



Tactical advice for any SME fighting the war for talent:

Enlist the biggest army you can!

A discussion paper by Mike Wilkinson

An overview of the conflict

For SMEs to compete in the war for talent, they must find new ways to connect with potential candidates for their roles or remain at the mercy of current service providers

- Small and medium businesses (SMEs) struggle to attract good candidates for their roles when candidates are scarce as they will be in 2010
- Traditional solutions are either ineffective or too expensive for SMEs
- The trend to online professional networking has created new talent pools, well stocked with the attractive passive jobseeker
- New technologies and business models provide unique ways to tap into these sources of talent with little up-front risk and to win the war for talent, the SME Hirer needs to embrace them

With the New Year comes renewed focus and optimism and 2010 shapes as a year when many small and medium businesses will look to grow again after 2 years of battenning down the hatches.

Great businesses need great people and as the focus shifts to recruitment, SME hiring companies will soon discover that the issues which existed in the last talent shortage remain; the established recruitment services are either too expensive or simply don't work for them.

For SMEs to compete in the war for talent, they must find new ways to connect with potential candidates for their roles or remain at the mercy of current service providers. To this end, the rise of professional networking sites in Australia in the last few years has been a major area of interest with LinkedIn alone claiming around 1,000,000 Australian members². Even non-professional network sites pose an opportunity with Facebook claiming 100 new Australian members an hour and the fastest growing segment being the professionally desirable 35-54 year old experiencing a 276.4% growth rate in the 6 months to January 2009³.

Clearly these networks are now a viable place to target candidates but how? Given the range of options from LinkedIn to Facebook and MySpace to name a few: where should a business start if they wish to leverage this new phenomenon?

The battlefield in the war for talent has multiple fronts

In the absence of new sources of talent being discovered and activated, history is gearing up to repeat and the cost of recruiting will rise

One thing seems certain to define the recruitment marketplace in 2010; good candidates will be in short supply. Industry commentators and participants alike are predicting a skills shortage and in a recent AIM survey of business managers¹, over 40% said they were already experiencing a negative impact upon profits and performance as a result of the skills shortage.

One trait of the marketplace applies always; many potential candidates and often the most desirable ones are simply not looking for work; they're happily employed and doing quite nicely thank you. That's not to say that if they weren't made aware of a great opportunity they wouldn't be interested.

It's a simple fact that this "passive" pool of candidates, on average, has more desirable traits than the "active" job seeking pool. The former are currently employed and statistically more likely to be capable, competent and happy while the latter, recognising that it includes people with these good qualities, will have more underperformers, disenfranchised, unemployed and unemployable.

The active pool is easy to reach using media advertising (print and online) but effort is required to sift out good applicants while the inactive pool, far more likely to hold great candidates, is very difficult to



connect with. A strength of good recruiters is their ability to access this pool and they're able to charge large sums of money for their services accordingly.

Whenever candidate demand has started to outstrip supply, recruitment costs have soared. Media and recruiters alone control access to talent and, as in all markets with limited sources of supply, these players are able to act as price-setters. SMEs with lower recruitment budgets and less well-known employment brands suffer most in this scenario and in the absence of new sources of talent being discovered and activated, history will be gearing up to repeat.

It is worth noting that one of the best ways to find great staff is through the networks of people already in the business. SMEs report that not only do referrals account for about 30% of all hires⁴ but also the quality of candidates sourced this way is generally superior to any other. The issue they face is that as smaller businesses, their networks are sometimes limited and so can't solve all recruitment needs.

The potential allies are aging Superpowers

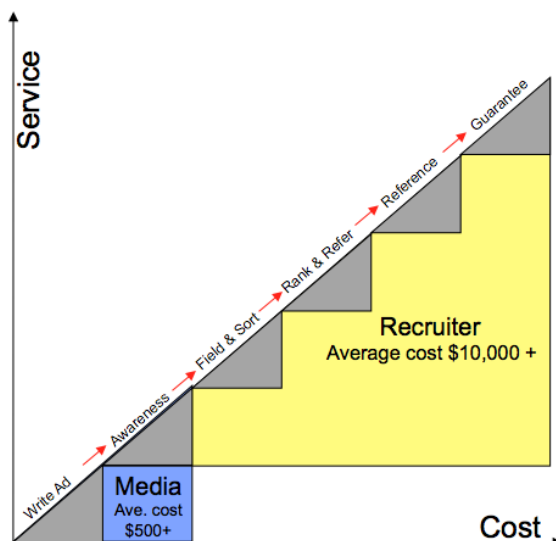
The sellers in the recruitment marketplace might have bought some funky new clothes but at their core they remain the same as they were 20 years ago.

