issue of Hiring Managers going outside of the Preferred Supplier List to make unapproved hires.

45% of respondents reported the ongoing challenges relating to specialist hires, with the same percentage stating that they struggled to find the hires they needed via their Preferred Supplier List.

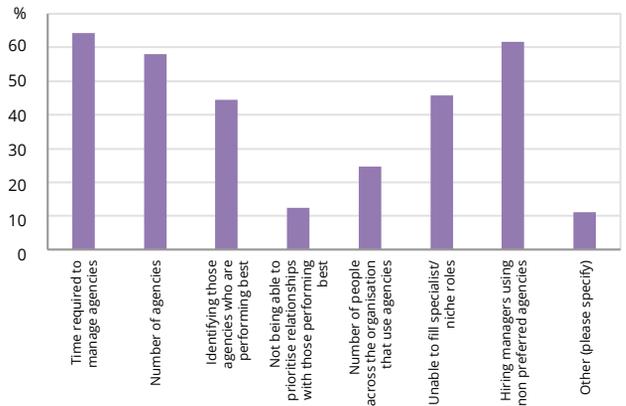
It therefore appears clear that given the number of agencies they are managing, 44% of respondents were struggling to identify those that performed best.

The size and scope of these Preferred Supplier Lists have left relationships towards the bottom of the to do list again, with only 11% of respondents identifying the time taken to build these relationships as a challenge, maybe this is due to the fact the relationships are not seen as one of the most important areas to manage?

We would therefore conclude that organisations should not be overly reliant on their Preferred Supplier List. Alternatives should always be available to support

compliant hiring, as Hiring Managers will seek their own solutions – whether approved or not!

What are the top three challenges of managing a Preferred Supplier List for your organisation?



Almost **1 in 2** unable to fill specialist roles via their PSL

63% reported Hiring Managers using non-preferred agencies

81% identified less than 5 as the optimum number of agencies per vacancy, with 3-5 being the preferred option for 46%

How is the PSL changing?

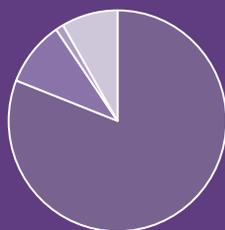
With so many respondents reporting time and the number of agencies a challenge when managing their Preferred Supplier List, we looked more closely at the related statistics.

81% of respondents reported having up to 50 agencies on their Preferred Supplier List, with 51% stating that this was 'less suppliers' than five years ago.

Has the complexity of what's required changed, or maybe the increasingly diverse role of the Resourcing/Talent Acquisition professional is impacting on their time allocation?

We believe that the agency mix of the Preferred Supplier List can help explain this trend further.

How many agencies does your organisation have on its Preferred Supplier List?



□ Up to 50

□ 50 - 100

□ 100 - 200

■ Over 200

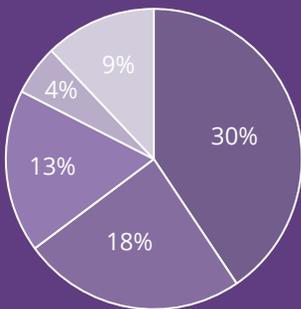
When looking at this mix, only the number of specialist/niche agencies had seen an increase over the last five years, with national and executive search both reducing:

- ❖ National -42%
- ❖ Specialist/niche +5% increase
- ❖ Executive search -15%

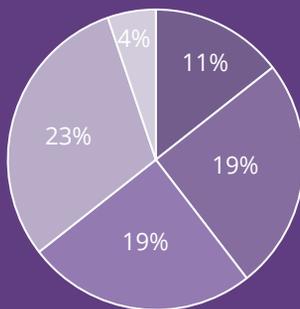
The time demands on our HR/Talent Acquisition professionals could therefore be related to the level of complexity associated with finding these increasingly niche agencies, negotiating terms and all the administration taken to manage them through to compliance and delivery.

Specialists/niche are the only type of agency projected to increase in numbers, on a PSL, over the next five years

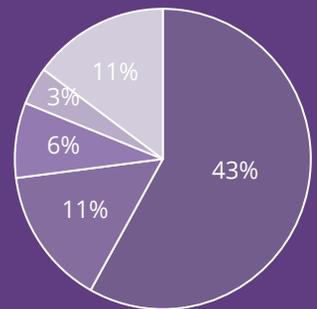
What is the percentage make-up of agencies on your organisations' Preferred Supplier List?



