

NEAT EVALUATION FOR ADP:

RPO

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RPO Market Summary

Overview

A healthy market growth in RPO of +15% in 2015 has resulted from both new contract activity and geographical expansion of services provided to existing clients.

Technological developments and mobile adoption has driven service developments as speed to source and effective sourcing strategies are a key to success. Examples include an increase in uptake of employer branding services, greater use of mobile sourcing, and an emergence of the use of gamification in RPO to attract candidates. The outlook for RPO in 2016 is very positive in light of increased hiring demands of companies, and the recent downward trend of unemployment rates in key markets.

Recruiting companies continue to increase their focus as talent specialists as services expand to include onboarding, year 1 engagement, employer branding, and talent community development.

Packaged RPO offerings including technology services are increasing, particularly to support integrating tools (where investments have not already been made) as well as to support a single delivery experience when servicing both RPO and MSP. While vendors are principally investing in RPO platforms and analytics platforms, technologies used to deliver services include an increasing number of point solutions such as ATS platforms, CRM, video interviewing platforms, labor market insight portals, and analytics/workforce planning platforms.

Blended RPO/MSP offerings are provided by ~68% of RPO vendors; representing ~9% of total RPO contracts. Analytics, including labor market insights, are increasingly relevant for effective service delivery.

Although service delivery remains largely onshore, with ~80% of RPO FTEs, nearshore and offshore centers are increasingly being used to drive economies of scale. Typical offshore activities include sourcing, market research and back-office administration. The proportion of service provider personnel on client sites is 32% (a decrease of 3% from 2015), as standardization of process is driven across clients, to drive greater process effectiveness and efficiencies.

Multi-country contracts represent ~43% of all RPO contracts, with 10% being global contracts covering three or more regions. Vendor consolidation continued in 2015, primarily to support geographical expansions and to expand talent management service offerings.

Buy-Side Dynamics

The top drivers of RPO are:

- Scalability and agility to meet business demands
- Improving performance results, primarily quality of hire
- Cost reduction (primarily for first time RPO buyers)
- Improving quality of hire to address poor retention
- Need for transformation requiring updated tools and processes

- Broader talent management and strategy consulting capability.

The principal benefits derived from RPO are:

- Reduced time to hire
- Cost savings from 25%-50%, averaging 30%, largely attributed to a reduced reliance on agencies
- Improved candidate experience
- Improved hiring manager satisfaction
- Improved agility to support business expansions
- Improved diversity and attrition
- Greater visibility of workforce profile from which to drive greater workforce effectiveness
- Reduction of backlog and the development of talent pipeline to support future workforce requirements.

High investment in an organization's recruiting process and technology, and a related perception of high internal expertise, are the main inhibitors to RPO adoption. Other inhibitors include potential clients wanting to maintain control and HR being unable to make the business case due to lack of baseline data.

Standalone RPO contracts average three years in length. There is a trend towards longer contracts that are larger, global and more mature clients.

Market Size & Growth

The global RPO market reached \$4,370m in 2015 and is forecast to grow at 16.6% per annum, to reach \$9,275m in 2020. North America is the largest RPO market, with 42% revenue share, followed by Europe, Asia Pacific region and Latin America. The U.S. had strong growth in 2015 and is predicted to continue due to the ongoing tightening of the labor market.

The largest purchaser of RPO is the financial services sector (19% share), followed by healthcare and pharmaceuticals, manufacturing and technology sectors.

RPO provider revenue per hire averages ~\$1,360, up 1.5% y/y. Overall revenue per hire has increased slightly as a result of RPO providers' global expansion. Providers are extending services to more regions and countries, and do not have the economies of scale to support lower rates.

Success Factors

The critical success factors for RPO are:

- Engaging in talent acquisition strategy and planning prior to RPO program
- Defining a holistic sourcing and selection strategy
- Engaging the client in strategic workforce planning discussions to support greater visibility of future recruiting needs, and enabling sourcing decisions to support ongoing requirements, incorporating.

Outlook

Over the next few years:

- Improving candidate experience and brand positioning will remain important, with need for longer term workforce planning and management becoming increasingly important RPO requirements
- Analytics, workforce planning and labor market data will increasingly be available to clients online, and will improve hiring manager visibility of the market dynamics relevant for their industry/geography
- Service offerings will develop in the areas of analytics and assimilation of labor market data, to support sourcing choices, as well as in the increasing use of online communities, including engagement with contingent worker communities
- Further vendor consolidation and partnerships will continue as RPO companies strengthen capability across multiple regions to meet demand for multi-country RPO. Multi-country contracts to represent ~55% of all contracts by 2020
- Blended RPO/MSP will increase to 15% of RPO contracts by 2020
- Service delivery onshore will reduce to <60% of RPO FTEs by 2020.

NEAT Evaluation for RPO



Source: NelsonHall 2016

The RPO NEAT graph shows vendor evaluations for the Overall market segment, with ADP identified as a 'Leader'.

