

# 5 Years After Lehman - The Views

By Suhail Mirza

Over the summer I have been fortunate enough to spend time with each of the recruitment leaders featured in this article. They have been gracious enough to share their insights about the impact the fall of Lehman had on their recruitment businesses and what changes they needed to make to their business models as a result.

There are a number of big themes that come out from our discussions including:

- The fall of Lehman and consequent economic recession lead, in some cases, to profound margin pressure (which remains).
- The rise Self-sourcing by corporates.
- Living the values of true partnership to understand client needs was a key component in successfully progressing one's business in the aftermath of Lehman.

Perhaps the overriding message was that of the importance of commercial courage. Aligned with holding fast to values of service and together with vision helped each of these leaders through what has been arguably the most challenging recession since the 1930's.

We begin with one of the most well-known leaders and entrepreneurs within recruitment - **Gary Ashworth - InterQuest Group and Recruitment Capital Partners.**

Gary started his journey within recruitment by founding Abacus more than 30 years ago. He is founder and Executive Chairman of listed recruiter InterQuest Group and over the summer launched his new investment vehicle for the sector with Recruitment Capital Partners.

InterQuest had been delivering excellent results and returns to investors and hit highs in its share price in early 2007

climbing above 150p. That year of course saw the commencement of the financial turmoil in markets with Lehman being perhaps the most high profile and critical episode in late 2008.



*"Having been in business for more than 25 years within recruitment by then and being used to dealing with managing a listed business (Abacus was floated in the mid 1990's) I knew that remaining professional and focusing on our core strategy was vital. Our advantage was that our niche focus on technology sectors and the depth of expertise within our management team and indeed across our consultants meant that we were well placed to truly partner with our clients.*

*That being said these were hugely challenging times for us and indeed the sector as a whole. Clients, given the huge economic uncertainty and drying up of credit markets, halted or slashed hiring projects and there was inevitably significant margin pressure. There has also been a trend to more self-sourcing from clients albeit in respect of more junior and "generalist" type of roles.*

*What we decided to do was to re-organise our business and streamline processes and internal infrastructure. In 2012 we began to execute this vision which included bringing what had been a group of affiliated IT recruitment businesses into a single Brand; we ensured this used a common methodology and operating platform. Together with changes in the management team and the infiltration of online communities, we knew that we would be well placed to deliver results. The only way we could succeed was to become trusted sources of knowledge*

*in specialist fields. To persuade our customers to pay a proper price for our services, we had to know where the bodies were buried that weren't on LinkedIn.*

*This has been borne out in our results for the first half of 2013, which have seen revenue, NFI, and profit all increase based on year on year comparisons. Interestingly we have also seen a rise in our professional contractor margin back above 16%. I think this is testimony to our specialist strategy of moving up the value chain.*

*In terms of the future I am a big believer in the recruitment sector and have backed that belief with setting up Recruitment Capital Partners in the summer of 2013. This is a significant fund set up to acquire and invest in the recruitment sector.*

*It's been a tough recession and I'm keen to back the survivors. I think that the hard lessons we have all learned have made us all stronger."*

Two leaders who took on the challenge of new leadership roles during the last few years:

## **Dave Pye- JM Group**

Dave has more than 15 years experience in leadership positions within the recruitment sector He is CEO at JM Group and joined them in 2009:



JM Group had and still has a stellar brand within the IT recruitment space vis-à-vis the investment banking and finance sectors.

*I" joined in 2009 and as CEO this was as*

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they say an “interesting time”. Lehman shockwaves were still playing out in the City and given JM’s exposure to the banking and finance sectors this was a hugely tough period for us.

*In effect my role as CEO was to deliver a turnaround while re-establishing profitability; it was a challenge!*

*I undertook some key strategic decisions:*

- *Having courage to maintain profitable business and walk away from unsustainable business. Many of the financial institutions were facing huge issues and sought to cut costs. This included insisting on PSL’s of recruiters where, for example, the margin was not only low single digit but in some cases would steadily erode to zero (yes zero) after 12 months. I took the decision to walk away from this “race to the bottom.”*

- *We also focused on developing ever deeper understanding of our client’s needs. It’s one of the reasons why Lloyds Bank and Aon have been such long standing clients.*

- *We also diversified and I established a digital practice to meet the needs of our clients in this space.*

*There were tough times carrying out the above and forthright conversations but it has borne fruit:*

- *65% of our business in 2013 comes from clients who are new to JM in the last 3 years.*

- *For the last three years we have increased both revenue and profit.*

- *In 2013 we rebranded JM Interims and now some 25% of our business at JM is comprised of placing interim professionals with clients.*

