



## **CASH FLOW IS KING**

# **CASH FLOW IN THE RECRUITMENT INDUSTRY 2017**



## Introduction

In the post-recession years, the UK has seen a boom in employment, bringing the number of people now in work to record levels.

While wage growth has been sluggish, the employment rate rose to 74.6 per cent in the first quarter of 2017<sup>3</sup> – the highest it has been since 1971.

Technology firms and the service industry, which includes everything from hospitality to business consultancy, have led the way in jobs creation and this looks set to continue. The science and technology sector, for instance, is expected to hire more people than ever over the coming 12 months, generating employment for both skilled specialists and support teams.

As well as wider benefits for the economy, this renewed optimism has opened up opportunities for recruitment agencies. High demand for workers means that they now generate in excess of £35billion each year, with 9,565 recruitment firms reporting an annual turnover of more than £250,000<sup>4</sup>.

But with many only billing after a candidate has been successfully placed, cash flow is an ongoing concern. Clients who do not pay at the end of the process can seriously undermine business operations, so agencies need to do all they can to protect themselves from revenue shortfalls.

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1. Source: [www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes](http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes)

2. Source: [www.rec.uk.com/news-and-policy/press-releases/recruitment-industry-worth-more-to-uk-economy-than-ever-before](http://www.rec.uk.com/news-and-policy/press-releases/recruitment-industry-worth-more-to-uk-economy-than-ever-before)

## The recruitment landscape

Recruitment agencies vary in size, ranging from one or two consultants in a single location to national companies with multiple offices and large teams.

Employment (sometimes called contingency) agencies are the most common and work across a wide range of sectors, typically finding candidates for permanent, office-based roles. Payment comes in the form of a flat fee or a percentage of the new employee's salary once they have begun their role or completed the probation period.

Where short-term cover is needed, such as for maternity leave or to cope with increased seasonal demand, businesses might work with temporary recruitment agencies, paying them a portion of the employee's salary on a rolling basis.

Others in the industry include retained or executive agencies, which recruit top-level managers and executives, usually charging an upfront fee to carry out the search and another when a suitable candidate has been placed. There are also firms that specifically recruit for highly-specialist or niche fields like computer programming or engineering.

## The importance of cash flow in recruitment

Businesses of all sizes need to have a good handle on their cash flow otherwise they are unable to operate. Wages, rent and bills account for the majority of their outgoings, which means there must be enough income to cover these month-on-month.

While companies do rely on loans and credit cards, particularly during their start-up years or when they are looking to expand, responsible owners do so cautiously to avoid being crippled by bad debts (*see page six*).

Cash flow problems can be a consequence of over-spending, although it is also down to customers failing to pay on time or, in some cases, at all.

For recruitment agencies that do not charge an upfront fee, the impact can be catastrophic. Without liquidity, a firm cannot pay its staff and other expenses, and could face high bank charges, lost growth opportunities and even bankruptcy.

## The importance of cash flow in recruitment (continued)

Although recruiters receive substantial fees for successfully placing a candidate, the long lead-time means they sometimes have to wait months for payment.

Reading CVs, making calls, sitting in on interviews and handling the appointment makes the process extremely labour intensive – and agencies simply cannot run the risk of non-payment at the end.

Expansion in the recruitment sector means that agencies are taking on more new clients, sometimes on a one-off basis. Without a pre-existing relationship, it can be difficult to gauge whether a company will pay its invoices, particularly when it comes to smaller businesses experiencing their own cash flow problems.

This is why credit background checks on potential and existing customers are so important. Experian's business credit checking service, **Experian Business Express** means recruitment agencies can assess the financial stability of a company that wants to use their services to hire a new member of staff. The recruiter can then make a decision about whether to work with that client and if so, what payment method would be appropriate.

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## Red alert: Steering clear of bad debt

Virtually all companies have debts though in most cases it is a positive sign of growth and projected success. A business loan, with realistic repayments, will enable a recruitment firm to get off the ground or move up to the next level through investments in new staff, services, offices or IT systems.

But good debts can quickly turn bad if the agency is unable to keep up with the repayments. When cash flow is a problem, a company may have to use credit or loans to finance daily operations, for example rent and staff wages, rather than investing it in long-term plans. Those who fail to meet the minimum monthly repayments, or default on the loan, will incur substantial charges and be left with a poor credit rating.

The fact that recruitment agencies deal with a wide range of clients means it difficult to predict when payments will come in. While some will pay promptly, others could wait for up to 90 days before honouring the invoice, leaving the agency vulnerable to bad debts.

Insolvencies are another factor in the accumulation of bad debts. Government figures show that there were 3,967 company insolvencies between January and March 2017, with as many as one in 213 firms going into liquidation<sup>3</sup>. When a company goes bankrupt, a recruitment agency is unlikely to recover the costs, which means it receives no reward for the many hours spent placing a candidate.

