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○ NINETEEN | ○ NINE | ○ 2008

Recruiting *Entrepreneur*

ADDRESSING THE UNIQUE NEEDS OF SENIOR LEVEL EXECUTIVE RECRUITERS AND EXECUTIVE SEARCH FIRM OPERATIONS

Everyone agrees executive search has changed little over the past 50 years. Well, we sent our team searching for new concepts that might just impact executive search over the next decade.

The New Predator: Pipelining Talent

The recent release of McCool's book has once again inspired the executive search industry to ponder change – the lack of it. We too have spoken to hiring executives, executive recruiters and industry insiders in an attempt to better understand why search simply doesn't change. Well, during our discussions we found an interesting, relatively hidden gem that could have an impact on search in the future. Only time will tell if this concept has legs and its developer says a consistent success rate and its ascent into the senior level executive suites will virtually ensure it. Today it often crosses paths with executive recruiters, but never have recruiters known it, and until they face off with it, recruiters won't be ready. So what is this new concept? "Talent Pipelining" says its developer, Robert Stein of Prospect City. Over his 25 years in the

executive search industry, Stein says virtually all of the client-facing aspects of executive search remain unchanged while the hidden internal operating aspects have evolved dramatically. "The tools available to support search execution have evolved significantly resulting in improved access to talent, but this has had no real impact on executive search terms and pricing." We found most recruiting clients believe executive search is expensive and risky. When asked why they haven't provided enough pressure to change recruiting terms, clients most often replied that they had little choice with no great alternatives available. So is that it? Do recruiters hold all the cards when it comes to search? Over the years there have been many new products and services that claim they'll change the search industry, including chiefmonster.com, sixfigures.com and others. Even Private Equity firms, notorious for having built and cultivated large networks of senior level executives, continue to hire executive search professionals when needs arise. We took a look at Stein's product to gain a better understanding of what it is, how it works and we've spoken to some of his clients too. What we found was an interesting, inexpensive alternative that seems to work.



Stein credits his idea to feedback from all aspects of executive search and its clients. It's rooted in the idea that recruiters have long sought extended commitments from client organizations, but offer relatively little price reduction in return. Normal fees of 30-33% might be reduced to 26-28% in return for a minimum number of searches annually. It's a difficult sell since client companies tend to prefer the transactional nature of search. "I'll call you when I need you and I'll pay what you ask – but go away when I'm done" is not uncommon among clients. >>



Pipelining Talent *Continued from page one*

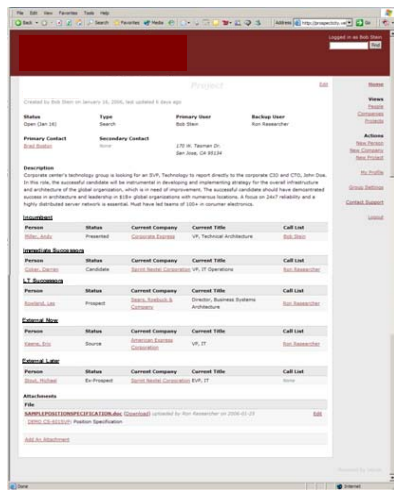
Stein worked with his team to develop a product he considers fair for all parties and promotes a longer-term relationship.

What is Pipelining Talent?

Pipelining is a process of continuously generating market talent in support of positions at the hiring organization, regardless of the hiring status. For example, if a company foresees an executive change within a few years it directs Prospect City's team to begin the pipelining process for that role. The team consists of high-level researchers and leverage-quality executive recruiters who pre-qualify individuals and make introductions throughout the process. "It requires a hands-on client who is willing to review individuals who fit into a broader job specification," says one of Prospect City's researchers. She adds, "Clients like to meet and get to know the industry's top prospects without the pressure to fill a vacancy."