Buy-side organizations can access the RPO NEAT tool (Overall) [here](#).

NEAT Methodology & RPO Assessment Criteria

NelsonHall's (vendor) Evaluation & Assessment Tool (NEAT) is a method by which strategic sourcing managers can evaluate outsourcing vendors and is part of NelsonHall's *Speed-to-Source* initiative. The NEAT tool sits at the front-end of the vendor screening process and consists of a two-axis model: assessing vendors against their 'ability to deliver immediate benefit' to buy-side organizations and their 'ability to meet future client requirements'. The latter axis is a pragmatic assessment of the vendor's ability to take clients on an innovation journey over the lifetime of their next contract.

The 'ability to deliver immediate benefit' assessment is based on the criteria shown in Exhibit 1, typically reflecting the current maturity of the vendor's offerings, delivery capability, benefits achievement on behalf of clients, and customer presence.

The 'ability to meet future client requirements' assessment is based on the criteria shown in Exhibit 2, and provides a measure of the extent to which the supplier is well-positioned to support the customer journey over the life of a contract. This includes criteria such as the level of partnership established with clients, the mechanisms in place to drive innovation, the level of investment in the service, and the financial stability of the vendor.

The vendors covered in NelsonHall NEAT projects are typically the leaders in their fields. However, within this context, the categorization of vendors within NelsonHall NEAT projects is as follows:

- **Leaders:** vendors that exhibit both a high ability relative to their peers to deliver immediate benefit and a high capability relative to their peers to meet client future requirements
- **High Achievers:** vendors that exhibit a high ability relative to their peers to deliver immediate benefit but have scope to enhance their ability to meet client future requirements
- **Innovators:** vendors that exhibit a high capability relative to their peers to meet client future requirements but have scope to enhance their ability to deliver immediate benefit
- **Major Players:** other significant vendors for this service type.

The scoring of the vendors is based on a combination of analyst assessment, principally around measurements of the ability to deliver immediate benefit; and feedback from interviewing of vendor clients, principally in support of measurements of levels of partnership and ability to meet future client requirements.

Exhibit 1

‘Ability to deliver immediate benefit’: Assessment criteria

| Assessment Category | Assessment Criteria |
|---------------------|--|
| Offerings | <ul style="list-style-type: none"> Employer brand development Interview scheduling Targeting passive candidates Talent pool management Talent pipelining Managing community Internal recruiting Onboarding |
| Benefits Achieved | <ul style="list-style-type: none"> Improved quality of hire Improved hiring manager satisfaction Improved candidate retention Improved employer branding Improved candidate experience Improved employee diversity Support for new countries Scalability to meet client needs Improved sourcing mix Predictive analytics for better decision-making Analytics for improved candidate targeting & selection Reduced time to hire Multi-channel candidate interaction Ability to tie results to business outcomes Improved RPO satisfaction overall |
| Delivery Capability | <ul style="list-style-type: none"> in N.America in U.K. in Continental Europe in APAC in LATAM |
| Customer Presence | <ul style="list-style-type: none"> Large organizations (15K+ employees) Mid-size organizations (500 to 15K employees) Small organizations (less than 500 employees) Global presence N. America presence U.K. presence Continental European presence APAC presence LATAM presence Multi-country presence |

Exhibit 2

‘Ability to meet client future requirements’: Assessment criteria

| Assessment Category | Assessment Criteria |
|--------------------------|---|
| Operational Requirements | <ul style="list-style-type: none"> Ongoing improvement in candidate experience Broader talent services Ability to improve quality of hire Support for new countries Overall performance Service provision |
| Overall Satisfaction | <ul style="list-style-type: none"> Strength of partnership Service culture Flexibility of approach Commercial Ts & Cs Value for money Innovation & creativity Ability to deliver business benefit Ability to add extra dimension beyond contractual agreement Ability to challenge requirements Proactive ideas for change Ability to improve processes Ability to apply automation |

Vendor Analysis Summary for ADP

Overview

ADP offers RPO services across the Americas, Europe, Latin America and Asia Pacific. It began offering RPO services in 2011 when it acquired The RightThing (founded in 2003) to expand its HR capability. In 2015, ADP performed ~113k hires across ~90 RPO clients, and had ~1,130 employees dedicated to RPO, servicing ~23 languages and ~44 countries. All hires are for permanent employees, with 60% management and 40% non-management hires. ADP's RPO services include a recruitment training and technology offering, AIRS, which has trained ~200k recruiters.

ADP offers recruitment services from workforce planning to onboarding. The most common recruitment services bundle includes requisition development, sourcing, screening onboarding, and technology management, with >90% of clients using these services. ADP offers the following services to support the talent acquisition process:

- Integrated background screening
- I-9/E-Verify compliance management services
- AIRS recruiter certification training.

ADP offers the following specialized service offerings:

- Military recruiting
- Executive level hiring
- University recruiting
- Social talent solutions.

