

MARKET INDICATORS

Margins are holding up despite falling revenues

Competition and market forces are reducing revenues but margins are still being maintained, according to BDO Stoy Hayward's review of the latest data outputs from Recruitment Industry Benchmarking (RIB).

Changing market dynamics

The number of people unemployed has now reached 1.82m, the highest for 11 years, according to Office for National Statistics' figures. With commentators predicting that this will rise towards 3m before it starts to get better, the dynamics between clients, candidates and recruitment agencies are set to change.

The recruitment market is usually in three modes: client-driven, candidate-driven or neutral. The latter is the least common as there has rarely been an equilibrium of vacancies and candidates for long enough. It is also worth noting that individual sectors may differ depending on the growth dynamics of that industry or the age profile of its workforce. For most of this decade, the lack of suitable candidates to fill an ever increasing pool of vacancies has meant that agencies have had to work hard to find or persuade candidates to look at the vacancies on offer (candidate-driven). With the latest news that vacancies have also declined by 40,000 to 589,000, the market is shifting in favour of the clients.

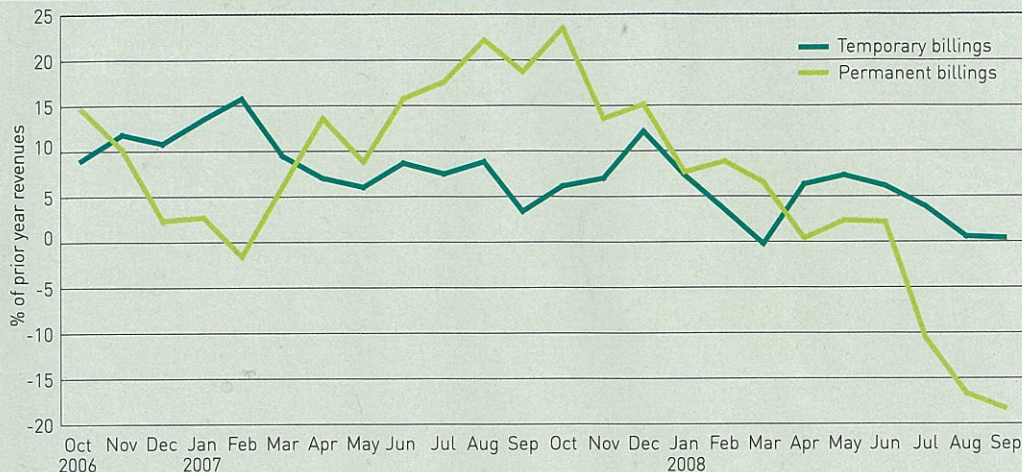
The signs that this is happening are starting to come through in the financial results with revenues either stable or declining as the comparison of billings chart (top, right) shows.

Christopher Clark, corporate finance partner at BDO Stoy Hayward, said: "It is important that agencies continue to monitor performance and manage their business in line with demand for their services. The current news flow and data outputs are indicating that trading through 2009 is going to be difficult and not all agencies are likely to remain in business, the fittest, best managed and best informed will have a distinct advantage."

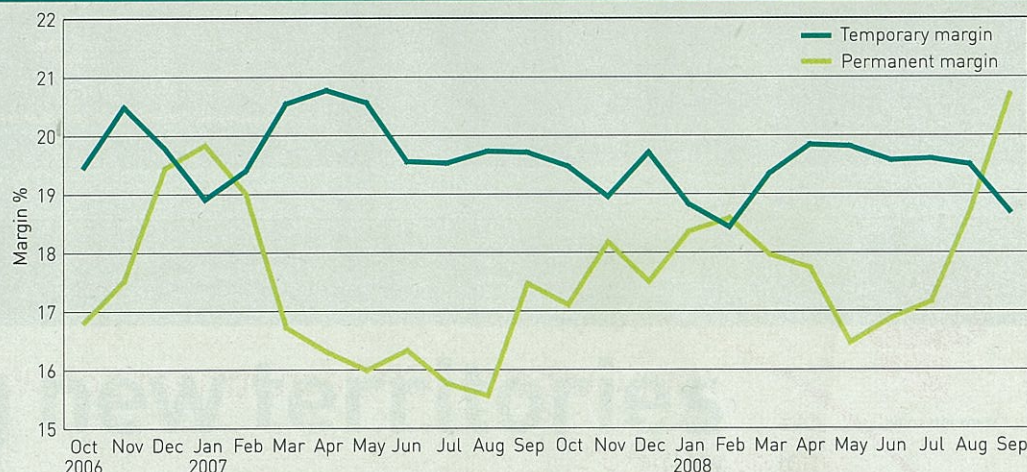
Impacting profitability

The second indicator is the change in profitability as clients are more empowered in their

COMPARISON OF BILLINGS TO PREVIOUS YEARS



ANALYSIS OF MARGIN



negotiations. It was during the late 1990s that preferred supplier agreements became more commonplace, and to get on this select list margins were often reduced and potentially, in some cases, slashed. This was introduced both in the IT sector, following the Y2K boom, and in the health sector, where costs to the NHS got out of control.

The latest data from RIB shows that while revenues are reducing or stabilising, margins have not been adversely affected. For permanent placements, a proxy for margin is the percentage charged of the placement salary which, as the chart (above) shows, has been increasing and is at its highest for the past two years.

The margin made from temporary placements has been steady over the past two years, despite increased costs from aligning permanent and

temporary workers' employment rights, as well as the change to VAT treatment for agencies dealing with the health or financial services sector.

Clark added: "The fact that RIB members have overall been able to maintain their margins is notable. Those agencies who work in partnership with their clients are less likely to see their margins challenged as long as the service they receive is maintained."

Crawford Walker, director at RIB, commented: "This is obviously an important time for

management to make be making positive strategic decisions. Crucial to this is having up-to-date market information to help them make informed decisions, not knee-jerk reactions. Membership of RIB makes a strong statement that a company is serious about its 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.**

SPONSORED BY



NO.1 QUALITY

FINANCIAL & ADMINISTRATIVE SUPPORT
AS AFFIRMED BY OUR AWARD-WINNING CLIENTS

01 260 280 290 www.backofficesupportservices.co.uk