CAN YOU ACTUALLY SCALE A RECRUITMENT BUSINESS?

Can you actually scale a recruitment business? Podcast Transcript

The reason why I wanted to do this particular podcast is I am getting an awful lot of inquiries from both start-up and existing recruitment company owners who say they want to scale a recruitment business and I'm not sort of big head that corrects people when I'm speaking to them to say you can't scale a recruitment company. I obviously go with the inquiry, and we talk about how you could increase the revenue for the business.

You can’t scale revenue without increasing costs

However, the reason for the podcast is on the basis that you can't actually scale a recruitment company. The reason why you can't scale the recruitment company is the definition of scaling your business is increasing revenue without increasing resource. Resource, probably the easiest way to think of it is a cost, typically at the sort of business that you would scale, would be an IT software company. If the IT software company has developed a particular product, an app or whatever it might be, then reselling that doesn't cost anymore. You don't have to make more of it because it's just a program.

So really increasing revenue you can do simply through marketing, whereas with a recruitment business, nine times out of ten the increased revenue comes from hiring more recruiters. If you hire more recruiters, then clearly your resource goes up and your cost goes up. You can't really scale a recruitment company. I don't want to fall into semantics because that's really what we're talking about. It’s the definition but you can't actually scale the recruiting business in the typical sense. However, in saying that, if I left it there then that obviously would be a very short podcast.

Increase revenue while increasing profit

So, what I wanted to talk about is basically how you can grow your business by increasing the revenue but not increasing the resources at the same level. In other words, what you're doing is you're increasing the revenue but also increasing the profit at more than the revenue. You're increasing your percentage of profit; because typically when you grow a recruitment company, the larger you grow it the smaller the profit percentage. Initially, if it's just yourself and a few recruiters, the profit level will be high because the running costs are low, you don't have management expenses and the owner is still billing. When you get to the size where the owner stops billing and it's just the staff, the percentage profit is going to drop a bit because you haven't got that sort of free revenue that's coming from the business owner - it's all down to the staff.

And then if you grow it some more then you've got management people, especially if you've got management staff within the business that don't bill. Maybe HR, operations or non-billing managers, again that squeezes the profit percentage because they're not producing money. You can increase the size of the profit because let's say for example you've got a £10 million business that's making 20 profit, that's £2 million profit. If you've got a £2 million business that's making 50 profit that's £1 million profit. You can increase the amount of profit but not by the percentage. However, what I try and do with all the businesses that I help grow, the start-up businesses, is increase the revenue but not necessarily increase the resources in line.

The reason for that is if you've got a high profit recruitment business, it's particularly relevant now during Covid, it's a lot more resilient because if you've got a lot of fat in the profits, so if your business is for example making 40 profit I suppose 20 profit, if there is a dip in the economy then your business can absorb it. And just an example of that, through the Covid situation when the recruitment industry has obviously had a hell of a hammering, we've only had one redundancy from the combined workforce of all the partners added together, which is pretty flipping impressive to be honest. Something I’m quite proud of. But that'll come down to the fact that we'll work we try and work very hard on getting high percentage profit margin.

Staff that are paid less

The podcast I want to go through today was just some of the basic things that you can do that can increase the profit of your business without necessarily increasing the size of the resource. You can do it through staff and this is quite often where people might fall into the trap of thinking you’re scaling a business – the skilled people in your business only do the work that only they can do, so as an example if you've got an experienced recruiter they won't necessarily be scouring CV libraries. They won't necessarily be writing job adverts. They won't necessarily be doing the intro headhunt calls; they won't be doing the stuff that is more of the grunt work. You'd have somebody that's working for them that's paid less. Because clearly if you're paying somebody a third of the salary who can do the job of the person on a higher salary in a similar length of time, then it's higher profit isn't it.

Let's say for example the person that's on a third of salary is saving the person who's on higher salary half of the time, but they're on a third of the salary. It's going to make you more money. It's difficult to explain that on a podcast without actually doing some maths and showing you in writing but I think you probably get the concept of that which is, you really want that more expensive skills like for example new business or closing big deals to close big PSLs or big retainers. You get them just doing that - closing big deals and retainers. And anything that supports that isn't particularly highly skilled. You employ people on a lower salary so you can get more bang for your buck for the people in the higher salary. So that's how you would do it in a recruitment point of view in scaling your workforce.

Smart marketing

But the other areas where I think you're going to get quicker wins and bigger wins and we'll talk about now. One of these are smart marketing and I use the term smart marketing, it's a phrase I've coined, simply because marketing is a sort of thing that a lot of people think they can do. You can look at Google adverts or social media or brochures or whatever it might be. But marketing is actually a bit of a science. It's quite difficult to do and it's very easy to spend a lot of money on marketing and not get a good return in investment. Using the scattergun approach of going through lots of different avenues of marketing, but not getting a very good return.

