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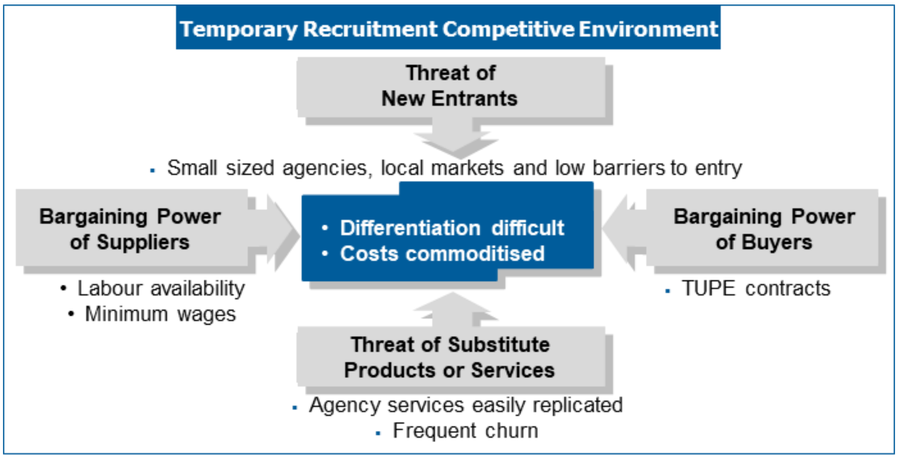
Temporary Recruitment Services Market

Industry structure: Recruitment firms consist of agencies, consultants and other third parties placing temporary or permanent personnel into work with an employer in a total market that is valued at about £40bn in the UK. Permanent recruitment agencies tend to specialise in white collar roles and temporary agencies specialise in more clerical and blue collar jobs with the latter holding greater market share - although the number of firms has consolidated in recent years. Demand is typically cyclical; increasing for permanent during periods of economic stability, whereas temporary fares better in more uncertain times. Agencies placing temporary workers tend to be first to see volumes hit by major downturn, but the first to recover.



Sector competition: Temporary recruitment is characterised by strong employer buyer-power, high inter-agency competition and low barriers to entry.

Aside from a contacts book and some knowledge of employment legislation, an agency can be set up without extensive capital costs. However, scale is more difficult in a sector in which agency/employer contract structures are frequently weakly enforced, facilitating agency substitution and rotation. Larger employers benefit from an ability to TUPE staff across to alternative agency providers with relative ease although, in more constrained labour supply markets, agencies have better bargaining power and can simply serve notice before placing personnel elsewhere.

Driver	Temporary Recruitment Sector Impact
Macro-economic	▪ Demand for temporary workers is greater in times of economic stress as firms defer capital investment and rebalance permanent workforce requirements
Socio-political	▪ Uncertainty about the UK's relationship with the EU is impacting patterns of net migration ▪ In a tight labour market, shortages of migrant workers has implications for business recruiters whose models are dependent on EU workers, such is in agriculture, warehousing, construction and hospitality
Legislative	▪ Employers do not wish to see images tarnished through poor labour engagement and deployment practices ▪ Ability by the agency to remain compliant/profitable in a market extensively driven by labour cost of supply is a key business differentiator and success factor

Agency revenue models: Temporary personnel are placed into work with an employer via agency contract placements, managed service programmes and outsourcing services. These involve a number of different revenue models based on whether, or not, personnel are employed by the agency or the agency's client. For example, an agency may charge a flat rate structure based on the applicant's pay, national insurance, pension and holiday pay, etc to which is added the agency profit, typically about 18%. Alternatively, placement fees can be a proportion of the total amount invoiced to the employer, eg up to about 25%. On larger employer sites with 200-300+ on-site people, for example, agency managed services become increasingly profitable as economies of scale are realised.

Labour force procurement: Agencies generally maintain rosters of individuals they may call upon, particularly for short notice placements. However, in today's high volume temporary labour market a functioning social media platform is essential for providing agency job updates and other event-driven news to key joining groups in selected post-code areas, such as Polish workers in Northampton or Lithuanian workers in Birmingham – not forgetting the importance of word of mouth communications once it becomes local knowledge that an agency has won a particular employer contract.

Sector legislation: Recruitment legislation can be something of a 'kicking-ball' between agencies, employers and trade unions in addition to the political establishment, lobby groups and the media. Regulations are prone to industry and political change and, additionally, can be loosely interpreted and enacted.

Key agency worker regulations, introduced in October 2011, gave temporary workers pay parity with permanent personnel after 12 consecutive weeks worked. Section 10, Pay Between Assignment contracts, otherwise known as Swedish derogation contracts, allow agencies to guarantee workers a minimum number of shifts per week. If the agency for any reason cannot do that, then it becomes possible for the agency to pay the worker four weeks full pay compensation for derogating his or her rights. A PBA allows agencies to offer workers broadly similar work within a 20 mile radius. Should that offer of work be refused, workers will not receive the four weeks compensation. PBAs therefore allow agencies to protect their customers from the costs of any pay parity after the 12 weeks.

In one famous case that made the headlines recently, a parliamentary committee reportedly questioned, "How many workers received four weeks' compensation?" To which the apparent answer was, "None". Consequently, some have come to question whether this type of employment practice is wholly suitable and the sector may move to scrap PBA contracts or remove the payment get out clause. Should any of that happen, the sector could face 'choppy waters' until the situation is unravelled.

Sector outlook: 'Brexit' has created something of a dichotomy whereby, although demand for short-term agency workers has sharply risen, vacancies go unfilled. The problem for employers is that EU workers are increasingly dissuaded by the effect of sterling's weakness on repatriated earnings and by headline nationalism which has made many feel unwelcome. This has created unresolved problems - identified by CSA commercial due diligence - for employers and temporary recruitment agencies in sectors where demand for short term workers is often season and not easily satisfied by often stubbornly workshy indigenous workers, for example in warehousing, hospitality and agriculture.

CSA Temporary Recruitment Deal News