BUSINESS INTELLIGENCE

MARKET INDICATORS

Margin pressure increases as revenues continue to fall

Recruiters' revenues have been falling since summer 2008 and this trend has affected profitability. According to BDO Stoy Hayward's review of the latest data outputs from Recruitment Industry Benchmarking (RIB), members are now seeing falling margins in addition to a reduction in business.

What is causing this and how should they react?

The market is shifting to being more client-led, with a resulting impact on margins. Temporary margins have shown a steady decline since April 2008, with November and December's levels of around 18.7% currently standing 0.75% below the two-year average. Key reasons for the reduction are threefold.

Working Time Directives increased paid holiday entitlement by four days, increasing the overall cost of employing temporary workers. This has not necessarily been passed on to the end user client in full and has been absorbed in part by the recruiter.

As the market shifted, clients took the opportunity to reduce their expenditure by reducing the pay scales of contractors.

Recruitment outsourcing has become more prevalent in the wider market and procurement processes have increased in sophistication, meaning suppliers have been consolidated at reduced margins.

Additional problems lie ahead for recruiters with clients in the financial services, not-for-profit, charity and healthcare sectors. The withdrawal of the VAT concession in April 2009 will increase costs to these sectors and if not absorbed by clients, will fall back on recruiters, further reducing margins.

Permanent margins have moved less predictably, but more importantly for this profit category is the fact that revenues in December 2008 were down by more than 30% compared to previous years. It is difficult for recruiters to react to such a sharp fall in revenues and this is the largest contributor to the overall fall in net profit to a negative 2.6%.

In a business with a balanced mix of permanent and temporary revenues, profits from temporary revenues can cover recruiters' fixed overheads, while revenues from permanent placements provide their profits.

Christopher Clark, corporate finance partner at BDO Stoy Hayward, told *Recruiter*: "With permanent revenues falling so significantly, recruiters need to review discretionary spend.

"If you asked your employees whether they wanted a benefits package with frills for the rest of the month or more job security to the end of the year, we probably know which they would choose."

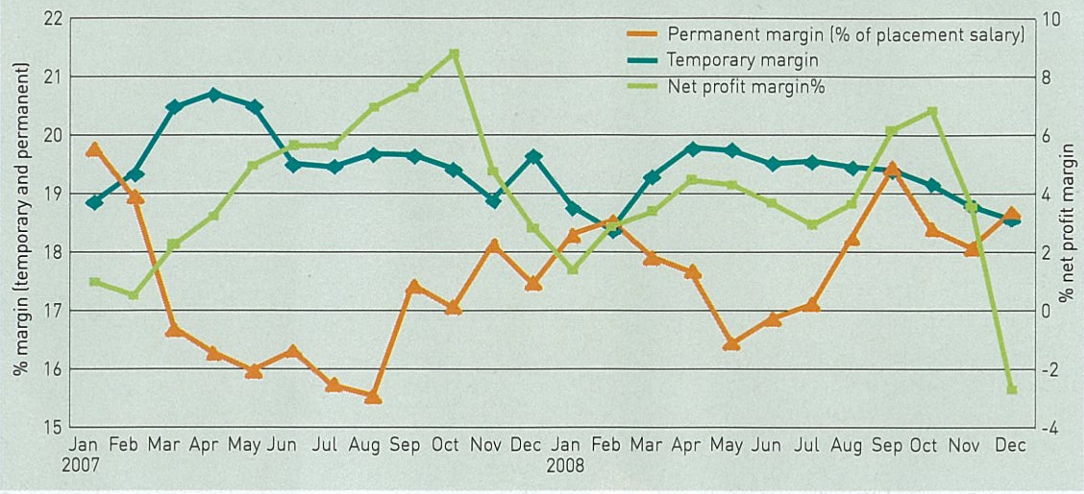
"The fall in both revenues and profitability in December needs to be analysed and understood. December is always a difficult month with fewer people committing to changing jobs, fewer working days and the distraction of Christmas parties.

"Understanding the dynamics of each organisation is paramount. Having management systems that provide visibility of prospects over the next two months will help balance any decision to be made following an analysis of December."

Clark added: "What recruiters need to be careful of is cutting too deep into necessary expenditure. For example, cutting out the recruitment and retention of good consultants could be one of the most costly mistakes a recruiter makes, whether you invest in a new IT system to improve efficiency and streamline processes for longer term savings is much more difficult to assess."

Crawfurd Walker, director at Recruitment Industry Benchmarking (RIB) , told *Recruiter*: "In the current marketplace it is vital that management make strategic decisions and not knee-jerk reactions, no matter how difficult that may appear to be at times."

MARGIN ANALYSIS



REVENUE COMPARISON TO PRIOR YEARS