And I think that's possibly why an awful lot or recruitment companies don't spend money on marketing because marketing is really a discipline in itself so if as a business owner, a recruitment business owner, you're not experienced in marketing and you try and introduce marketing into your business, it can end up going the wrong way. You can either appoint an external marketing agency who will just haemorrhage cash for you, or you'll hire somebody in as a marketeer but because you're not a marketing person you don't know how good they are, and they can haemorrhage cash for you.

It's actually quite difficult, whereas if you do smart marketing which is the marketing that we do within Davidson Gray, which can make you a tremendous amount of money. So how do you do smart marketing rather than generalist marketing. Well, the key to it is measuring it. You've got to measure your marketing. There's a chap called John Wanamaker, he's an American chap going back to the last century, and he was widely seen as the pioneer of marketing. His famous quote was 50% of my marketing budget works but I don't know which 50% and that is the key to it. It's understanding where you spend it, so however you do your marketing, you've got to measure what is working so you know which spend is working and which spend isn't.

Pay per click

It can get a lot more complicated if you try and break it down into particular aspects, like for example your pay-per-click or for example your mail shots or whether we're looking at advertising on LinkedIn for argument's sake. But the easiest way to do it, is whenever you get an incoming inquiry from a client you ask them how they found you. So, it could be through a LinkedIn post, it could be through them finding your website or whatever it might be. You've just got to ask them and log it. And it's as simplistic as that. Also, when you get candidates ringing you or candidates applying for jobs on the website, again ask them how they found you and if they found you through the internet, ask them the question 'what search term did you look for us under'.

That'll tell you what phrase they used. But also, if you say was it in the natural listings or was it an advert at the top, and if you're not familiar with the Google advertising, you do get adverts at the top of the Google page – they're usually the first three or four, which are paid for. It's called Google Ads or what I call is PPC which is Pay Per Click advertising. And that's a way of getting your site on front page of Google. You enter an auction for that particular term, that's how Google Ads works, so say for example you wanted to put in construction recruitment, you can bid to have that in the adverts at the top and every time somebody clicks on it, it costs you whatever that particular auction price at that point in time, whether it's £5 a click, £10 a click or £1 a click, whatever it might be.

So that just a little extra explanation on that. Just on PPC, what I will say is it's fantastic if it works, however you can haemorrhage a lot of cash on PPC, so really you need an expert to do it. You can do Google Ads yourself, you can get some help, but our experience is you don't necessarily get the greatest return on investment. It is a science; it's actually a lot more complicated than SEO. So that's why we get experts to do it but the return on investment that we get from the PPC is absolutely fantastic. We do measure it; we make sure we get value for money. With your smart marketing, it's all about measuring what works. Try anything; don't have a preconceived idea about what's going to work, what isn't. Whether it's chat bots, whether it's LinkedIn Messaging, whether it's your podcast, go into an open mind because I found myself that, if I'm looking at a new idea that I'm a bit reticent about it, and I'm unsure and I've tried it, quite often it works. It's not what you think, it's what the clients think and how they find you, so it's good to try everything but make sure you do measure it.

Automation

The other way you can improve your profitability without increasing your cost, for example with marketing - if you've got a £25k spend, that's a lot to have on marketing, but what you're going to get for a person of £25k. Not necessarily an awful lot so if you use your two grand a month or whatever it might be for £25k you can get a great return on investment. Another way of getting a great return on investment is using new technology to basically automate part of the job. And one of those ways of doing it is for example your social media.

If you're trying to manage your social media, you're looking at three or four posts a day, maybe some on LinkedIn, some on Twitter, Facebook whatever might be. It's actually a job in itself and also trying to remember to do it, especially if you're an owner manager, it can be a bit sporadic. You'll have five post one day and none the next, but if you use one of the products a bit like HootSuite where you can schedule in all your posts for the whole month, you could do the job in two hours and then it's done. There are other products on the market like, for example if you look at a really good CRM system; a really good CRM system you use properly and a good one saves your staff an awful lot of time. The one that we use, JobAdder, that's particularly good at saving time. Everything is in one place. If you're looking to place a job advert on various job boards, you can do it through JobAdder itself so that saves you time to go into each job board. There's also LinkedIn automation tools like Dux Soup. They can automate how you use LinkedIn. On all these products, if you look at how much time it saves you and your highly paid recruiters, it increases profit a lot more than it does on the resource and the cost. So that's another way you could scale your business.