National coverage/generalist



Specialist/niche



Executive search

□ 0 - 25% □ 25 - 50% □ 50 - 75% □ 75 - 100% □ N/A

Measuring Success

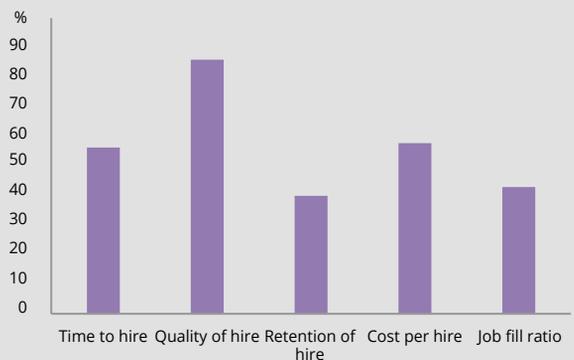
So how does one measure success of an increasingly complex Preferred Supplier List, where many agencies are not dealing with volume hiring?

Unsurprisingly quality of hire was identified by 77% as the most important metric of success. Featuring more highly than cost (52%) and time to hire (51%).

But the lack of clarity over what this means and the “big data” puzzle may explain why most respondents rated their suppliers a tepid effective or mildly effective with no real change compared to five years ago.

These statistics also reflect the age old cost versus quality conundrum. If 1 in 2 are measuring success by cost of hire, does this leave in house recruiters compromised on quality?

How do you measure the success of your organisations' Preferred Supplier List?



77% identified quality of hire as the most important metric for success



Compliance & Process versus the War for Talent

It seems self-defeating that in a world of talent shortages, where quality of hire is identified as a key metric to an agencies' success, 64% of respondents admitted that they have rejected a suitable candidate from a non-preferred agency.

With 68% of respondents stating that their hiring managers regularly engage with candidates from outside the organisations' Preferred Supplier List, non-compliance would appear to be the norm and the thought of finding the right candidate and then rejecting them a senseless one.

This could explain the increasing number of technology platforms being introduced to support, not prevent, hiring from a non-preferred agency.

64% of respondents have rejected
a suitable candidate from a
non-preferred agency

Future Trends & Recommendations

We feel that if the results from Preferred Supplier Lists don't improve they are at risk of disappearing all together.

Thoughts and recommendations coming from our respondents were clear, *"reduce the number of agencies and measure more"*, but although an administrative aspiration, is this possible in today's increasingly polarised market? Can you really be so prescriptive on each and every role?

Increased need for technology

Music to TheJobPost's ears was the increased role that technology is seen to play in the management of Preferred Supplier Lists, with respondents shouting for a *"central automated portal for agency submission"* and *"useful data and insight"* to support the management process (with less administration, of course).

Respondents were really keen to gain control back:

"We will be setting up an in-house recruitment team and centralising the engagement with those PSL's gaining better control, increasing direct hiring and minimising the usage and reliance of those PSL's. Systems / portals will be put into place to manage suppliers and their performance / KPI's in a much more manageable way."

“ The supplier list is only used for niche roles. **”**

Anon **”**

“ Reduce overall number; hold them to pre-defined metrics. **”**

Head of Talent Acquisition
Healthcare, Pharmaceutical & Life Sciences

Continued rise of the specialist agency

Many respondents stated their plans to up-skill and reorganise teams to have *"more ability to fill standard roles in house and use agencies for niche/difficult to fill positions only. This will be assisted by increase in technological tools such as social media, internal ATS system and smarter in-house recruiters developing talent pipelines to fill roles."*

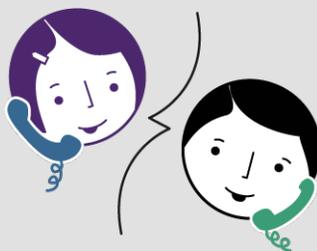
Embrace the rogue Hiring Manager

According to our respondents, the challenge of the rogue Hiring Manager is set to continue with *"internal education programmes scheduled; encompassing realignment, building internal relationships, making policies more accessible/visible and raising awareness of the Preferred Supplier List's existence"*. At TheJobPost we wonder if this is enough to tackle the real problem of non-compliance and strongly feel that people should be seeking a technology driven solution to support what's projected to be an ongoing challenge.

About TheJobPost

Connecting employers with specialist recruiters, TheJobPost is the UK's leading recruitment agency marketplace. Giving employers immediate access to over 42,000 tried and tested specialist agency recruiters through one platform using one contract, we extend an organisation's existing supply chain to make permanent and contract recruitment simpler, faster and more effective.





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