

# Restructuring in the recruitment and interim sector:

What does the future hold?

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## Restructuring in the recruitment and interim sector: what does the future hold?

### Synopsis

The UK recruitment sector, comprising of traditional agencies, recruitment process outsourcers and managed service providers, has grown steadily by around 6 per cent each year since the 2008 financial crisis. Revenues were valued at £39 billion in 2019 but, in 2020, it faced a perfect storm. As well as COVID-19, issues around Brexit and the incoming IR35 legislation (which has since been delayed until the end of the current tax year) meant that there was significant uncertainty in the market.

While the sector is resilient and will bounce back, it is likely to do so in a very different form. The way we work will change dramatically as a result of the pandemic and the recruitment sector will need to adapt accordingly.

Here, we explore the specific challenges and potential opportunities the industry is facing, as well as the immediate and long-term priorities for recruitment businesses.



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## What is the current state of play in the UK recruitment sector?

Permanent recruitment was the hardest hit area within the employment market during 2020 as many companies put a freeze on hiring. The freeze has affected the postgraduate market in particular, with 18–25-year-olds finding it difficult to access roles that reflect their qualifications. However, this does mean that when things do pick up, there is going to be a large and well-qualified labour supply for recruiters to work with.

In contrast, the temporary market has held up well, as supermarkets, food producers, cleaning contractors, delivery companies/couriers and healthcare operators amongst others, have all needed temporary support in a big way.

The interim market faced significant difficulty throughout 2020. At the onset of the pandemic, around 50 per cent of the interims that were already in roles lost their jobs. Those that weren't currently on a placement found there was a very limited market for interim managers until the first lockdown measures eased during the summer months. The roles that started to become available were predominantly addressing emergencies within businesses. We expect the situation to begin to materially improve towards the second half of 2021. Employers are now talking about recruiting again at scale although decision making is taking longer than normal.



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## How has the COVID-19 pandemic impacted the sector?

The switch towards new, more flexible ways of working is perhaps the most fundamental change to the world of work in decades. COVID-19 has caused many people to consider their life choices, including where they want to live, how they want to work and the type of work they want to do. This has compelled employers to acknowledge that remote working can be successfully deployed across large proportions of the workforce. As geographic boundaries become less significant, correspondingly there will be greater emphasis on talent mobility and the distribution of skills throughout the UK.

Post COVID-19, we should expect to see the emergence of a new norm that will include greater utilisation of recruitment technology, including more of the interview process moving online, plus the introduction of digitisation of the entire end-to-end recruitment process.

The move to remote working means recruitment firms will have to evolve and change how they operate too. Increasingly, the phrase “work is what we do; not a place we go” will be of relevance in the decade ahead. The interviewing and prospecting process has moved online and that is likely to continue, alongside virtual onboarding when people are hired. As such, there will need to be greater investment in the appropriate technology. Employment contracts and benefits will also need reviewing to reflect the fact that employees want more flexibility in their working arrangements. Similarly, employers will also expect greater flexibility.

A lot of employees will also be looking to reskill because the changes forced by the pandemic have made their skills less relevant. This will undoubtedly impact sectors like leisure, retail and hospitality for a long time as people look to move into other sectors where they see themselves having better prospects and greater job security.



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## What issues are businesses in the sector facing?

For those businesses that have managed to remain resilient in the pandemic, cash is still king. They will have to carefully monitor their cashflows, make sure they utilise all the government support measures as long as they are available and constantly reduce costs where they can.

Initially, the sector will be leaner with the overall headcount significantly reduced from pre-pandemic levels as agencies have used the last 12 months to reduce costs.

When the market does recover, relationship management with both candidates and customers will also need to be more proactive than ever before.

There is also a lot of uncertainty about the new IR35 tax rules coming into the interim and permanent market, which raises the prospect of an increased administrative and regulatory burden for recruiters. The changes were originally due to take effect in April 2020, but the start date was delayed by 12 months as a result of the pandemic.