Better negotiation

But I think the king of all the ways you increase the profitability in your business, is better negotiation, which doesn't sound like rocket science, and it isn't. However, just as an example, if you've got a two-million-pound permanent business that's making 30% profit, so that's £600,000 - now if the average fee is 20% and you increase that average fee to 22%, that's only a 10% improvement, so it's not a lot. However, that £2 million pound business goes up to £2,200,000, which is extra profit of £200,000, which is actually a 33% increase on your profit. You're increasing your profit by a third simply by increasing your average fee by 10%. We've got to factor in, to be fair, that some of that will be commission to you recruiters, so it won't be maybe quite as much as that, but nevertheless if you think you can increase your average rate that you charge your clients by ten percent but you increase your profit by a third, that's crackers.

What makes it even more crazy is that very few recruitment companies train the staff properly how to negotiate because, you like to give your recruiter a free hand to negotiate, because they're in touch with the client. However, can you imagine if you said to your recruiter, if you get an average fee of 18%, you get 20% commission but if you get an average fee of 20% you get 30% commission, and if you get 22% you get 40% commission. Do you think they'd negotiate better? I bet they would. But also, they need training on how to negotiate because negotiation for a recruiter is only a small part of the job and also it will vary on depending on how well the month's going or the quarter's going. If somebody's desperate and they need to get the money in, they're more like to cave quicker, and also some recruiters aren't particularly good at negotiation, they don't like confrontation, they don't like the pressure of it, whatever it might be. They're just not particularly good at negotiation, so the key to your better negotiation is training your recruiters to negotiate better.

One of the techniques that I used to teach my recruiters, was when you're negotiating with your client, rather than saying we'll reduce, say for example your fee's 20%, we'll reduce the fee from 20% to 18%, so reduce it by two percent, then why didn't you say you're reducing it by 10 percent, because if you reduce 20% by 10%, that reduces it to 18%. 10% sounds a lot more than two percent, and you're more likely to get buy-in from your client. Or what you can do is say, Mr Client, I'm going to reduce your fee by 10%, the fee is likely to be £8,000, so if I reduce it by 10%, then I'll be reducing it by 800 pounds, which maybe sounds a bit better than 2%. And that's just a little technique, but some markets work really well on and some markets maybe not quite so much. It's just a little technique.

Train your staff to negotiate

What you can do is you can go back to the scaling concept where, if you've got a particularly good negotiator in your manager, they do all the negotiation which, in some markets again works really well, but cost negotiation or rather fee negotiation is the easiest way to increase profits. The other one obviously is on the opposite side, is cost negotiation which is negotiated with the suppliers. And on that, what I would stress as a business owner myself, and I have numerous businesses that I've owned, is getting a better cost is not about beating up the supplier. Because if you beat up the supplier, then more often the service goes down with the cost, in the same way as a recruiter, if you're beaten up on cost, you're probably going to whack out a couple job adverts at best. You're not going to do a proper job, so it's not about beating up the supplier to get a better cost.

The best way to get a better price from your supplier is to sell the opportunity of working for you, so in other words our business is growing, we're looking at building a long relationship with our suppliers. If you can meet this rate I'm looking to pay for this particular product or services, it could be the start of a very long, good working relationship. And what we'll do is we'll pay you on day one. We won't pay you in 90 days, we'll pay you immediately. Now for cash flow some people might suck the teeth and go, is that really going to work, but it's amazing the size of discount you can get if you pay upfront or you pay straight away, especially with smaller companies. I've done this when I've been negotiating on a lease where, rather than paying per month, I said I'll pay up front every year 100%, and I got a 30% discount, which is ridiculous. So, 30% knocked off by simply paying up front. But imagine if I borrowed that money from the bank, I'm borrowing at five percent, made no sense whatsoever. But it was a massive discount because the particular person I was dealing with, they just liked the security rather than it being month by a month, that they're getting the money up front, and it shows you are committed. That was a great bit of business for us, so that's another way you can help increase your profits by not increasing your resources.

Conclusion

Going back to my original point, you can't actually scale a business per se, not in the typical sense, but what you can do, and this is the way that I work with the partner businesses, is increasing the profit without necessarily increasing the resources and increasing the revenue not necessarily through recruiters. Because recruiters are expensive. You tend to get £2 back for £1 you spend on salary with a recruiter, maybe £3 back, so the return on investment isn't huge, but the return on investment on things like marketing could be £10 back for every pound you spend. If you look at better negotiation, I mentioned earlier on how you can increase your profits by 30%, it's sometimes being a bit smarter on the way you grow your business rather than necessarily just hiring staff because as a new business owner sometimes you can fall into the trap of the vanity, which is having more staff means you've got a bigger company and it makes you feel better. But it isn't necessarily making you more profitable, so you've got to look at how you're growing the business and being smarter about it.

So anyway, I hope you've enjoyed this podcast. Please look on my Davidson Gray website; there's plenty of podcasts on other subjects and if you do have a podcast that you would have in mind that you might want to listen to, please do suggest it and I'll be more than happy to record one.