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3. Source: <https://www.gov.uk/government/statistics/insolvency-statistics-january-to-march-2017>

## Red alert: Steering clear of bad debt (continued)

It is not only the lost hours that can hit a recruiter. Those who pay contractors on behalf of the business could be significantly out of pocket if their client goes into administration.

There are steps that agencies can take in minimising these bad debts. In addition to carrying out background checks, agencies should do the following:

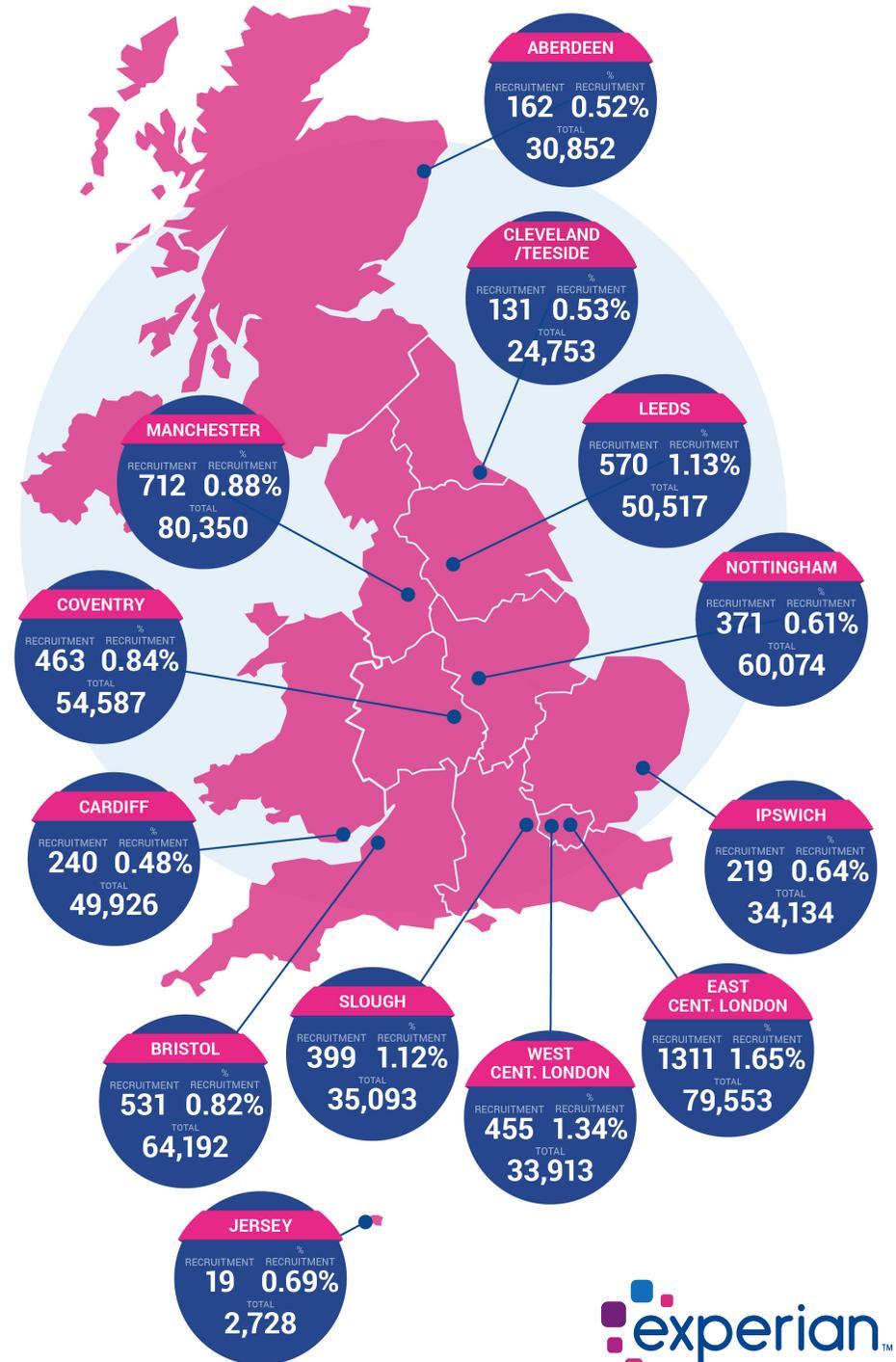
- Insist on payment by a certain date and / or upfront payment (either full or partial).
- Keep the lines of communication open, as non-payment could just be an administrative oversight. However, if a client is experiencing cash flow problems, take the time to discuss it with them and consider a new payment plan.
- Make it easy for clients to pay, whether in cash, by bank transfer or with a cheque.
- Send letters and keep a record of invoice demands.
- Be demanding and persistent to ensure the invoice is not put at the bottom of the pile.
- Withdraw the service if necessary.

