

Margin pressure intensifies as employers play hard ball

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Recruitment companies are now facing some of the toughest negotiating on fees and margins from clients seen in the past decade, according to several leading recruitment executives. The demands range from longer guarantee periods, strict caps on perm fees, drops in temp margins, and much longer payment terms, for both perm fees and temp billings.

One major engineering firm, which recently re-tendered its Preferred Supplier Agreement, demanded an entitlement to unilaterally extend the guarantee period if, in its opinion, candidates lacked key competencies.

One well-known recruiter said some, although not all, clients were pushing harder on fees in the current market, as well as seeking to re-draw terms which were more beneficial to them. "Our view has been to push very firmly back on any such request... whether it's on standard terms of business or PSA terms." In a downturn, he said, clients believed that there were more candidates and therefore recruiters didn't need to work as hard. "But in fact it is more difficult, and a lengthier process, to fill a job for a customer today than it was six months ago. There is more work to do. In a downturn you don't automatically get better candidates - you get more candidates."

Another company director said some clients were making unreasonable demands over terms and conditions. "I'm talking to one long-standing client who's looking for some crazy terms - wanting to spread payment and guarantees over a long period." He said pressure from clients to reduce fees was also increasing, and the firms approach was to negotiate for a solution which worked for both parties. "If we can get some degree of exclusivity, then that's a reasonable compromise in this market. "In a market like this you've got to be flexible; in some situations you're going to be really pushed."

A third recruiter told *Shortlist* that clients were always trying to negotiate fees down, irrespective of market conditions. "But certainly in the current economic climate, most companies are very conscious of their cost base, and as a result some are reviewing the fees they pay."

Talent International Canberra general manager Baldev Bedi said that in the IT contracting space, clients were starting to insist on lower rates, and had been doing so since about August last year. The private sector had been the first to increase scrutiny on rates, he said, but with the release of the Gershon Review in October the tightening on terms and rates was now filtering through public service employers. He added that pressure on IT contracting rates was complicated by the fact that contractors themselves had to be satisfied with the pay rate. In the current environment, he added, many clients were offering staff the option of a lower rate or a redundancy.

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