

# MARKET INDICATORS

## Employment law blamed for declining profit margins

Gross profit margin on temporary placements has been declining and changes in employment law could be to blame, according to BDO Stoy Hayward's review of the latest data outputs from Recruitment Industry Benchmarking (RIB).

The overall trend in gross profit margins on temporary labour has been declining over the past 20 months. While margins over 20% were common at the start of the year, the trend is now moving below this level.

It is highly likely that part of this decline is from the rise in statutory holiday entitlement from 20 days to 24 that took effect from 1 October 2007. It is no surprise then that October and November are both lower and this is probably because recruiters have found it difficult to pass this increased cost on to clients.

Christopher Clark, corporate finance director at BDO Stoy Hayward, said: "The timing of the increase could not have come at a worse time. Businesses have been worrying about how the general economy and 'credit crunch' will affect their own performance. They are therefore very resistant to agreeing to absorb these cost increases."

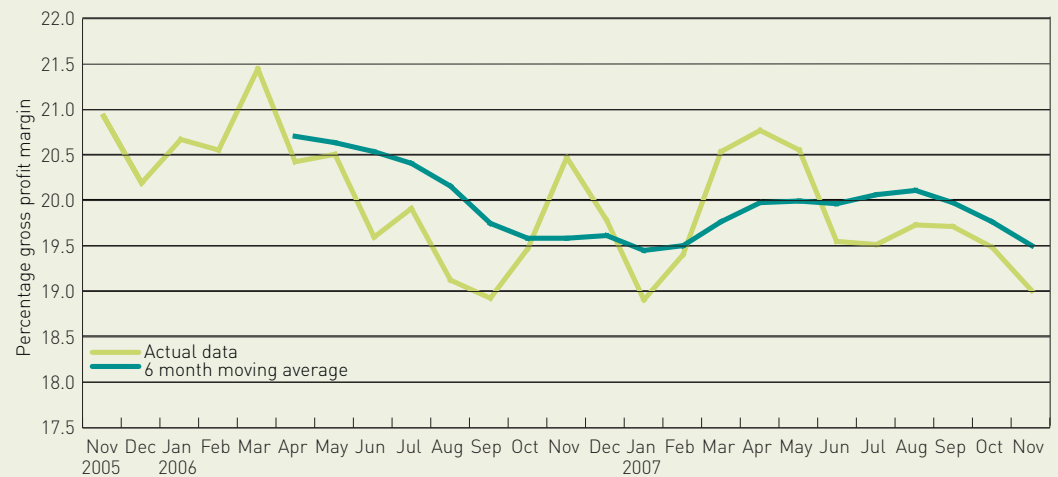
Clark says the next date recruiters need to be aware of is 1 April 2009 when the change is fully implemented and the number of days holiday entitlement increases from 24 days to 28. If these changes are absorbed by recruiters, margins are expected to suffer further and could be dampened by as much as an additional 1%.

Crawford Walker, director at RIB, said: "While the increase doesn't sound dramatic, this is just another additional cost that recruiters are having to bear. When recruiters are agreeing long-term contracts with their clients they need to ensure that these costs can be passed on or at the minimum shared with their clients."

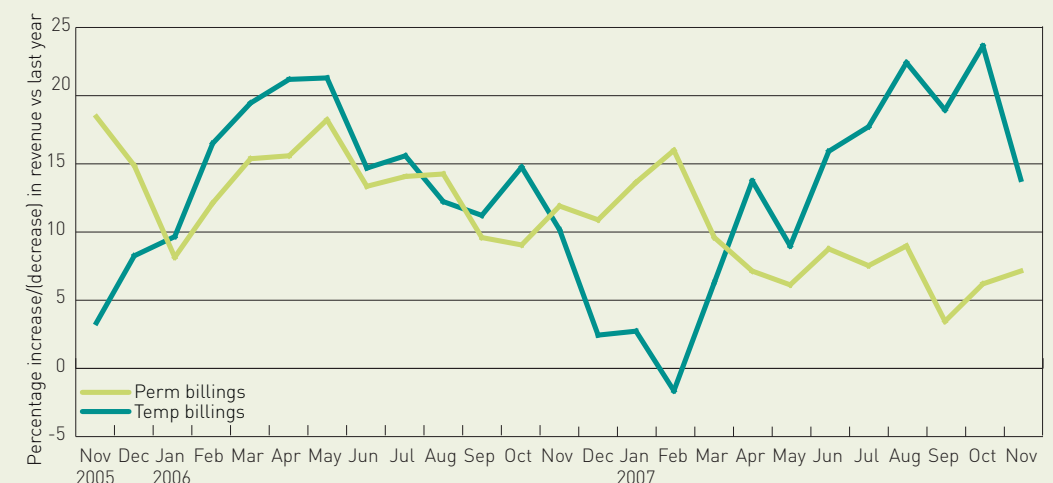
### Industry performance

Encouraging news is that recruitment revenues are still increasing compared to last year. While growth is variable and has started to fluctuate more, there is still an upward trend which is very encouraging. If this rate continues until March 2008,

### GROSS PROFIT MARGIN ON TEMPORARY LABOUR



### INCREASE/DECREASE IN PERMANENT & TEMPORARY BILLINGS



the industry will post a record level of revenue at more than £29.3bn.

Further analysis of the growth shows that the two billing streams have started to diverge. Given current economic data highlighting fears of a slow down in the economy, it is surprising that the rate of growth in permanent billings has been far ahead of that in temporary billings for over six months.

For the past six months permanent billings have been growing at more than 15% compared to last year, while growth in temporary billings have slowed and been below 10%.

Quoted recruiters are in the process of updating the market about their performance and in general this is consistent with the

above data and showing growth. Current sentiment from investors towards the sector is not as encouraging as they are factoring in fears that the growth will not continue in 2008.

**Christopher Clark, Corporate Finance Director at BDO Stoy Hayward:** "Recruiters should ensure they are monitoring their businesses closely and ensuring that consultants are performing and costs are under control."

*Excessive expenditure and aggressive expansion is off the agenda for some recruiters, but that will probably depend if your glass is half empty or half full."*

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

SPONSORED BY

**BACKOFFICE**  
SUPPORT SERVICES

**NO.1 QUALITY**  
FINANCIAL & ADMINISTRATIVE SUPPORT  
AS AFFIRMED BY OUR AWARD-WINNING CLIENTS

01 260 280 290 [www.backofficesupportservices.co.uk](http://www.backofficesupportservices.co.uk)