The service would not be effective without a technology that organizes the information and presents it for clients. Stein uses a custom database called Velvet, which displays the people pipelines under each position. "What's really unique is that the client companies own the data. They have complete access to the entire pool of prospects, their documentation and our comments." It's a long term return on their investment and the returns can go well beyond search. One of Prospect City's private equity clients uses the service to identify top talent within its portfolio company space and has extended broadly to identify and meet top functional leaders too. Over time, the team gets to know the client organization to a point where they serve with an almost internal understanding of the culture and strategic direction of the company. "We've had at least one case with each client where an introduction led to a non-recruitment deal, such as an investment, a partnership or an acquisition. In fact one of our introductions led to two companies forming a best-practice partnership in chemicals and manufacturing to improve products. Both companies were multi-billion-dollar in size and from seemingly unrelated industries.

Pricing is a key factor in its success. Prospect City charges \$15,000 per month for three months before lowering the fee to \$10,000 per month. In exchange, clients get about 80 hours of research and recruiting time from at least 2 professionals at the company. When hires are made, Stein's group requires a success fee ranging from just \$5,000-\$10,000 per hire. To illustrate the results we spoke with one of their clients who asked to remain confidential. As head of HR and "relatively hands-on", he's been using Prospect City for about 18 months. During that time the recruiting results were pretty impressive; 9 hires at a savings of nearly 70% per hire. "In the past we used recruiters who charged us about \$75K per project and completed about 80%. They also took a about 110 days on each project where the Prospect City team generally took about 60 days to get up to speed but then we hit a pace of more than one hire every 60 days. It was pretty impressive."



"This really is a niche opportunity" said Stein, "There will always be a need and a preference for the transaction offered by the traditional recruiter. This is what most clients want. We offer a different solution for an audience that wants to be a bit more hands-on, but more importantly an audience who sees a broader benefit to maintaining a constant stream of introductions."

Clients can direct teams to focus on different priorities and turn the service up or down to meet their needs. Because the technology is web-based, client companies who turn down Prospect City's services can maintain the technol-

ogy and use others to contribute, including employees and other recruiters. In some cases it served as a basis to acquire more information from recruiters beyond just candidates. One firm was asked to contribute a pipeline of board candidates and later was asked to keep the data up-to-date by entering and maintaining the movements of board directors for the past two years. "We're trading short-lived retainer fees for a longer commitment from the client," adds one recruiter who's moved into the slot once held by Prospect City, but we're now tied to the company and we get additional work because of it. In fact, Stein says Prospect City has added about 30% to its revenue portfolio for work assigned outside of direct recruitment, but as a result of their ongoing relationship.

"The referrals have been great, and there are some big fans out there who promote us regularly among their peers and customers. Geoff Smart of Topgrading fame added Prospect City to his seminars to small and middle market CEOs. For those firms who have less experience with recruiters and take issue with their fees, Geoff promotes the idea that companies can get around high fees by hiring recruitment researchers through Prospect City, but it requires a hiring executive willing to get involved in the final assessment. "Most hiring executives are heavily involved in the final assessments anyway," added Stein. "It's just a minor expansion of their duties."

Since the Internet boom there have been many new concepts that claimed they would change executive level recruiting. Most notably, Monster expanded its product to reach senior level executives at chiefmonster.com. It sought to automate and simplify the senior level recruitment industry, but quickly failed. It's too soon to conclude whether Prospect City's pipelining tools and services will have any impact on the business of executive recruiting, but one can



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conclude that for Stein and his clients it seems to work well.

"Revenue is up by 40% in 2008, at a time when this industry is contracting. I'm just thankful I can keep my people busy." Stein said. "I built this business to provide broad services to the executive recruitment industry, mostly defined by our customers. Lucky for us, we have consistent revenue streams that allow us to take some risks."

These additional revenue streams come from database technology offered by Prospect City to corporate and recruiting clients, a subscription-based community of independent recruiting researchers and core utility-based services such as web hosting, email hosting, VoIP PBX telephone hosting and even custom technology development unrelated to recruitment. "Heck, we're making iPhone applications, network management systems, and accounting systems. We spun off our IT group just to allow them to step outside our brand," Stein added.

It may be too soon to boast of high-impact services and products having an effect on search, but it is clear that this concept puts significant pressure on price, delivery and transparency of search. Will more and more clients buy into it? We believe that only clients can effectively pressure search to evolve, and clients have had little alternative choices to affect search in the past. Check back later for updates.