*I am confident about the future and that our brand will now continue to attract recommendations and referrals to our business.”*

## **Stuart Batchelor - CDI**

*Stuart has more than 20 years experience in leadership roles across a number of global industry sectors and joined CDI in Jan 2012 and is currently Executive Vice President and President of Global Staffing Services. CDI focuses on market leading engineering and technology solution provision.*

*“At the time of Lehman’s fall and its aftermath I was in a senior leadership role with Invensys. Remarkably its business grew during this time. This was the fruit of a longer term strategic alignment of the business to focus more on emerging markets. An important lesson I learned was that businesses that remained lean when downturns came would recover and respond faster.*

*CDI globally is now focussed on industry verticals that offer long-term growth, namely Oil, Gas & Chemicals, Aerospace / Industrial Equipment & Hi-Tech. We believe these industries offer opportunities to provide Engineering and Staffing Solutions and support our plans for geographic expansion. In the UK historically we’ve been a supplier into the construction sector and whilst it’s undeniable that this market has not been easy during the past few years, we continue to achieve strong growth by working closely with our clients.*

*We’re also benefiting in the UK from continued investment in the aerospace sector which has helped us align with our Corporate verticals.”*

*Turning from Stuart, a recent entrant into the recruitment market, the following leaders each have 25 years or more experience within the sector.*

## **Karen Silk - Capital International**

*Karen has been an entrepreneur within recruitment for 28 years. Capital International Staffing specialises within the aerospace, defence and electronics sectors and have an international reputation for excellence within these niche markets.*

*“The post Lehman recession had a significant negative impact within our sectors. We had to make people redundant and there was a very significant drop in our business.*

*Our clients were faced with funding uncertainties and either simply stopped recruiting or never closed the circle on any mandate.*

*It was a very tough period indeed for the business which had managed to survive earlier periods of downturn notably 1989-91 and of course the aftermath of 9/11. This was, however, by far much the worst recession for us.*

*We responded to this unprecedented challenge by evaluating our business models and adapting. There was an even greater focus on service delivery levels and deeply following our values and integrity in relationships with clients.*

*The key was to look after candidates and in addition to ensure that our talent pool matched precisely the requirements of clients. Relationships and our deep knowledge of the sector allowed us to weather the storm.*

*At present, after a particularly challenging 2012, we are excited and both aerospace and defence offer opportunities in the medium term.*

*It is fair to say the focus is on growth and engineering specialisms are in short supply in developed economic markets and we are well placed to deliver value to our clients.”*

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## **Richard Herring - Volt Europe**

Richard is Senior Vice President for Europe and Asia with global US recruiter Volt. He has vast experience within recruitment (with Reed in the late 1990's for example) being a former Chairman and Executive Committee member of APSCO. This is the 4th recession he has lived through in 25 years in recruitment.

*"We were fortunate in that we had little of our business with a small number of clients focused on the financial services sector.*



*However as the effects of Lehman worked its way through into economic dislocation across the world's trading zones we did*

*see some impact to our business but it was not dramatic.*

*In our IT business margins did dip a little and they have come back but there was no terrible downturn.*

*Our engineering sector operations were not really affected by the financial crisis; with our focus on aerospace and power we benefited from investment in these important areas characterised by long term projects.*

*And our telecoms practice has been strong and we opened new offices to service new markets in Switzerland (2011) and Singapore(2012).*

*At present we can see that the US economy is continuing a tentative recovery. We are possibly seeing the beginnings of this translate in the UK. Europe remains a different case.*

*Within the recruitment sector there have been profound changes in the nature of recruiting practice which are likely to remain long standing. This includes self-sourcing by companies (particular for more junior levels of employee) as well as the dramatic impact of social media platforms as a source of networking and sourcing candidates and opportunities. That having been said there remains, in key market segments, a skills shortage and there will be rewards for those agencies that adapt and can add genuine value to both candidates and end user clients."*

## **Rosalind Payne - Personnel and Care Bank**

Rosalind has been a leader within the recruitment sector for 28 years! She describes herself as a "recession champion".

