The RPO market has come of age

with a vibrant service provider landscape and many successful use cases. This success has resulted in widespread adoption of the RPO model, with both more new RPO deals and a wider set of organization types (across industries, sizes, and geographies) jumping onto the RPO bandwagon.

At the same time, the RPO model itself is transitioning into its third generation with a more strategic set of services being included coupled with new technologies and digital intervention.

RPO today is not only popular, but also dynamic and rapidly-evolving, with a diverse set of providers solving different talent acquisition problems for a wide variety of enterprises. A key consequence of this dynamic market is changing price points and pricing models.

Conflicting forces are impacting pricing

Rising adoption of digital technologies and automation is reducing (or, in some cases, eliminating) human effort, driving RPO price points down. Use of digital levers – such as mobile solutions, artificial intelligence, machine learning, robotic process automation, and analytics – results in lower cost for RPO providers. Intense competition among providers is forcing them to reflect that savings in their prices; in some recent cases, we have seen prices decline by 50% or more in situations in which digital intervention is high.

On the flip side, a growing demand-supply gap in talent and broadening scope of services is having the opposite impact on pricing. Record low unemployment in some parts of the world and lack of skilled talent for niche and high-skill roles are driving RPO prices up. Furthermore, the evolving RPO model, which is encompassing more strategic services (such as employer branding, workforce planning, and advisory/consulting services), is also forcing prices up.

Given these conflicting forces, the key question is: are RPO prices going up or down? The answer is a resounding "yes!" Which "yes," however, depends on the deal situation, particularly the deal size and skills required.

Impact varies by deal type

RPO deals can be bucketed into three broad categories based on hiring volume and skill set required. Deal pricing in each category is impacted differently given the conflicting dynamics.

High-volume/low-skill deals

High-volume RPO solutions make it possible to leverage advanced digital technologies at scale to reduce human effort, significantly cutting cost. These high-volume deals tend to comprise roles at the lower end of the skill spectrum, where the talent demand-supply mismatch is less pronounced. As a result of these two factors, pricing for these deals is declining more than the other two categories. With more RPO providers poised to introduce end-to-end technology-heavy solutions, the price decline here is likely to continue.

Medium-volume/medium-skill deals

In medium-volume/medium-skill RPO deals, the two conflicting forces – the talent demand-supply gap (which pushes prices up) and the efficiencies gained through technology and digital leverage (which pushes prices down) – are more balanced. As a result, the direction of price movement is more difficult to predict for this category than

for the other two. The general trend seems to be a slight decline in prices at the time of renewal, especially given intense competition. We find this to be especially true when a deal is being renewed with the same scope of services. However, if additional services are added to the scope – particularly if they are more complex, such as employer branding or consulting – the price is likely to rise.

Low-volume/high-skill deals

For high-skill situations with niche and difficult-to-find roles, the talent demand-supply gap plays the most important role, driving prices up. For example, for healthcare clinical and high-end technology roles, the gaps between demand and supply are expanding, and, in turn, RPO price points for deals are rising. Efficiencies gained through technology and digital leverage are not sufficient to offset the increased talent sourcing effort required. Furthermore, these kinds of roles require more human touch and intervention to provide the optimal experience, and the RPO provider is likely to need to engage a consultative layer as well – all of which push prices up.

Figure 1 *Change in resource mix impact on deal margin*

Amount of impact ● High ◔ Low
Increase ↑ Decrease ↓

Major forces	High-volume/low-skill	Medium-volume/medium-skill	Low-volume/high-skill
Talent demand supply gap ↑	◔	◕	●
Efficiencies due to digital ↓	●	◕	◕
Broader scope of services ↑	◔	◑	◕
Net impact on price	↓ ↓	Depends on amount of change; prices will fall for like-like services	↑

Implications for market stakeholders

Enterprises and service providers need to have strategies to deal with this flux in RPO pricing – approaches that enable them to take advantage of the opportunities without being hurt by the challenges.

Suggestions for enterprises

Do not auto-renew when your deal expires

Do not auto-renew your RPO contracts when they are up for renewal. You should benchmark your RPO deals, not only to confirm the right pricing, but also to ensure that you have a best-in-class program in place that incorporates the latest advances in RPO solutions. Your comprehensive benchmarking exercise should include price, scope of services, technology/digital intervention, Service Level Agreements (SLAs) / Key Performance Indicators (KPIs), and other terms and conditions. You can use the results of your benchmarking exercise to negotiate better and more future-oriented contracts with your incumbent RPO provider, or, failing that, switch service providers as a final resort.

Introduce mid-term benchmarking

You should introduce a mid-term benchmarking clause in long-duration RPO contracts (four or more years). The clause should specify how the benchmarking will be conducted, such as determining whether the benchmarking exercise should consider median price points or 80th percentile price points.

Have a flexible contract

You should retain the flexibility to increase and decrease the scope of services during the contract without getting into a full-scale renegotiation. In addition, clauses around joint investments, where applicable, and the use of the appropriate pricing model are important. For example, some situations may warrant purely variable per-hire pricing, whereas for others a combination of per-hire pricing and a monthly management fee may make more sense.

Additional Resources

- Multi-Country Payroll (MCP) Solutions Annual Report 2019 – Moving Toward Unification of Payroll and HR Services
- Managed Service Provider (MSP) Annual Report 2020: Leading Through Market Disruption
- Recruitment Process Outsourcing (RPO) Annual Report 2019: Steering 3D Growth on the Tides of Talent Shortage

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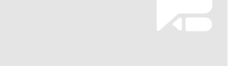

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