

MARKET INDICATORS

Margin volatility and credit chasing crucial to staying fit

BDO Stoy Hayward's review of the latest data outputs from Recruitment Industry Benchmarking (RIB) highlights the volatility that recruiters can experience in margins.

The acceptability of temporary workers in the workplace has greatly increased, with temporary billings standing at more than £23m.

The historic rationale for using temporary workers was that they provided employers with a high degree of flexibility to cover for holidays, sickness and long-term absences without the full cost of employment. As rights for temporary workers increased, employers argued that the increased cost would be prohibitive and be detrimental to the economy, business and ultimately the temporary worker.

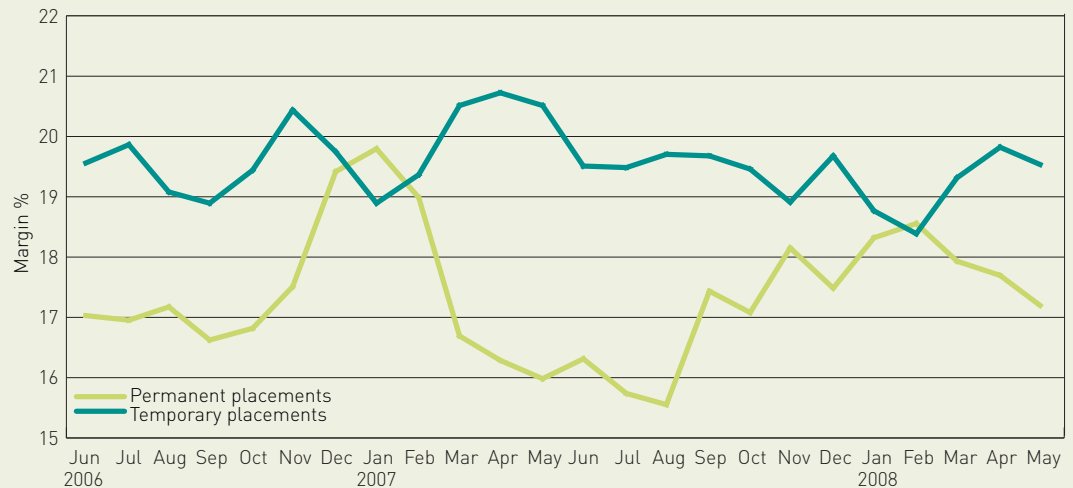
Despite these concerns, temporary revenues have still increased and agencies appear to be passing on the additional employment costs to their customers. Despite an initial concern that margins would be affected by the introduction of additional paid holiday entitlement in October 2007, RIB members' margins are still holding up.

The profitability of a permanent business is harder to measure, but the top chart shows the average fee earned in relation to the placement salary is highly volatile. Recruiters need to ensure that they have an appropriate mix of lower margin preferred supplier placements with higher margin work. It is difficult to plan this, but ensuring employees are appropriately remunerated for the quality of the earnings they are generating can balance the overall profitability.

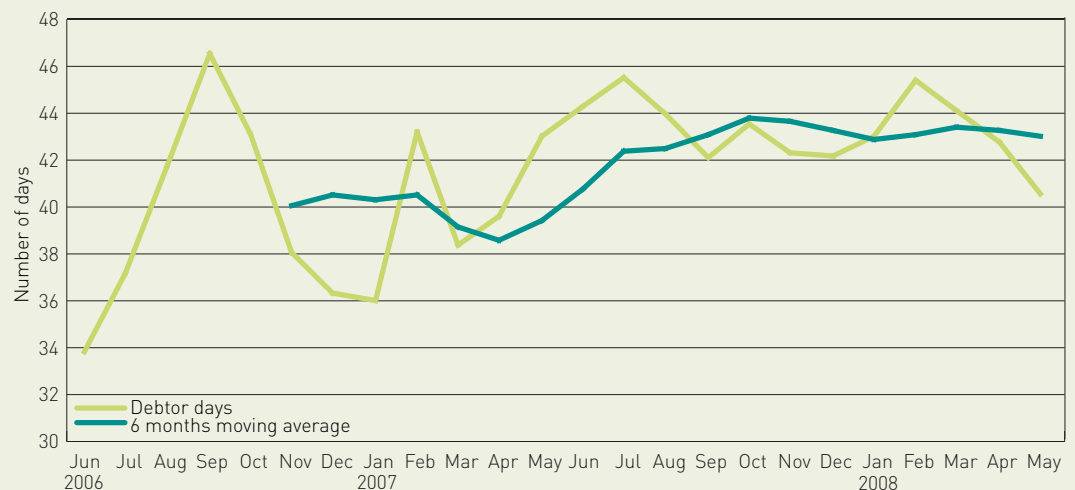
With growth potentially off the agenda for many agencies as potential new business becomes harder to find, it would be easy to forget cash management practices. Managing cash and staying financially fit is paramount not just to ensure that cash is collected in a timely manner but ultimately that it is collected.

While the front office is chasing new opportunities and hunting for sales, it is important to ensure that clients still have the ability to meet their liabilities.

MARGINS ON BOTH PERMANENT AND TEMPORARY PLACEMENTS



DEBTOR DAYS



Christopher Clark, corporate finance partner at BDO Stoy Hayward, commented: "It is important that regular credit checks are carried out to ensure recruiters fully assess their customers' credit worthiness. While a client may seem like a good sales prospect, if they can't pay on a regular basis the profitability of working with them needs to be questioned."

The data from RIB shows that members are keeping a tight control on the level of credit customers are taking. A fluctuation of five days, as experienced over the past year, equates to additional funding of around £370m for the industry as whole. While this is usually available from a banking partner, ensuring that there are sufficient facilities in place is paramount.

Crawford Walker, director at RIB, added: "Our members are still performing well in a difficult operating environment. Professional operators are not satisfied with just measuring themselves against what they did last year. The business environment is moving faster than this, and they need to know how they perform in relation to their peers now."

"In this way they can use up-to-date information which is crucial in enabling them to make informed business decisions, help

them outperform the competition and deliver added value to their stakeholders. There is no room for complacency at this time and we believe that membership of RIB enables companies to benchmark their performance against their peers."

● *Recruitment Industry Benchmarking (RIB) provides its members with monthly up-to-date analysis of their performance on key industry measurements. This enables them to measure, manage and improve their business performance. www.rindex.co.uk*

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