

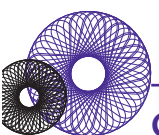
The credit crunch:  
How recruiters can survive and thrive



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## Executive Summary

The growing economic problems brought on by the credit crunch are starting to be felt across the UK economy. But the outlook is far from all gloom and doom. There are ways a recruitment company can survive the next few months or years, but it has to be responsive and flexible. Outsourcing could be a major boon for recruitment companies because it could give them the flexibility that is a key for survival.

## The credit crunch, how far it is spreading and how long it could last?

Everyone is starting to feel the effects of an economic squeeze, from more expensive milk to toppling house values. All the graphs seem to be moving in the wrong directions - price hikes, escalating fuel costs, lower house values, increasing redundancies - it's a gloomy picture for even the most optimistic forecaster.

In April, the IMF said banks and other financial institutions could lose \$1trillion (£503b) from the credit crisis as mortgage-backed assets lost most of their value. The Guardian quoted a Pricewaterhouse Coopers report in August that said the credit crunch had already wiped £600b from the wealth of the UK over the last year. Even the governor of the Bank of England himself warned in August we are in for a 'painful adjustment' and said: 'Next year will be a difficult one.'

The economic slowdown will reach its nadir at the end of 2008 and the start of 2009, according to the Institute of Chartered Accountants in England and Wales (ICAEW). Forecasters aren't predict how long it's likely to last, but 2009 looks to be a bumpy ride.

How bad will it get? All the spin doctors have been avoiding the word 'recession' like crazy, but some businesses are already feeling the pinch to the extent that word is creeping into their vocabulary.

Chancellor Alistair Darling didn't help matters when he made his much-publicised statement in The Guardian newspaper on August 30 that economic conditions are 'arguably the worst' in 60 years. He warned the downturn is, 'going to be more profound and long-lasting than people thought.'

Indeed in August, the Office for National Statistics said that UK economic growth for the second quarter had flat lined. The zero figure is the bleakest reading since the second quarter of 1992.

Figures released by information group Experian (the global information services company) in July showed that business failures have risen 17.5% for the first half of 2008 compared with 2007. Property-related businesses have been hit hardest with failures up 81%, followed by banking and financial services up 58%. By far and away the most affected areas of the UK are Northern Ireland which saw an increase in business failure rates in 2008 over 2007 rise by 74.8%, the North East (46.7%) and the East Midlands (41%)

Business confidence is continuing to slump and the effects of this are now spreading from banking and the housing market into other sectors such as recruitment, consultancy and training

## Employers in the driver's seat

So what does this mean for recruitment companies? Obviously, it's not good. With less demand from business and a plentiful - and increased (thanks to redundancies) - supply of labour, the market has shifted firmly towards employers and they are calling the shots.

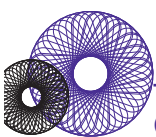
Cutting the bottom line is a priority for businesses and the first place they look at is head count. In August, Personnel Today reported the quarterly National Business Survey by professional services firm KPMG found 53% of senior executives in both the public and private sectors plan to reduce their headcount, with 52% expecting to freeze recruitment.

Another survey of finance directors at 100 listed and owner-managed firms, conducted by business advisors Baker Tilly, found that the number of companies considering cutting their costs nearly doubled during March, increasing from 26% to 45% by the start of April and a quarter of respondents highlighted headcount as the greatest area for potential cost savings, with 15% considering redundancies, and 10% are looking at changing their remuneration policies

There are huge cashflow issues across the board, particularly for recruitment companies dealing with temporary staff. Employers are leaving payment to the recruiter until the final due date, but temp agencies still have to pay their temps, so there's a gap in between and in today's worlds, that is expensive to fill if you're using credit.

Cost-cutting businesses are pushing recruitment companies on the margins.

The increasingly competitive market place means the recruitment company's brand reputation has never been



more important. Recruiters must work harder than ever to keep their clients happy, another symptom of a market weighted in favour of the employer.

But the forecasts for the recruitment industry are positive. Between 2007 and 2012, the UK market for recruitment consultants is expected to demonstrate year-on-year growth (according to Marketing and Business Development) culminating in an overall real term increase of 15% to £32.42 billion (at 2007 prices) in the latter year. Annual growth rates are anticipated to remain relatively stable, oscillating between 2% and 4% during the forecast period.

## Surviving

How to survive the next few months or year? And is it possible to even benefit from a temporary shake up in the long term? Economic constriction is a particular challenge for recruitment companies - if no one's hiring, how do they make their money?

Some sectors, such as finance and business, are taking the brunt more than others, so those in recruitment outside these sectors, such as oil, gas, engineering and IT might have an easier ride.

Areas such as engineering report a boom time. In August 2008, Hays Civil & Structural, the UK recruitment consultancy, said this year has been yet another booming period for UK civil engineering firms (confirming the findings of New Civil Engineering report). Civil engineering is a resilient market due to much of the work being publicly funded with all of the top firms looking for staff. Continued demand comes from projects such as the 2012 Olympics sites and Crossrail, which is worth £16billion, plus the government's announcement that £6billion will be invested in the nation's transport system,

## Keeping it green & clean

The rules for recruitment companies are the same as everyone else: the wisdom is that cash is king and debts must be reduced. Cutting costs is the first and most obvious reaction to a tight market.

Apparently there's a lot of slack out there to lose - businesses waste billions of pounds every year overspending on areas such as fixed costs, services and procurement.

In areas as simple as paper usage there are savings to be made. In August, The Guardian reported British workers waste up to 120b pieces of paper every year, costing as much as 10% of their turnover (according to the government-funded programme Envirowise). Of course, the key is how to cutting costs but without impacting on the

running of the business and there are several ways of doing just that.

