

MARKET INDICATORS

Impressive previous growth in slowdown, not decline

In the first quarter of 2008 growth has become more challenging, according to BDO Stoy Hayward's review of recruitment agencies from Recruitment Industry Benchmarking (RIB).

Performance data from the first quarter of 2008 highlights that growing billings is becoming more difficult. Growth has slowed in both permanent and temporary markets, but while permanent billings are still showing signs of growth, the temporary market is finding growth the hardest, with the first recorded decline in over 30 months.

It would not be unusual for permanent billings to decline when UK plc is faced with a period of economic uncertainty, as employers lose the confidence to continue hiring. The resilience of the permanent market is directly attributable to the strength of the employment market.

Unemployment can rise rapidly when the job market starts to turn, but in May the numbers claiming unemployment benefit only rose by 7,200 to just over 806,000. The ongoing skills gap in the UK means that those hard-to-fill appointments are still vacant, and as talent is let go by some corporates, other organisations are only too willing to offer them new employment.

Commenting on the findings, Christopher Clark, corporate finance director at BDO Stoy Hayward, said: "The data should be viewed with caution at this stage as overall the growth has slowed rather than declined and this is after some very impressive growth through 2006 and 2007."

With a significant increase in the legislation on engaging with temporary workers, employers may now be thinking twice about how to bridge gaps in the employee base. Where temporary labour was seen as cost effective and efficient, this may no longer be the case. Recruiters may be sharing part of the cost burden with employers as their margins have been declining from nearly 20% to 19% over the past 15 months.

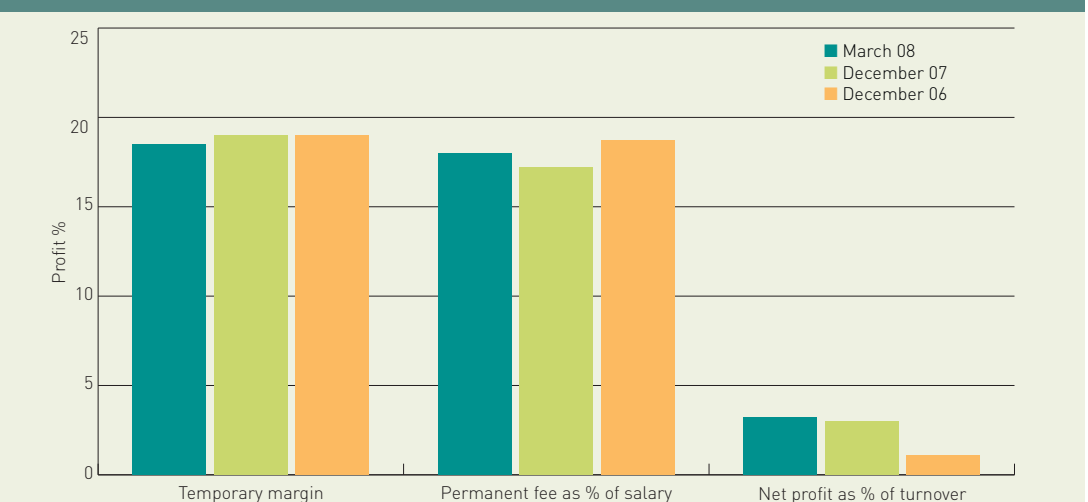
This will be exacerbated further after Gordon Brown's pledge to introduce greater rights for agency workers to give them the same pay and holidays as permanent staff.

The fees earned on placing permanent staff are more variable.

CHANGE IN TURNOVER VS PREVIOUS 12 MONTHS



PROFITABILITY



Over the past 24 months, the average placement salary has increased from £23,300 to £25,900 (+11%), but the average fee has varied from 15.6% to 19.8% of the placement salary over this time. This variability is more likely as a result of the interaction of preferred supplier agreements limiting the amount that can be charged to the clients' scale charges rather than the published recruiter rates which are far in excess of these.

The good news is that, overall, profit is increasing as a percentage of turnover despite these fluctuations and variability in the constituents to net fee income. While encouraging, it is difficult to equate this to any one factor that would have contributed more than any other.

Clark added: "Scale can play a significant part in driving overall profitability as the overheads in a

business are more likely to step change rather than increase proportionately. A growing business is therefore unlikely to need to increase its overheads base for some time. I would add that if recruiters believe the cautious tone of the commentators and freeze recruitment this could provide a short-term boost to profits as induction and training costs are saved."

Crawford Walker, director at RIB, said: "The quarter results to March 2008 have shown the conflicting messages the marketplace is currently sending

to our members. Comparing these to the outputs they receive from RIB allows them to continually monitor and enhance their own performance. Benchmarking is a continual process to aid improvement and help our members achieve 'best in class' performance."

● *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.ribindex.com*

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