



▶ NEXT MONTH...



INNOVATIVE CLIENTS: PRIVATE EQUITY FIRMS



BALANCING BUSINESS DEVELOPMENT EFFORTS WITH SEARCH EXECUTION

Q&A WITH THE #1 BILLER

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Recruiting *Entrepreneur*

ADDRESSING THE UNIQUE NEEDS OF SENIOR LEVEL EXECUTIVE RECRUITERS AND EXECUTIVE SEARCH FIRM OPERATIONS

As markets slow, there's strong sentiment the supply of talent will grow while the demand will shrink. Firms experiencing the annual summer-slowdown anxiously await the fall increase – but what if it doesn't come this year?

How Can We Prepare For A Market Slowdown?

We've seen it before in the late 1980's – early 1990's and in 2000. Will this year be different? Due to a heavy operating cost larger search firms can't sustain themselves in a down market for very long. Expensive office space, support personnel costs and recruiter salaries weigh heavy on the search business during tough economic times. Most importantly, executive recruiters feel the impact in quarterly or annual bonuses that shrink as the firm draws more to sustain itself.

History Repeats Itself

In response, traditional firms lower support costs by reducing staff, both at the support level and at the execution level (recruiters who don't bring in new business). When business is good, these firms perpetuate the cycle by hiring new support, eventually setting themselves up to repeat the painful process of terminating at the next downturn. This process is a necessary one to sustain a

firm's most important asset – it's revenue-producing Partner-level recruiters. The firm is willing to sacrifice the livelihood of many in order to save the few who are capable of keeping the entity alive until the next up-tick.

The Boutique Difference

Although many boutiques find themselves in the same hire-and-fire cycle, some have built businesses to sustain operational efficiency even in a downturn.

Like the squirrel preparing for winter, some firms simply save save save, building reserves to support business operations through the down cycle. This is particularly effective in niche boutiques that have a greater ability to generate moderate levels of revenue to sustain the operation. However, even that model is risky if the downturn extends beyond a few months.

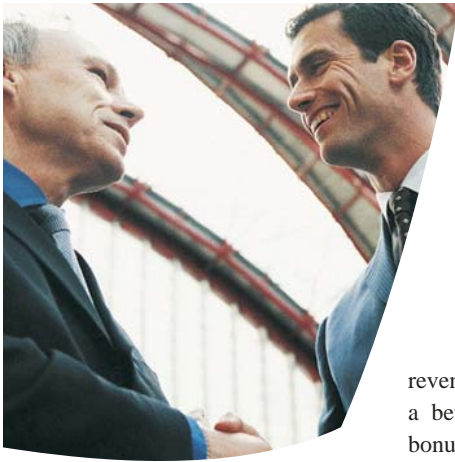
A New Opportunity For The Firm

During the pinch, most firms have a unique opportunity to start from a clean slate and rebuild their business in a way that better addresses future slowdowns. Not only saving jobs, these models have the unique ability to continue generating bonus revenues to recruiters at levels sustainable in all markets. The components of the firm's monthly nut include people, environment and tools.

Tie the Nut to the Revenue

Most search fees can be broken down as follows: 20% support, 10% tools and 5% environment. For efficient boutiques, this leaves a 65% profit to be distributed to Partners in both salary and bonus. However, to balance inefficiency in revenue generation among recruiters (especially at large firms), their





Continued: How Can We Prepare...

The best way to prepare is to learn, apply what's learned and avoid these issues in the future. Nothing is more painful than firing good employees.



tools and their environmental space, as much as 20%-30% is diverted to carry these individuals. At larger firms this leaves a net profit of 35-40% for the revenue generating Partner (in salary and bonus).

People

To efficiently manage the cost of people, some firms are changing employee status to contracted employees or even subcontractors, effectively trading in obligation and the high cost of benefits for a higher cost of support when it's needed. Some firms even go as far as helping these new subcontractors transition softly by committing fees and even setting up their independent businesses too. While it frees those subcontractors to work with other firms, many create non-competes as it relates to industry and function, and offer incentives such as phones, web-hosting, email and even subscription research tools to offset their initial fear of independence.

A Budgeting Tool

An effective budgeting tool tied to your search management system can help you dissect each search to better understand and manage the cost of search and ultimately the cost of each

revenue-generating Partner. It's a better model for distributing bonuses to Partners too. Those that require more support will see it in their bonuses and make efforts to reduce that cost themselves.

Environment

Firms are already making significant changes to their operating environment in order to reduce the ongoing commitment necessary to manage the firm. At large global firms such as Heidrick and Struggles there has been an effort to shrink office space and sublease to other businesses. Employees are offered a hoteling option that has them work from home offices and reserve office space only when needed. With VoIP telephones and a VPN employees can operate from the home office with efficiency. These systems provide a seamless integration with the office so clients and candidates don't know the recruiter's whereabouts.

Tools

With online database options, the Internet, hosted email/websites and VoIP phone systems, portability and employee distribution are commonplace in executive search. In addition to low-cost, efficient communications tools, most research-related resources

are available via the Internet, so distributed employees can effectively access anything needed to succeed. More importantly, these tools can be effectively shared and managed among subcontracted support instead of the firm. If these costs are split among subcontracted researchers they can reduce their costs by sharing fewer logins, accessing tools temporarily among other independent researchers, and eliminating these costs from the firm's budget.

How to Transition

The most important component in this model is effectively transitioning employees to contract or subcontract status. This is an extremely sensitive area for employees who can easily perceive the change as a termination. Firms have found success by engaging with consultants who specialize in managing the transition, such as Prospect City. To navigate these complex waters the firm can provide security through a financial commitment, incentives such as completion bonuses, and demonstrable examples of success.

Introduce your employees to others who have successfully transitioned to independence.

Carry their operating load for

a short period (tools, Internet, phones, etc.)

Terminate them in order to activate COBRA insurance options as well as unemployment insurance benefits during the transition.

Commit the firm to pay their gross monthly salary amount for a short period.

Introduce them to other prospective buyers (other recruiters), then lower your commitment in exchange for fewer hours. Regulate it based on your business needs.

Offer to pay for their base cost of building the business, including registration, domain acquisition, website/email hosting and a portion of the resources needed to begin. Give them their office computer and teach them bookkeeping or introduce them to helpful resources.

The second key area is the outsourcing of IT infrastructure. Consider moving all VoIP phone systems, website, email and database technology offsite and try to consolidate all of these IT tools into one monthly bill. The result is a scalable model that ensures the highest profit levels an under any market conditions.

Goodbye XP – Hello Vista (Arghhh!)

Microsoft announced it is no longer offering XP in new PCs, forcing many users to use Vista for new purchases. For smaller firms mixing two operating systems (and MS office versions) will be painful. Multiple interfaces will lead to dual training needs, doubled support, etc. Since Microsoft is supposed to allow a rollback to XP on some machines, we recommend you have your vendor do this prior to delivery. It is a sticky process that is not always error-free. By researching the blogs you'll find a treasure trove of information regarding the switch and the pros and cons of Vista. Based on past experience our guess is that MS will continue to offer XP support through 2011, so once in place you should be able to count on your current XP environment for the near future.



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Questions or comments?
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