Interestingly, the environment could actually benefit from the credit crunch. Sky rocketing bills mean business is looking closely at its energy consumption. This time, the phrase the lights are going out in Britain doesn't spell economic disaster but perhaps survival. It is amazing how turning off lights and computers can reduce bills. UK industry wastes almost £7 million a day on poor energy efficiency.

Increasingly aware of this, business is targeting reducing its energy consumption, according to research by the Carbon Trust. It is the number one cost-cutting priority for UK businesses looking to combat the impact of a potential economic slowdown. Of business leaders surveyed by the Carbon Trust, twice as many say reducing carbon emissions has risen up their agenda in the last six months than those who say it has fallen down (20% versus 9%).

The Carbon Trust said UK businesses could collectively save nearly £2.5 billion (equivalent to 13 per cent of UK companies' energy bills or the combined annual salaries of more than 100,000 employees on an average wage) during the next 12 months, simply by implementing cost effective energy efficiency measures. The potential savings for SMEs alone are around £1.3 billion.

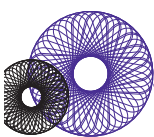
Almost seven in ten (69 per cent) company bosses surveyed are actively cutting costs or considering doing so. The Carbon Trust is urging them to get in touch to get tips on reducing energy bills and carbon emissions - from switching to energy efficient bulbs to offering interest free loans for energy efficient equipment.

The good news for candidates and recruitment companies is that the Carbon Trust's research proves that increasing energy efficiency is a consideration ahead of recruitment bans, redundancies, freezing salaries or giving below inflation pay rises in companies' battle against costs.

## Making lemonade

Recruitment companies could actually benefit during times of economic uncertainty. Business doesn't want to commit to hiring someone permanently, so relies on temps to do the job instead. An increase in the flow of recruits in and out of various temporary positions could actually make recruitment agencies busier and boost income.

The UK economy won't just grind to a halt over night, people will still be recruited and if a company is hiring just one individual, it is more important than ever it's the right person. So the emphasis will also shift to the recruitment



company to prove its staff have excellent recruitment skills and it has access to rich source of talent.

Also, the rising cost of living means more people are taking on second jobs, leading to more work for recruiters. Freelance company PeoplePerHour.com reported a rise in registrations of people in full time employment, 35% of its 7,000 freelancers already have full time jobs.

If you haven't explored fully online opportunities, perhaps now is the time to begin. There are online networks such as LinkedIn and blogging that are a fantastically useful low-cost way for recruiters to plug into a rapidly expanding area of communication. LinkedIn, a sort of MySpace for the business world, is a fantastic source for candidates, especially passive ones, with more than 10 million experienced professionals from around the world, representing 130 industries using the social network. Blogging is an excellent way to establish and solidify relationships with clients through communication.

### Smart outsourcing

A critical solution that might mean the difference between survival and failure is to outsource administration functions such as back office and payroll. This is particularly relevant for the recruitment industry, where payroll and invoice management are major administrative tasks and require considerable investment.

PayDynamics is the UK's only 100% flexible payroll and back office service designed especially for the small and medium-sized recruitment and temping agencies. It offers a versatile range of business functions to relieve this responsibility from the recruitment company and reduce costs at the same time. The company uses proprietary payroll and administration software systems that are highly customisable to match the specific needs of each customer.

The figures to support using this service are impressive. Savings of up to 84% on the cost of administering a payroll through PayDynamics are typical. For a fraction of the annual salary of one back office worker, PayDynamics will do it all for the recruiter.

The average PayDynamics customer has a £500k turnover and is a recruitment or temp agency with 25 temps. They pay only £591.80 +vat a month for the whole service including weekly payments and invoices. That makes it £7,101 +vat a year, where hiring a bookkeeper and/or payroll manager would probably cost in excess of £20k. So the savings are clear.

A major benefit of hiring such business is it relieves the headache of worrying about areas such as new tax regimes

and employment laws and upgrading payroll licenses and software - particularly when there are plenty of other things to worry about.

PayDynamics provides payroll and invoice management, also adds value with company secretary, compliance, credit control, CV preparation and other services. In addition, PayDynamics' clients benefit from access to funding sources through their factoring services.

As part of Charterhouse Group International, the industry leader in providing remuneration services to the global staffing industry, the PayDynamics team draws upon deep knowledge from the group's other business including factoring, immigration services and corporate services.

The key advantage in these uncertain times is the inherent flexibility of the PayDynamics service. A recruitment company's use of PayDynamics will change relating to how busy the recruiter is, as transactions increase or decrease, their use of PayDynamics will increase or decrease according, and so will income.

Given a growth area for recruitment companies is likely to be temporary and contract work in times of economic uncertainty, administration for recruitment companies will increase. Keeping apace with this administrative burden could be a nightmare when the imperative for the recruiter is on finding work, coping with rising costs and just surviving.

### Freedom to focus

There is no way of avoiding the credit crunch and its impact - every business and individual is already feeling it - but there have been economic down turns in the past and there are ways of surviving them. The key to making sure your business survives is flexibility and anticipation.

Recruitment companies should certainly look at how they currently operate and reduce costs where possible. Concentrate on your key strengths - recruitment - and consider outsourcing such functions as back office and payroll. This will give recruiters more freedom to focus on the core business, to keep pace with the market place and follow demand.

In addition to the obvious advantage that a lean business is more likely to survive in difficult times, the perception that you are running a tidy ship will increase confidence with your customers and anyone you want to keep happy, such as a bank or factor. At times such as these, no one can afford to be anything other than cautious.

Making changes now could ensure your company stays in the game.

