

Lower margins propping up volume?

Margins in both temporary and permanent placements have been reducing, according to BDO's review of the latest data outputs from RIB

Structural changes in the market have put pressure on the margin charged on temporary placements for some time now.

The removal of the VAT concession scheme earlier this year, coupled with increased holiday pay entitlement, was expected to create significant margin pressure but it is difficult to isolate the effect this has had on the overall margin. Increased competition will also have put pressure on recruiters to reduce their margins to win the business.

The combined effect of all these factors has led to the worst margin level seen for some time at 17.5% in August.

Permanent placements have also seen the average per cent of placement salary fee reduce during 2009. The average for the eight months of 2009 is 16.8%

compared to 18% during the previous 12 months.

The underlying rationale for this drop must come from client pressure to reduce the costs of hiring, knowing that permanent volumes are at an historic low. To quantify this drop, volumes are now 40% below the level seen in the same period last year. This gives significant power to clients to negotiate better deals in the knowledge that any

fee is likely to be welcome in this market.

This leaves a stark choice for recruiters to accept a fall of a couple of percentage points or kill the deal, which may have much more severe consequences. Conversely, the level of the average salary of people placed has steadily increased during 2009 as the chart below shows and this has cancelled out the falls seen during 2008.

The movements in the profitability that recruiters are able to generate are in the context that volumes are significantly down year-on-year. Through 2009, temporary and permanent revenues have been consistently down around 20 and 60% respectively in comparison to last year.

This gives some comfort that the bottom may have been reached, but this shows signs of the pain that recruiters have suffered in operating their businesses during the past 18 months.

The challenge for recruiters will be matching clients' demands as they look to increase staffing levels and convincing investors that there is demand so that they provide sufficient financial resources to

fund the working capital requirements.

As recruiters have suffered a decline in business they will have released working capital that will have been used to fund some of the rationalisation costs.

Recruiters should consider what financial resources are available to them and manage their businesses accordingly. This means that owners must set strict operational guidelines and parameters, reviewing proposals in more detail and making difficult decisions about which opportunities they wish to pursue.

With the costs of capital in excess of where they were historically, raising finance may not necessarily be beneficial. Ultimately, this may limit the growth of certain companies and reduce the number of operations that start up each year.

The effect of these fundamental changes on the dynamics of the industry is hard to predict but it does imply that business models need to be reconsidered for the 'new economy'.

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

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key indicators

● **Permanent placements**
• During 2009, the average per cent of placement salary fee has been reduced

• Cost of hiring volumes are 40% below the level seen in the same period last year

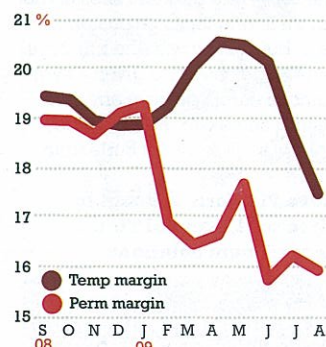
● **Financial resources**
Costs of capital may limit the growth of companies and reduce the number of start-ups

● **Revenues**
Through 2009, both temporary and permanent revenues have been consistently down around 20 and 60% respectively compared to last year

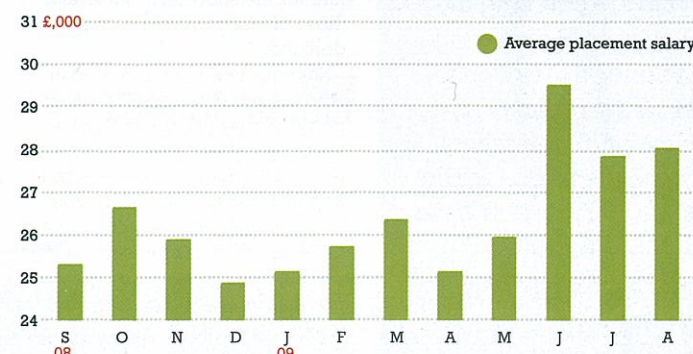
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Owners must set strict operational guidelines and parameters, reviewing proposals in more detail and making difficult decisions about which opportunities they wish to pursue

1 Turnover in comparison to previous years



2 Number of clients in comparison to last year



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