ADP is technology agnostic and can integrate with a client's preferred ATS. It also has its own recruitment technology, ADP Recruiting Management (previously branded RightThingRecruit), which is offered standalone or with recruitment services. Its proprietary platform is adopted by ~75% of its RPO clients. The platform manages candidates throughout the recruitment process, with functionality in support of sourcing, recruiting, CRM, applicant tracking, onboarding and reporting.

ADP also offers a mid-market service, specifically a "one-off hiring" or "on demand" hiring service, for businesses with <100 hires per year, using an agency approach and delivered through the ADP Recruitment Management system. Here, ADP RPO sources candidates remotely, and no service levels exists. The fee structure is price per hire.

Services are mostly delivered from the five most mature service centers (three in the U.S. and two in India), though many clients are provided with some onsite services. Overall, ~60% of resources are based in a service center, 25% are virtual and 15% of resources are based on client sites. Outside the U.S., the majority of employees are based in local service centers. ADP has standardized global processes using common technology, allowing it to scale, track productivity, and send tasks to global service centers.

ADP RPO has a total of ~90 RPO clients. Its primary client base is large enterprises with >10k employees, though it also services smaller growing companies with at least 100 hires annually. ADP was awarded 18 RPO contracts/expansions in 2015.

Financials

ADP's calendar year (CY) 2015 Employer Services revenues are estimated at \$8.0bn, up ~3% y/y. Its CY 2015 HRO service line revenues are estimated at \$6.5bn, up 5% y/y. NelsonHall estimates that RPO services accounted for ~3% of ADP's HRO services revenues in CY 2015, or ~\$195m, up ~15% y/y. The revenue distribution by region is as follows:

- North America: \$168m
- EMEA: \$12m
- Asia Pacific: \$4m
- Latin America: \$11m.

Strengths

- Ability to offer a comprehensive solution including technology, training, and recruiting services as part of its RPO offering
- Integrated recruitment training (AIRS) and recruitment technology (ADP Recruitment Management, embedded with its own CRM tools)
- Ability to scale delivery with its centralized sourcing, recruitment and support model through the use of service centers utilizing standardized global processes and common technology, allowing ADP to scale, track productivity, and send tasks to global service centers
- Strong HR compliance team, including capability to perform background checks; ADP has performed 10m background checks in 166+ countries
- Increased opportunities to provide RPO globally using ADP's global client base
- Recruitment models to support both the mid and large markets.

Challenges

- ADP has steady growth but the majority of its hires (86%) are still in North America. Attracting and hiring RPO specialist recruiters and building European market knowledge and expertise will be a challenge, as ADP has limited historical RPO presence in EMEA, and there are numerous competing recruitment agencies and RPO providers
- ADP is known as a payroll specialist, paying one in every six employees in the U.S. It will continue to be challenged in marketing to potential clients that it can deliver RPO on the same scale as payroll.

Strategic Direction

ADP will focus its investments on enhancing service offerings, growing current client business, attracting new accounts, and expanding global capabilities, including the following:

- ADP primarily grows with clients as they expand globally. It will expand its recruitment service in global and emerging markets, leveraging its global footprint
- It will also expand its specialized service offerings such as social talent solutions, military and university hiring, executive level services, and mid-market services
- Further development of training opportunities and tools for recruiters, through AIRS training, including certification and re-certification of all recruiters through appropriate training programs
- Ongoing investment in standard and custom reporting capabilities, to provide users with accurate and timely information, and the flexibility to report on key SLAs/KPIs and metrics
- ADP has assigned teams to develop and maintain customer and employee satisfaction programs, monitor results and implement solutions, to continue to provide value to clients
- Expanding services by identifying and adding optional modules and solutions within ADP technology, including ADP products such as background screening services, I-9 and E-Verify processing, work opportunity tax credits, and human capital management
- Further investing in ADP Recruiting Management development and continuing VirtualEdge to ADP Recruiting Management upgrades.

Outlook

ADP RPO continues to add new clients. Given the global market share of ADP as an HR provider, the opportunity to penetrate the client base, and the ability to leverage ADP's delivery capability, NelsonHall estimates that ADP RPO will continue to experience increasing growth in 2016.

NelsonHall expects that ADP will:

- Expand current client projects by bundling additional services, and add new clients with services such as background checks, I-9/E-Verify management, and AIRS recruiter training
- Enhance its recruiting technology, which should attract interest from current and new clients. Efforts will focus on reporting and analytics, with predictive analytics scheduled to be live by June 2016, an enhanced user experience, and continued integration with ADP technology
- Continue to experience double digit growth in North America, and continue to expand globally, with current clients targeting Latin America, EMEA, and Asia Pacific.

Continue to attract mid-market clients, as more organizations look to RPO to provide scalability.

For more information on other NelsonHall NEAT evaluations, please contact the NelsonHall relationship manager listed below.



research.nelson-hall.com

Sales Enquiries

NelsonHall will be pleased to discuss how we can bring benefit to your organization. You can contact us via the following relationship manager:

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