The value chain of recruitment can be broken into many parts and however it is dissected moves through a sequence of refinements commencing with an outbound marketing phase, either mass or targeted, then through various stages of selection and culling until the ultimate hire.

Suppliers mine the pools of talent that they have access to and sell the connections as well as any ability they have to filter from all potential candidates, those that best fit a Hirer's brief. Applying these two aspects together in varying degrees they construct and market their own value proposition

Some sellers offer volume reach with minimal filtering and inevitably target the lesser quality "active" pool of candidates. These are relatively cheap but come with greater overhead to the Hirer who must sort through the inbound applications. Sellers at the higher end of the chain charge significantly more for their ability to offer targeted access to candidates known to be capable of the role and then provide a filtered candidate shortlist. A large part of the value provided at this premium end is from the seller's ability to reach into the "inactive" pool of candidates.

From the Hirer's perspective, the ideal market structure would see many businesses competing at several points along the value chain. Instead, operators have evolved at the two extremes ends, competing for the volume sale (Media) or the high value targeted sale (Recruitment Agencies).



The rise of online job boards has created big businesses and garnered a lot of media attention yet hasn't created new options for the buyer. Job boards at their core simply deliver classified employment advertising in a new channel. The Internet delivers the service cheaper than when print was the dominant medium but no real new benefit is created and no new talent pools are tapped.

We are yet to see a business in the recruitment marketplace leverage the true potential of the Internet and create new value for the Hirer in the context "finding talent". Successful players online have simply applied an old model to a new medium with cheaper publishing costs. Ten years down the track and recruiters are still able to charge massive premiums for their reach into high quality candidate pools.

The marketplace will remain demand driven with supply essentially fixed and able to "set the price" until new talent sources are opened up. The sellers in the recruitment marketplace might have bought some funky new clothes but at their core they remain the same as they were 20 years ago.

The Hirer's dilemma is unchanged; pay a small amount to put a job out there in the media accepting that there are no guarantees or stump up big dollars to engage a recruiter, the only source in town with a solution based fee.

Smaller weapons and fewer allies make for a tough fight

Small and medium businesses have lesser-known employment brands with smaller budgets and fewer resources to direct at recruitment making it hard to compete.

With good business logic, the sellers have grown by servicing customers who provide the best return on their investment. They've built their businesses catering to customers who have high volume need and are easy to locate & service; corporate Hirers (and in the case of media, recruiters representing these businesses).

The products these sellers offer are designed for big business. All things equal, serving the needs of one business with 400 staff will be easier and more profitable than 20 businesses with 20 staff.

Generally, small and medium businesses have lesser-known employment brands with smaller budgets and fewer resources to direct at recruitment. Their options come paired with inherent issues;

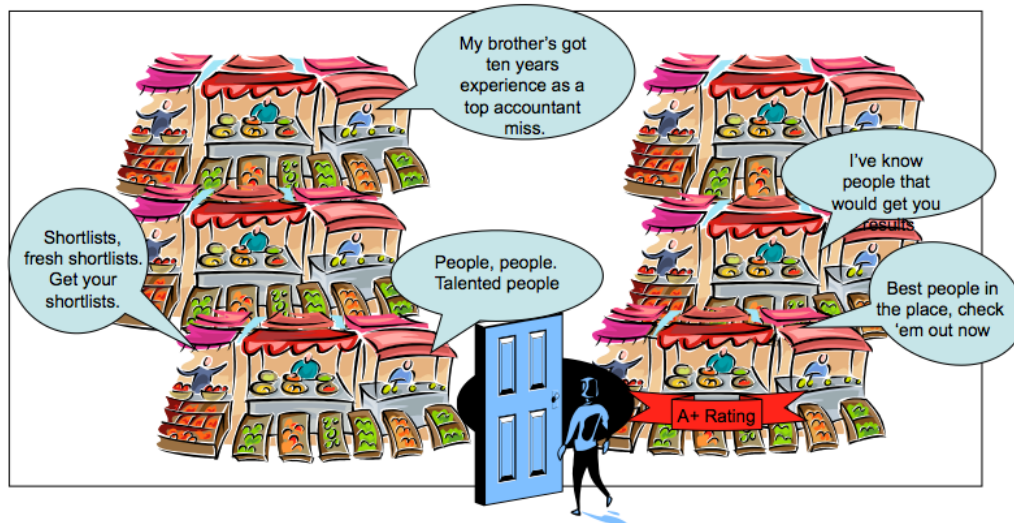
1. Advertise in a major daily paper and compete for candidates with better-known employer brands
2. Place an ad on a job board and within minutes appear way down in candidate searches because major advertisers use their resources to push their own roles continually to the top
3. Target employee referrals with a reward programme but face limitations of scale
4. Bite the bullet and eat into free cash flow to find the \$10,000 + required to afford a recruiter

