Navigating a changing employment landscape

How Direct Sourcing reduces labor costs while retaining top talent

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Powering Your Workforce

Introduction

As labor costs continue to increase across all industries, companies are turning to the contingent workforce as a way to mitigate talent shortages and augment permanent resources without dramatically increasing budgets.

It's no secret that the workforce is grappling with a lack of skilled employees as companies are preparing for an upcoming recession.

The **U.S. chamber of commerce** reported that the workers shortage index, which calculates the number of available workers in America, reached a 10 year low in 2022.

With the increased usage of contract and part-time workers, procurement organizations are struggling to meet hiring goals while controlling quality, timeliness, and budgets. Because of this, an increasing number of businesses are turning to direct sourcing to cost effectively improve operational metrics.

Direct Sourcing not only helps businesses leverage their brand to attract top workers, but it also provides incremental savings year over year during program adoption. By using Direct Sourcing talent acquisition software, companies save up to 15% on overall contingent worker costs without a loss in productivity. These programs also seamlessly complement existing investments in technology, like partnerships with VMSs, while enhancing Diversity, Equity, and Inclusion initiatives (DEI).

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The race to adapt to a dynamic workforce

Companies throughout all industries are navigating an ever-changing landscape. With unprecedented labor supply shortages, rising inflation and a drastic change in how labor is found and managed, procurement organizations are recognizing the need for new talent engagement models.

This is especially true as the gig economy continues to expand.

Deloitte and MIT's 2022 workforce ecosystem survey found that contingent workers are becoming increasingly more common in the workplace. Up to 50% of some participating businesses are composed of contingent workers and organizations are depending more and more on third parties for essential services. This, in part, is due to a serious talent shortage.

TalentNet, a talent acquisition tech platform that helps businesses streamline their hiring process, has seen a significant rise in contingent openings. The company's clients - which range from the financial and commercial industry to healthcare and oil/energy- posted nearly 22,000 new contingent jobs in 2022. TalentNet also saw 26.6% more new candidates applying for these jobs in 2022 than 2021.

Not interested - why less people are looking for full-time work

According to the U.S. Chamber of Commerce, there were 10.5 million unfilled jobs in 2022, with 6 million unemployed workers. In fact, in March 2022, the Worker Shortage Index, which shows how many workers are available per job opening, hit an all time low at 0.63, meaning that for every 100 openings, there were only 63 potential employees available. While this did rise by the end of the year to 0.73 (73 available workers for every 100 jobs), this is still a concerning challenge for procurement organizations.

The labor shortage and rise in contingent workers is partly due to the pandemic, which led to a significant increase in unemployment. Once job openings began to increase, many workers were not interested in returning back to work full-time. Instead, many opted to join the gig economy, which is projected to grow to **86.5 million freelancers** by 2027, making up 50.9 percent of the U.S. workforce.

In a recent U.S. Chambers of Commerce survey of unemployed Americans, 66% of participants admitted they're only searching for a new job somewhat actively or not very actively at all.

About 26% of participants cited it will never be essential to return to work full-time. Some factors that led to this include having to care for children, health issues, retirement, and a switch to part-time employment. In terms of the younger workforce, about 36% of participants aged 25-34 said they'd rather focus on personal growth than full-time work.

As companies turn to contingent workers to fill skill gaps, procurement specialists and human resources professionals are forced to change how they approach workplace hiring and engagement models. Many are creating contingent workplace programs (CWP) and turning to Direct Sourcing to build a sustainable talent pool to reduce the size and complexity of their supply chains.

Understanding Direct Sourcing

Direct Sourcing is a cost-effective, in-house hiring process that leverages a company's internal talent pool when finding temporary workers.

Typically, businesses use outsourced, third-party agencies to find and hire contingent workers, who are then placed on the third party's payroll. These agencies markup each worker's pay rate by anywhere from 35-100% (or more!).

Through Direct Sourcing, companies can leverage their own networks to fill talent pools, eliminating excessive markups and reducing costs considerably year over year. Direct Sourcing also allows companies to use their brands to attract top talent who are already invested in their business, reducing the challenges of long-term retention.

How Direct Sourcing talent acquisition software reduces costs

The use of Direct Sourcing initiatives not only decrease the cost of attracting top talent, it also lowers the costs of managing a large portfolio of staffing suppliers.

Companies who use Direct Sourcing talent acquisition software to manage their contingent worker programs save up to 15% on overall costs. By complementing existing partnerships and technological investments in MSPs and VMS, these initiatives lead to year-over-year cost reductions, though the exact amount of savings depends on how effectively programs are implemented.

Furthermore, Direct Sourcing programs allow companies to streamline their supply base resulting in additional savings.

Typically, adoption of this type of software is incremental, with cost savings increasing each year as adoption increases.

To understand this concept, think of it like using a meal kit program. Let's say you were spending $200 a week on groceries and decide to opt for a kit that allows you to pay for exactly what you need for each meal. At first, you may feel the need to test out this program, and buy only 3 meals a week, for an estimated cost savings of $40 a week. As you become comfortable with the meal kit, you increase that to 5 meals a week. Let's say that's a savings of $60 a week. The more you use this program, the more savings you'll enjoy. This is similar to talent acquisition software. Program implementation often takes time, driving incremental savings.