*"Initially the downfall of Lehman had little impact on our areas of business as we have developed deep expertise within the social care, charities and not for profit sectors. We also have a distinct homeware business. We deal with local authorities as clients across both businesses.*

*The profound impact for us has been the commencement of savage cuts to public sector budgets under the rubric of "austerity" following the creation of the Coalition Government in 2010.*

*The positive side of this for our recruitment business has been the opportunity to partner with our clients and help them effect significant change as they have accelerated the process of being more commercial and professionalised in their service delivery.*

*The flip side of course has been the limited budgets mean that margins have been driven down significantly for us and it has been a tremendously stressful*

*time for our clients.*

*Our clients in an effort to manage delivery of services within limited budgets have de facto begun to compete with us; self-sourcing is a phenomenon that is likely to stay.*

*We have nevertheless thrived as we have deep understanding of the dynamics and needs of our clients and at more senior levels of hire this becomes the value add that we can deliver.*

*Being in the right market and/or having "foresight" has helped others during the recession."*

## **Simon Dear - Tangent IT**

Simon is CEO at Tangent International, one of the leading recruiters specialising in the telecom market, and he has more than 17 years of experience within this niche sector. During the period 2008-13 Tangent has, remarkably, grown from £15million to £47million in turnover.

*"Our growth is due to the dynamics and history of the telecom marketplace. It in effect had its recession in the early 2000's largely due to the exorbitant costs of 3G operating licences in many countries and the later arrival of commercial 3G itself.*

*Once that had played out recruiters within the sector have seen a series of structural changes within telecoms that has meant opportunity has been abundant.*

*These include the fact that Governments across the developed and less developed world have committed vast sums to big infrastructure projects to develop telecom functionality, capacity and also to incorporate the importance of access to broadband.*

Coupled with this there has been technological innovations which have seen the rise of Blackberry handsets, iPhones and of course the development of social media and the recent explosion of Apps.

All of this requires expert talent and hence Tangent has been responding by sourcing and placing talent across the world.

In the developed economies the media attention is on the move to 4G which of course means these markets are offering Tangent further growth opportunities. In addition as less well developed nations move to 3G from 2G there are on-going parallel opportunities within those markets."

#### **Albert Ellis- Harvey Nash**

Albert is a true thought leader and an inspirational speaker who has been with listed Harvey Nash for 15 years and been CEO since 2005. He denies having a crystal ball but his insights into his "reaction" to the financial crisis are powerful.



"I recall very clearly seeing a report from HSBC, in 2007, that they intended to write off many billions from within their property fund portfolio. The sheer scale of that write off was noteworthy and perhaps it was my Chartered Accountant background (he was CFO at Harvey Nash 1998-2005) that made me vigilant.

I met the top 10 shareholders of the business and advised that it was prudent to protect our balance sheet and remain as cash positive as possible.

We also made sensible cost savings moving our offices from Mayfair to the fabulous Heron Tower. We actually increased our advertising spend and it was vital to ensure we protected and indeed enhanced our brand equity.

"We took the long term view" and with courage and fortitude held to our vision.

Having cash and a strong balance sheet we were placed, once the downturn had happened and there was some visibility in the market, to expand and opened offices in Edinburgh and Manchester during the downturn here in the UK.

The recruitment market has changed significantly as a result of the credit crunch and economic downturn.

There is no doubt that margin pressure has increased and is

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*likely to remain a feature of the new landscape for some time.*

*Self-sourcing by end user clients via leveraging social media platforms in particular is here to stay; albeit this is likely to remain most pertinent for general hiring.*

*The bottom line is that if you ensure that you build deep relationships and respect all stakeholders (and their extreme sensitivity to the recruitment process) within the recruitment cycle you will be well placed to develop and grow."*

We turn next to two leaders operating in growing niche market segments:

## **Mike Innes - TRS Staffing Solutions**

Mike is Regional Director for Europe, Middle East and India with TRS Staffing who specialise within the oil and gas and infrastructure (rail and mining)market. They have a turnover of £60million and some 800 contractors in the UK.

*"Post Lehman the volume of contract/temp business went through the floor and permanent hire was also severely affected.*

*There has been massive margin pressure on the supply chain. That margin pressure remains and in some cases PSL/agreements have terms which mean recruiters simply stop making any return at all- and I mean zero- after, in some cases, 12 months of placing a contractor!*

*We had to take a hard look in the mirror and adjust our service delivery to prosper in this challenging recruitment market.*

*Our consultants understood the need to adopt a profoundly collaborative approach and to ensure they developed their own skills and understanding of client market segments. This has*

*underpinned the development of a genuine value add and partnership approach to clients that mean we constantly seek to improve service quality.*

*We have strong client relationships and given the Government's focus on investment in Infrastructure projects-required to ensure the competitiveness and productivity of the UK economy longer term-we believe TRS is well placed to grow and prosper in the near and medium term."*



## **Dean Kelly - Synarbor**

Dean is a recruitment entrepreneur with many accolades under his belt. Currently CEO of Synarbor one of the largest education sector recruiters he is also a deep thinker whose insights across all areas of political economy are thought provoking.