Where these fail, recruiters have the right to employ a debt recovery agency and / or take legal action.

## How have start-ups used Experian's services?

The following infographic shows the number of recruitment agencies that opened in 2016, including the most prominent areas in each of the country's main regions, compared to the total number of all businesses in the same region.

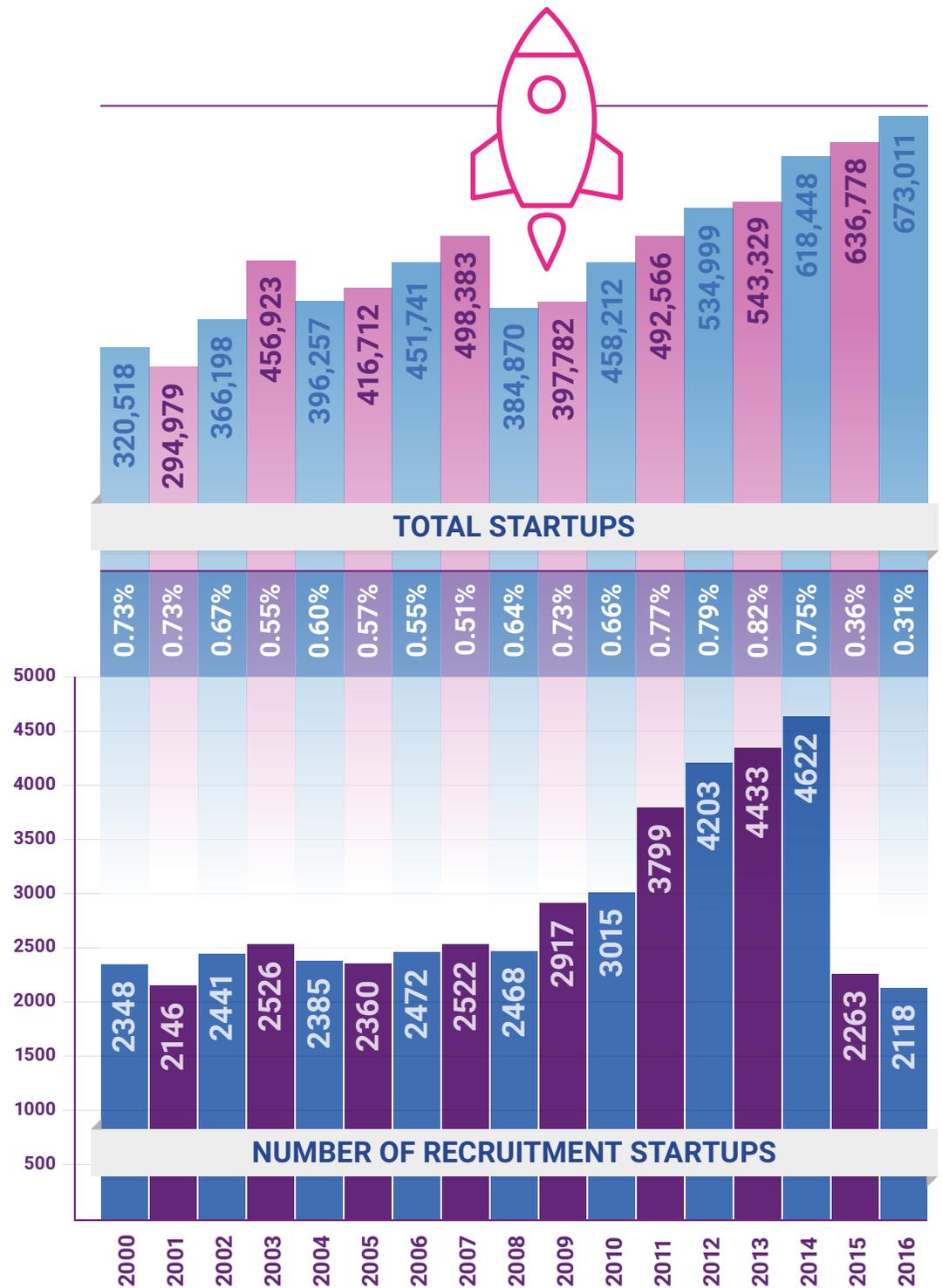
Central London topped the list with 1,766, with the number of recruitment firms accounting for 1.6 per cent of all businesses in this part of the capital. Other cities across the UK also saw impressive growth in the sector, with 712 emerging in Manchester, 570 in Leeds and 531 in Bristol.



## The recruitment start-up landscape

While the number of new businesses in the UK has been rising year-on-year since 2008, there has been a sharp drop in start-up recruitment agencies.