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Hiring isn't a side hustle - Direct Sourcing's role in long-term success

Employees are a company's most valuable hiring asset, but without a solid talent acquisition program, they're often forced to do extra work to find and recommend new hires. Direct Sourcing takes that burden off their shoulders and supports management in the hiring process.
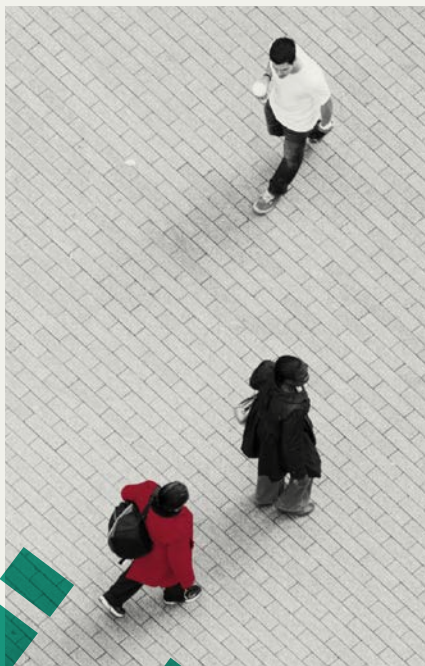
This is especially important as companies navigate a turbulent economy and prepare for a potential recession in 2023. As full-time employees are laid off, companies with a Direct Sourcing program can build a talent pool of potential contingent workers to support remaining employees.

Building a bullet-proof talent pool

Third-party hiring is not only costly, but doesn't take brand reach and loyalty into account. Typically, candidates are found through career portals, job boards, hiring events, and the occasional employee referral. This method leaves companies with a majority of candidates who may not know much about their organization and aren't fully connected to the brand.

A Direct Sourcing system helps companies create a central talent pool filled with internal connections. These include former contingent hires, silver medalists (candidates who did well in the interview process but didn't get the job), former full-time employees willing to freelance, and employee referrals.

These types of candidates are valuable. They're aware of the brand and likely have some level of brand loyalty, meaning they're more likely to last in the long-term. This in itself leads to future cost savings. According to the **Association for Talent Development**, companies in America spent about $1,280 per employee on workplace training and development in 2021. The more employees you have to replace, the more is spent on new hire training. Creating a talent pool of internal contacts defuses these future costs.

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The importance of talent acquisition software in building a talent pool

While a Direct Sourcing system sounds ideal on paper, it can be difficult to organize without the proper tools. Third-party SaaS platforms enable companies to take control of their hiring process cost-effectively.

These tools let candidates apply to open positions quickly and easily. Those doing the hiring are able to organize each candidate by a variety of factors such as:

- Whether they're silver medalists
- Rate they charge
- Whether they're full-time or contingent
- Whether they're willing to relocate
- Skill sets
- Education

An effective platform will also allow companies to efficiently build large talent pools that they can pull from when a position opens up. This eliminates the need to start the recruiting process over again for each position, saving both time and money.

When choosing a platform that fits your needs, ask the following questions:

- **Does it have an intuitive interface? Ideally one that allows candidates to apply quickly and easily?** AI-powered platforms with Natural Language Processes (NLP) are helpful because they can fill in categories for users without the need to type everything out. Intuitive interfaces also mean quick onboarding for new users.

- **Is it customizable?** All companies are unique, meaning their user experience should be customized to their specific needs. Cookie-cutter interfaces don't take individual pain points into account.

- **How does the platform support community building?** Platforms that allow managers, current employees, candidates and recruiters to form relationships and connect are more likely to help your Direct Sourcing program succeed.

- **Can the platform support volume hiring?** Opt for user interfaces that allow managers to screen resumes online, quickly schedule interviews, and provide reporting/analytics on your hires.

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Thriving in a new era of hiring

As procurement organizations adapt to a new professional landscape, more are turning to Direct Sourcing as a way to mitigate growing costs, control quality, and meet hiring goals.

Traditional hiring methods may have been best practice in the past, but the workforce is changing at break-neck speed. Companies who don't adapt quickly will end up paying higher costs for talent that may have less loyalty to their brand.

With Direct Sourcing, businesses are able to quickly fill talent gaps through leveraging their own internal network and brand loyalty, leading to significant savings and lower attrition.

To learn more about how to implement a successful Direct Sourcing program, check out TalentNet's seamless talent acquisition platform.

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Looking to the future: Supporting diversity through Direct Sourcing platforms

Diversity in the workplace has become an important factor for growing companies, who often choose to work with diverse suppliers over non-diverse ones.

LinkedIn for example, has taken a proactive approach to increasing diversity and inclusion in its workforce, and has publicly stated that building diverse teams is a vital priority for the company. In 2020, LinkedIn set a goal of doubling their population of U.S. Black and Latino employees in management and senior leadership positions by 2025. Last year, they reached this milestone for Black employees, with the population of black senior leaders growing by 127% since this benchmark was set.

DEI is not only essential to the future of our workforce but also to talent acquisition, which is why procurement professionals should be preparing now. The following are some best practices to improve diversity and inclusion strategies.

- **Measure diversity.** Create resources for companies to understand what their current talent pool looks like. Some talent acquisition software, like TalentNet, includes a confidential, voluntary DEI survey candidates can take while applying for a position. Through this survey, businesses can see how many potential hires come from diverse backgrounds and for which roles they're applying.

- **Look for diverse suppliers.** While streamlining your supply base is an effective strategy, it may lead to less diverse supplier options. Look for opportunities to use diverse suppliers at every level of your spending, such as when looking for payroll providers.

- **Review language used in all job ads.** Some job posts, particularly those for senior management positions, can include exclusionary language that acts as a barrier for certain underrepresented demographics. Executive positions, for example, may call for CEO experience, which can stop women from applying, as there are fewer female CEOs than males. If that phrase is changed to "executive leadership experience" more women may be able to apply.

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