Andrew Chamberlain, Director of Policy at The Association of Independent Professionals and the Self-Employed (IPSE), a leading organisation for the self-employed sector, said:

"We believe there is no indication of the government delaying the private sector change for a second time, unfortunately. The legislation has already been passed so it would need a change in this year's Finance Bill to prevent it from being introduced. There is no suggestion, that we are aware of, that this will happen."

## How is the supply chain for the sector impacted?

Cashflow is not currently at a critical level due to tax payment holidays, the coronavirus job retention scheme, business interruption loans and other forms of government support, but we are approaching a cliff edge with the schemes coming to an end.

There is likely to be a rise in unemployment which will again increase the labour supply. However, this shouldn't be underestimated as this will pose a significant opportunity for recruiters to find roles for candidates.

There's also an expectation that a number of people who have been on long-term furlough will be reluctant to return to the job they were previously doing, particularly if it means going back into the office having become accustomed to a change in lifestyle. Additionally, many are now used to working from home; they enjoy it, they realise they can do it more efficiently and they are saving time and money on their commute – along with other associated expenditure – resulting in a better work-life balance.

## What are the challenges and opportunities facing the supply chain?

Many will now be seeking new opportunities that offer more flexible working. This shift is likely to cause significant disruption to the permanent market, with many people having already taken the opportunity to retrain or upskill themselves through online learning during lockdown.

For interims, they will find it challenging to carry out their due diligence to establish the level of risk when they go into a business. As there will be less clarity about how stable a business is, they will have to think carefully about their remuneration and the risk-reward ratio of taking on the role.

The idea of employing an interim to turnaround a business has fallen out of fashion in favour of business transformation – for example, using interims to support entering new markets or changing operating methods. While we foresee a higher element of risk to contracts, we also expect interims to be contracted for longer periods due to the changing nature of assignments.

On the upside, especially for operational roles where interims are working on business transformation, contracts are likely to be longer, up from six months to a year or more.

## What trends do we anticipate seeing across the sector over the next 12 months and beyond?

We expect to see further consolidation among smaller and mid-sized recruiters. Those that have remained resilient throughout the pandemic have had to make some difficult decisions and scale back on some non-sales staff, including some of their back-office functions, with the highest percentage of redundancies seen in administrative roles and HR. These roles are unlikely to come back after furlough and consolidation will be a means of survival.

Others will take advantage of the opportunity to explore new avenues for growth, targeting niche sectors, including agriculture, food production, health and social care services, where the labour supply will have been particularly impacted by Brexit. The life sciences and pharmaceutical sectors are also attracting huge investment in recognition of the fact that we might need more vaccinations in the future.

Recruitment Process Outsourcing (RPO), when a company transfers all or part of its recruitment requirements to an external provider, was already popular with large corporates.

This now poses a huge opportunity post-COVID for the sector, as a lot of companies will struggle to adapt their HR function as people work differently. An effective RPO programme can install a talent acquisition team, the latest recruitment technology and flexible recruitment processes within an organisation, so there's a big opportunity for RPO to steal a march on the market.



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Billion pounds in revenue generated in 2019 by the UK's recruitment sector

50

Percent of interims lost their jobs at the onset of the pandemic

6

Percent growth in the recruitment sector each year since 2008



What does the future hold?

## Conclusion

In the very short term, the sector's recovery will be intrinsically linked with the progress of the national and local public health restrictions placed on businesses, with firms naturally reluctant to recruit until they have more clarity on the opening up of the economy and the success of the vaccination rollout.

In the medium to longer term, the sector faces a number of emerging opportunities as industries such as those previously mentioned look to replace workers lost to Brexit. Many employees who have adapted to working from home during the last 12+ months and enjoyed the work-life balance may shun a return to the office, instead seeking new roles that offer ongoing flexibility.

Recruiters themselves will have to adapt to new ways of working. By embracing new technologies such as video interviewing and virtual onboarding as well as targeting specific business sectors with strong growth potential, the sector can best position itself for recovery.

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