HOW MUCH DOES IT COST TO SET UP A RECRUITMENT BUSINESS?

How much does it cost to set up a recruitment business? Podcast Transcript

Hi, this is Rhys Jones. Welcome to my podcast. Today I'm going to talk about how much it cost to set up a recruitment company.

It's a question I'm asked all the time form people inquiring about how I can help them set up their own recruitment company and it's actually quite a simple question to answer but you have to answer it yourself. I can't necessarily give you the specific answer because there's so many variables involved. The variables that make the difference are how much you need to live off, but the biggest factor is your sales forecast; you've got to get your sales forecast right because your sales forecast then turns into a cash flow forecast.

Do a cash flow forecast

Now, a cash flow forecast, if you've not done one, sounds complicated but it isn't actually that complicated at all. What you need to do is do your sales forecast, which I'm sure you've done as a recruiter. How much you're going to bill in month one, month two, month three, month four, and so on and so forth. And then look at how long it takes for your candidates to start. Now your candidates, depending on your sector, might be a week, it might be a month, but once you know that and then down onto how long it's going to take for you to get paid once that person starts. In some sectors like Legal, Administration, it would be 14 days or 21 days before your client pays. But some sectors like the construction industry, that could be three months or even six months, so you've got to factor that into it.

If you go back to your sales forecast, if you say for example you're going to get five thousand pounds placed in month three, it takes a month for that person to start so the person will start at month four, so the invoice goes out in month four and then it takes say 30 days for your client to pay; that's month five. You know you're going to get your first amount of cash in month five. From there, you've got to look at five months running costs and that's how much money you need. In addition to that you've got to look at maybe how risk-averse you are because, what if you don't place in month three? What if it's month four or month five so you don't necessarily need the amount of cash for your sales forecast, you might want to put in an extra month or two to give you some wiggle room if things don't go according to plan, because the one thing you can't afford when you set up a business, is to fail.

Plan for wiggle room

You can't afford to fail, because looking at the businesses I've set up through Davidson Gray, my own personal businesses, I've never had a failure. But that's because I do understand, although I haven't experienced how expensive a failure can be and that's not necessarily cash expensive, emotionally expensive. It could be devastating for some people if their businesses don’t work out. So, getting your sales forecast right and your cash flow forecast right, and ensure you've got the cash is absolutely essential.

When you're looking at your sales forecast, you need to put a lot more thought into it than you may already do than if you were writing one for your current employer. And by doing that, if you build your resilient sales forecast then it's far more likely you're going to get the right figure for how much money you need. Now how you get your sales forecast right is by listing all your placements for the previous six months or 12 months. And next to all the candidates put where you got the candidates from.

Plan your placements

Next to all the vacancies, put where you got the vacancies from. And from that you can see where you make your money and there’s going to be certain parts of that analysis, that might highlight areas that you may not have when you set up on your own, for example if you've had some candidates come off the database you may not have that. If some of your vacancies have come off a PSL, you may not have that either. Knowing this allows you to be realistic about your sales forecast and not going through gut.

Because when you do your sales forecast it can't be through gut; it's too important - you've got to get it right. So, put some time to it and get it right, so if you analyse those figures that will help you understand areas you may not have. It'll also highlight another cost area that's important when you look at the cost of your business. If you use job boards, it'll highlights to you which job board actually make you money. Because it's surprising when you analyse your figures that you'll see that some job boards that you think are useful, don't actually make you money.

Analyse the job boards

They might give you good candidates, they're good for the database or they go to interview, but they don't actually give you candidates that place, the ones that are important, that make you the money. One of the things I used to do to help the recruiters develop in one of my first businesses, Elliot Marsh; we’d ask them each year to go back look at the previous year and analyse their own figures to see where the money came from, look at the percentages, look at the clients they got it from and analyse where the success came from to help them build a plan for the following year. And what some of them would realize is they were reliant on one job board, not three or four that we had.

They'd also realize that they actually spent a lot of time on one particular job board that didn't place anybody, or they might realize that they feel as though all their business comes from LinkedIn when actual fact it's from the database. It helps you understand where you get your money from.

But when it comes back to the costs which is what we're talking about today, job boards are not cheap. Most job boards seem to have a sort of a minimum level before you get a reasonable cost per job. Some of the job boards that we use, you've got to spend at least four or five thousand pounds before you'll get a decent price per job. If you don't use a lot of jobs, you're going to pay an awful lot per job, so it's important that if you are going to invest in a job board you invest in the right job board and not multiple job boards.