After reaching a high of 4,266 in 2014, this dwindled to 2,263 in 2015 and 2,118 last year. However, this is unlikely to be because demand for recruitment services has fallen. In fact, many in the industry are seeing more enquiries, suggesting the recent decline is down to saturation in the market.



## How have start-ups used Experian's services?

“The data above shows a drop in the number of new recruitment agencies setting up across the UK. Since the start of the millennium, new agency opening numbers maintained around the 2,400 a year mark.

This figure started to increase in 2011, as businesses recovering from the recession looked to invest in staff and expand – there would have also been a greater demand for temporary staff that would have been sourced through recruitment agencies. This trend continued up until 2014, when a high of 4,622 new recruitment opened, before dropping back down in 2015 and 2016.

As a percentage of total new businesses opening, recruitment agencies were most prominent in the south of England. In central London, 2.99% of all new businesses opened were recruitment agencies. Slough registered at 1.12%, Hemel Hempstead at 1.09% and Milton Keynes at 1.00%. Leeds and Harrogate were the leading areas in the north of the country, with 1.13% and 1.08%.

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## Managing cash flow in a recruitment agency

When a recruitment agency is initially starting out, the first months will prove crucial to its success.

Owners and managers should ensure there is enough cash coming into the business to pay regular expenses, including any start-up loans, to ensure operations run smoothly.

This is often easier said than done, particularly when building up a client portfolio from scratch. A more established company might have a financial buffer to wait for invoices to be paid, but a start-up rarely has the same luxury.

In order to survive, new recruitment firms should have safeguards to make sure cash flow does not become a problem. Firstly, it is important to hire an accountant, who can keep a close eye on income and expenditure, and always be cautious with spending. As well as building up cash reserves to weather early setbacks, agencies should insist on prompt payment of invoices and offer incentives for doing so.

## Managing cash flow in a recruitment agency (continued)

When any company scales up, chances are they will seek more lucrative opportunities, leading to higher billings.

An experienced recruiter may be able to forecast payments more accurately, particularly when dealing with regular clients, but that doesn't mean they should become complacent.

The [Experian's Business Express](#) service allows recruiters to monitor the financial health of both new and existing clients, sending an automated alert if their credit ratings drop. This is particularly useful as if the agency is growing quickly, as it is difficult to keep a close eye on every single company. Even clients that have always had a good payment record can experience their own cash flow problems, increasing the likelihood of lost revenue for the recruiter

Ultimately, it doesn't matter how long a recruitment agency has been running – just a single late or missed payment could result in thousands of pounds being lost, seriously threatening the future of the business.

## Case Study: Macildowie

Award-winning Macildowie is a rapidly-expanding recruitment consultancy with an impressive client portfolio.

Working across a range of sectors, from HR and finance, to sales and marketing, it has offices across the Midlands.

Compared to start-up agencies, Macildowie is in strong position thanks to its roster of regular clients who pay on time. To protect itself against cash flow problems, the consultancy has been using [Experian's Business Express](#) service to access company credit reports for the past four years. As well as running checks on new clients, the team also monitors existing ones with the Business Express Alerts feature.

Macildowie managing director James Taylor says:

*“Like almost any company, we have experienced late payments and disputed invoices in the past. But Experian's Business Express service has helped us to reduce the risk because we can see straightaway whether there are any concerns about payment. The service is also excellent value for money – recruitment invoices can be substantial, especially when a company is appointing someone at a senior level.”*

Recruitment consultants are Macildowie's most important assets and they spend weeks or months searching for candidate to best fit a client's specifications. With so many hours' work involved, the firm must do all it can to guarantee payment at the end of the process, as James explains:

*“We are extremely lucky to have a credit controller who works very closely with our finance team and recruitment consultants. Our consultants are in communication with clients every day so they are often in a good position to highlight any issues, which can be used alongside our checks.”*



Macildowie™



Macildowie managing director  
James Taylor



## Conclusion

The diverse nature of recruitment means that agencies inevitably deal with clients of all sizes – so being aware of how this affects cash flow has never been more important.

With company credit checks, recruiters can quickly see what businesses are most liable to default on repayments, allowing them to manage these relationships accordingly. It means that if a potential client has consistently failed to honour invoices, recruiters can demand advance payment or even decline the contract in more serious cases.

Although credit checks are invaluable for new business, recruiters should never become complacent. Even reliable, long-standing clients experience dips in their revenue so agencies should always continue to monitor them, highlighting any concerns as soon as possible.

For more details on Experian's business credit checking service visit:

<http://www.experian.co.uk/business-express/credit-report/uk/>  
Or call 0844 481 0030.

New customers can try the service for free in a 48-hour trial, giving access to up to 10 reports (terms and conditions apply).