RIB
Recruitment Industry Benchmarking

This is **Part 3** of a series of articles by Romney Rawes, Chairman and Founder of the RIB Index. They were originally published in Recruiter Magazine to open up awareness and debate on the importance of good measurements within a successful recruitment business.

"Monthly management accounts should give you more than just historic bean counting."

There is a huge variety in the type and content of monthly information which Recruitment businesses employ to run the show. There are still many (almost necessarily small) who rely on irregular, unstructured, "back of an envelope" gauging of progress, simply followed up with year-end accounts. If a business is to thrive and grow, however, it is essential that it is run with robust, valid measurement.

The "Starter for Ten" is regular, timely (ie within 2-3 weeks of the month end) Management Accounts, with full Profit and Loss Account and Balance Sheet. Whether these are prepared in-house or through some form of outsourced facility (eg the Auditors), all too often I come across such accounts which are prepared to a normal generic format (eg Sage), rather than being framed for use in a Recruitment business. This is particularly important in what is called the Trading Account (ie the P & L account down to the level of Gross Profit) where the business offers a temporaries or contractor facility. First, Gross Profit should be struck by adding Permanent fees, less rebates and credits, to Temporary/Contractor Sales, less the payroll cost (including all WTD) of that revenue ("Margin"), plus any other revenues billed to clients, less any direct costs of that revenue (eg *Client-paid* Advertising billed, less the costs of that advertising). This is Gross Profit ("GP"). It should not be reached after having also charged Consultants' payroll costs or *Candidate generation* Advertising; these form parts of the Overhead.

It is essential that Sales, or Turnover, is split between permanent and temporary. Also, whether as part of the Accounts or as a memo item, the Margin Percentage on Temporary revenue (ie the Margin, divided by the Temporary Sales, times 100) must always be available.

So, given we now have a monthly P & L a/c shown in a recruitment business format, we need to get some management information from it. So, to take a few examples, also measure the following:-

1. Identify the number of working days in the month. It makes an enormous difference, particularly with Temps, whether it's a 4- or 5-week month and whether there are Bank Holidays, etc. This will vary, of course, according to Sector; Nurses work 24/7/52, whereas office staff will typically be 5 days per week, less Bank Holidays. Thus the Temporary revenue needs to split down, to show Margin per hour worked, Margin per Temp per week, and Average hours per Temp. There are more, but let's keep it relatively simple!
2. What is the percentage of Rebate to Perm billing? Be sure to distinguish between Credits (ie a simple adjustments to the value of the invoice) and Rebates; the latter is a key indicator of the quality of your service.
3. Temp/Perm split at Turnover and GP level.

4. Establish the overall, then individual, GP per fee earner.
5. Identify normal advertising (ie Candidate generation advertising at our expense) cost, whether on the Web or in the media, and express it as a percentage of GP.
6. Staff payroll costs as a percentage of GP.
7. Split Staff payroll costs between fee earners and the rest, ditto the numbers of people in each. Work out the respective ratios or percentages of each to the total staff.

Having measured all or some of these, so what? What are you benchmarking them against? In most recruitment businesses, simply internal targets or goals. The most common of these internal measurements is the Budget. The one thing you can be certain about with a budget is that it will be wrong! The issue is which way is it wrong (better or worse) and by how much? This might lead you to wonder whether it has any value; it most certainly has, but it is important to know the basis on which it has been built up.

Budgets provide a valuable benchmark, but the following questions need to be answered to find out how valuable:-

1. Who has been responsible for setting the figures, whether we are talking about the income or the expenditure? The latter can usually be gleaned from assessing previous recent history as to the level of costs and applying any known variances. The more difficult area is the income. Have the people who are going to be held responsible for the delivery of the numbers also been involved in setting them? Unless they have some "ownership" the budget figures will quickly be disregarded as unrealistic if they are not being met.
2. Even if the income side of the Budget has been built "bottom up" (ie worked out from individual inputs and then consolidated) rather than "top down" (ie the total figures are estimated first, then applied downwards to give the individual's contribution)

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