Making profit secondary to survival

Strategic decisions are vital in trying to reduce losses, manage debt and bring businesses back to profitability

keyindicators

- **Decline in revenues**
  In comparison to 2008, the overall decline is 30%
- **Fall in industry turnover**
  Annual revenue in recruitment falls from £27bn to around £20bn
- **Working capital requirements**
  Fluctuations reflected in the number of debtor days, from a low of 37.7 rising to 46.3 days, can have a serious impact on recruiters' ability to operate in terms of their funding requirements

Recruiters may struggle to make an overall profit this year given the operating performance since the start of the year, according to BDO Stoy Hayward's review of the latest data outputs from Recruitment Industry Benchmarking (RIB).

The overall decline in revenues, when compared to 2008, still stands at around 30%. Unfortunately, reducing costs to the same scale and in the same timeframe has not been possible, meaning that at an operating level recruiters have been unprofitable for the first six months of the year.

Cost cutting measures are starting to be reflected in monthly operating performance, with May and June's results showing break-even performance. However, it is difficult to see how profits for the second half of 2009 will recover to make up for the losses already incurred. To put this in context, an industry that has seen its annual revenue reduced to some £20bn will have generated an estimated loss in the first six months of more than £500m. While there are still profitable businesses, especially in niche segments, most firms will have had to downsize and incur substantial one-off costs.

It is encouraging that recruiters have now been able to bring their costs back in line with the dramatic fall in revenues they have been experiencing. It will still be challenging for a lot of recruiters to make a profit this year but this objective for many has become secondary to the primary goal of survival. Potential sales and flotations are on hold.

> **The warning signs are still there for recruiters to manage their business with caution**

How businesses have funded themselves through this period will vary depending on their owners' wealth, their access to other sources of external capital and importantly their relationship with their bank manager. How a business structured itself 18 months ago and how it planned the headroom it required will have had a significant impact on how it has fared more recently.

Working capital requirements over the last two years, as reflected in the number of debtor days, has fluctuated significantly from a low of 37.7 days to a high of 46.3. The impact this can have on a recruiter's ability to operate within its available funding is momentous. Over the past six months this measure has reflected some consistency at around 41 days, a credible performance, while clients are also trying to manage their working capital and defer payments as much as possible.

As industry turnover falls from £27bn towards £20bn, the amount of money owed to recruiters has reduced, thereby improving cashflow and allowing them to fund losses made from their operations. Using the current average from RIB data of 41 days this will have released working capital of around £800m.

In the current climate recruiters probably fall into two categories. The first are trying to reduce the losses they are making; the second are also trying to reduce the losses, but also manage and repay external debt finance. Those in the first category are obviously in a better position but delaying corrective actions can impede their ability to survive.

The warning signs are still there for recruiters to manage their business with caution. The strategic decisions made by management are bringing businesses back to profitability. Making these decisions quickly has proven vital in reducing any downturn in profitability and ultimately in securing the value of the business.

Recruitment Industry Benchmarking (RIB) provides its members with bespoke monthly comparisons of their performance on key industry measurements.

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1 Operating profitability (net profit as a % of turnover)

2 Spotlight on debtor days September 2007 – June 2009