*"The period enveloping the fall of Lehman in late 2008 and indeed the next 2 years were a period of uncertainty for education sector recruiters.*

*Once the Coalition was in place "austerity" was on all stakeholders' lips and the question was what this would specifically mean for the education sector?*

*A result of the above was that in 2009/10 teacher numbers fell within schools. Whilst there was an incremental pick up in volumes in 2011 there was clear margin erosion as agencies reduced rates.*

*In March 2012 we saw a discernible pick up within the market for the first time. This has translated into this year.*

*It should be noted that the secular trends within education recruitment remain encouraging.*

*The key trend remains the pupil bubble which is visible within the primary school segment of the market. This will impact the secondary school arena from 2015. State funded pupil numbers are forecast to grow from 6.2million to around 7million in 2020.*

*There is therefore a need for teachers that necessarily will grow to meet this demand. In addition new schools are less likely to be dependent on LEAs, as the Academy program grows it re-routes funding past the authority and directly to the school, giving rise to other opportunities to support schools with their staffing."*

We conclude with insights from two leaders from businesses with very global footprints:

## **Geoff Smith -Experis**

Geoff is Managing Director at Experis in the UK and Ireland. This is the professional resourcing brand for ManpowerGroup in these markets and Geoff, whose experience stretches back many years to leadership roles at Elan,



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has responsibility for a business turning over £350million and leads more than 300 people.

*“Back in 2007/08 we had a good foot print in the investment banking sector and our process of diversifying our markets had been in place and continued. We developed depth within the Health, Digital and Oil & Gas sectors as well as continuing our growth in the Public sector presence in the UK market.*

*Throughout 2011 we undertook a major global company change programme and re-branded focusing much more on Global specialist talent demand and supply dynamics and aligning our business to help our Clients even more. The years following Lehman did present challenges. The permanent recruitment activity in most market segments stalled or fell. The announcement of “austerity” by the Coalition added to uncertainty and some blue chip clients did reduce professional Interim volumes by 10-20%.*

*Interestingly we actually took market share in all of our verticals, as a result of our global capabilities and execution of a policy of diversification.*

*We have prospered and are confident about the future due to our focus on:*

*Being truly global: Meaning we are able to search globally and deliver talent domestically thus aiding our clients to get ahead and providing more opportunities to the top professionals with whom we work.*

*Solutions focused: with great competition for professional talent, companies need a partner that can offer a full range of services and solutions.*

*Understanding our client: collaborative partnering is not just a sound-bite. Clients are ever more demanding in the current*  
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*climate and our ability to understand their business and competitive edge with our dedicated Account teams means we can actually prove our Collaboration has intrinsic value*

*In terms of the future the only certainty is uncertainty. Optimism has begun to return to the market. All recruiters and professional resource providers of all descriptions will be forced to work harder for their returns; those that understand the nuances of a changed market will prosper and be perceived as trusted brands offering value.”*



## **Joost Kreulen -Empresaria**

Joost has more than 20 years experience as a leader within international staffing businesses. He is currently CEO of Empresaria which has a presence, through its group of companies, in more than 17 international markets across 100 offices

*“Empresaria had taken the strategic decision to expand into the Asia-Pacific market in 2005-07 and this was important and remains important in our performance given the disproportionate impact of the financial crisis within developed (particularly Eurozone) markets. Pre-Lehman our NFI was 90% derived from the UK and European markets. Today it is split equally approximately across these and the Asia-Pacific markets.*

*At present the UK offers some hope*

*where the beginnings of a recovery- though perhaps not as accelerated as other post- recession periods-are discernible. The Government focus on investment within the infrastructure space plays to our strength given our focus on engineering and construction recruitment.*

*The US is a different kettle of fish; with a very flexible economy and perhaps aided by the \$787 billion stimulus package it initiated in the aftermath of the Lehman crisis it has bounced back much faster than UK or Europe.*

*I am confident that top quality recruiters will prosper over the medium term. This is particularly so given the “increasing global mismatch” in terms of talent on offer:*

- 35 million extra workers are estimated to be needed in Europe by 2050 to fill the employment gap. In the US an estimated 25 million extra workers will be needed by 2030 to sustain growth

- This is part of the increasing talent shortages occurring in the northern hemisphere

- Of the 45 million new entrants each year into the global employment market most are young and from developing economies

- There will be workforce surpluses in the southern hemisphere

*The result is that employability will be a huge issue of political economy worldwide and we as recruiters have a tremendous opportunity to help add value and prosper.”*

I would like to thank each of the above recruiters for their time and wisdom.

Suhail Mirza.