With only around a third of all SME placements being made as a result of media advertising⁴ there is clearly a large group of SME Hirers who could benefit greatly if they could tap into new ways to connect with talented people for their roles.

When all else is against you hire the biggest army you can

The "killer" application is to leverage small degrees of separation and engage networks to act on behalf of the Hirer.

Recruiters aren't the only group with strong and valuable links to talented people. Any established professional has worked with and observed talented marketers, accountants, salespeople, designers and project managers to name a few. Why shouldn't ALL people who know talented people compete transparently to introduce them to Hirers and be rewarded if they facilitate a placement?



Thankfully the Internet is far more than just a publishing vehicle. It's a place to make and keep connections and it is increasingly common for people to maintain and manage professional relationships online. They store their own information, seek out and connect with past colleagues and communicate with their networks all through online staging posts.

With the networks in place, providing a fertile farmland of potential professional contacts so has technology evolved to provide the tools to search and research individuals to ascertain fit for a role. But the "killer" application is the ability to leverage small degrees of separation to disseminate details of a vacant role to a targeted group of people highly likely to know people matching the brief. If they can be relied on to seek out candidates and be willing to recommend resulting applications real scale is achievable and a targeted, quality shortlist of applicants is likely. (Marketers know other Marketers!)

Well before the advent of the Internet, professionals referred roles to their contacts but it was an ad-hoc, passive and unreliable tool, despite yielding great results for the Hirer when it did work. In the absence of a stimulus, it's reasonable to expect the same limitations will apply in the digital realm and a cash fee for success would seem to be an ideal incentive to ensure people outside the Hirer's own direct network are sufficiently motivated to become really active on their behalf.

It might sound like a stretch but then again who'd have thought ten years ago we'd buy second hand goods online from people we'd never met. In Europe and the US, Hirers are embracing these new tactics and it makes sense given there's no cost until there's a solution and nothing precludes them from continuing to use other resources in concert.

If the Australian SME really wants to compete in the coming war for talent supporting these new models which are themselves fighting to become viable, reliable alternatives is the only way to ensure they will have access to more weapons in the future.



About the author

Michael (Mike) Wilkinson is C.E.O. HooJano Pty Ltd which operates the Reward for Referral website⁵ hoojano.com.au.

Prior to commencing with HooJano in 2007, Michael held senior roles in the Employment and Online businesses of News Ltd and Fairfax. Michael also spent several years with Sensis where he was Group Manager, Innovation and Strategy.

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¹ 2163 executives over October and November 2009

² LinkedIn's Australia Managing Director – Cliff Rosenberg 03/12/09

³ 2009 Facebook Demographics and Statistics Report 05/01/09

⁴ MYOB research 2007

⁵ Reward for Referral websites facilitate connections across all networks be they online or in the real world by providing an incentive for the connections to be made quickly and efficiently.

Hirers post job listings for free, provided they offer a reward. The reward is paid to a "Referrer" if and only if they refer a candidate who is ultimately hired. Listings are broadcast on the website's job board and sent to members of the site who are connected with people matching the brief.

Members contact these people in their networks (whether on Linked, Facebook, Myspace in or in their Rolodex) and make sure that they are aware of the vacancy. If their contacts apply, they act as a referee, staking their reputation in the community on that candidate's ability to do the job.

Reward for Referral websites take the potential of a small employee reward programme and link it into a community of sufficient scale to solve most hiring needs quickly.

Because they offer access to new pools of talent, no up-front financial risk and a shortlist of candidates vouched for by people who know them Reward for Referral sites are a highly appealing option for modern day Hirers. Hirers can use them as an alternative or a complement to traditional hiring services retaining control of the cost by setting the reward knowing that it is only charged if a suitable candidate is located AND the Hirer is sufficiently impressed to hire them.