If you go back and look at your sales analysis, that could save you an awful lot of money. So if we go back to looking at your sales forecast and we work out when you're getting your cash in, so if your sales forecast says we're going to get a placement in month three, they're going to start month four, cash in in month five and you want an extra month's wiggle room, you're looking at six months running costs. So, for the six months running costs you might think it's all about listing the costs like your website and your database etc, but the biggest cost by far in any recruitment company is always salaries.

Pay yourself

It's important that you look at your salary. Now fair enough, if you don't pay yourself a salary per se but clearly you need money to live off. Now how much that is, is down to you. Now what I wouldn't suggest is you look at the absolute bare minimum because setting up your own company, it might be a bit stressful at times. You don't necessarily want to be sweating it about how much money you got to pay the bills with every month, but then again you have to look at the big picture. Once you get up and running, once you've got past that first six, 12 months running your own business and owning your own business; it is lucrative, there's no denying that. The businesses that I work with, even factoring in the cost that we have because we fund the database, we fund the accounts, we funds the job boards, we funded and awful lot of the running costs but if you take in our costs and any additional costs, virtually all the people that we work with are taking home 75 to 80% of what they bill.

It is massively lucrative, but you've got to get past that first six, 12 months because what you can't afford in any business plan is to fail because failure isn't just financially expensive, it's emotionally expensive. Fortunately, I've never had a business fail on me. None of the Davidson Gray partners that we are working with have ever failed, I've got 100% track record, but it is a risk obviously because within the recruitment sector, three out of four businesses fail within the first two years. So, there is a risk there. But a lot of it is down to getting your preparation right and getting a plan because if you haven't got a plan and you're going to try and wing it, you've got a much, much greater chance of failing.

Don't forget your expenses

This is why you need to get your sales forecast correct, you need to get your cost forecast correct, so you know how much money you need. Now if you're looking back to some of the costs that you would list, you need to go through in great detail and think what you need. You're getting a website, you're going to need a logo, you're going to need an accountant, you need a mobile phone, you're going to need job boards you're going to need databases. Most of those costs are fairly standard, your database probably going to cost you anywhere between £50 to £100 a month; an accountant depending on where you go it can be anything sort of £1500 to £2000 a year, and that's going to vary but the one cost that can be a big variable is the website.

Now you can get a website off GoDaddy or whatever for £500 but the problem with those sorts of websites is you get what you pay for. They look cheap. Now to any business that's looking to use any new business, if you look at your website and it looks cheap and it looks tacky, and they could tell it's up on a shoestring they're going to think you're not a particularly professional outfit. Now I'm not suggesting that you spend a lot on a website because some recruiters can fall into the vanity aspect of a website, that it reflects on them as a person. But really, you're going to look at it professionally. Does it do the job? Is it going to reassure your clients they want to trade with you?

Make your website a cash generator

But what I would also say is if you're not going to make the website visible through search engine optimization, getting on Google or Google paid ads, it's not that important because clients who are going to trade with you tend to trade with you and don't check your website, so if people already know you, they tend not really to look at the website. It's people that don't know you that look at the website. But that's a knock-on effect because for me the value in your website is people finding you that don't know you. That's the whole point of the website. It's people that are going to Google or social media and looking for a new recruiter, looking for jobs, looking for vacancy, whatever it might be and then finding a website and ringing you up. For all the businesses I support the websites are cash generators.

They are big cash generators. You know, most businesses are making at least one or two placements a month through the website and that comes through investing in search engine optimization. Yes, also investing in Google ads, but it's the hard work that goes into Brand building of that website. But come back to the cost of the website, if you want to optimize the website and you want to gain clients and candidates in business through the website it is going to cost you a little bit extra and this is now that you maybe need to do some research before you actually set that in your budget.

Conclusion

So coming back to the question we started this podcast on which is how much does it cost to set up a recruitment company, it comes down to how many months it's going to take you before you get your money in so if it's going to take six months before you get your money in, that is six months of salary that you want to pay yourself plus the various setup costs like a website, like setting up your domain name and then the ongoing costs like an accountant, like your job boards and like your databases.

You simply put that into a spreadsheet and add that all together, because if you've got the six months of month-by-month running costs and your setup costs if six months is when you get your cash in, there's your answer. So, each individual business that I talk to that wants to know the answer that question, that's how I answer it to help you understand it for yourself. You've got to get that right to make sure that you do get past the first 12 months. Thanks for listening to my podcast, I hope you've enjoyed it.

As you can probably tell, I invest in and support start-up recruitment companies so if you are interested in potentially working with me to grow a business together you can get in contact with me either through our business Davidson Gray or you can contact me direct through my LinkedIn profile and we can arrange a conversation.