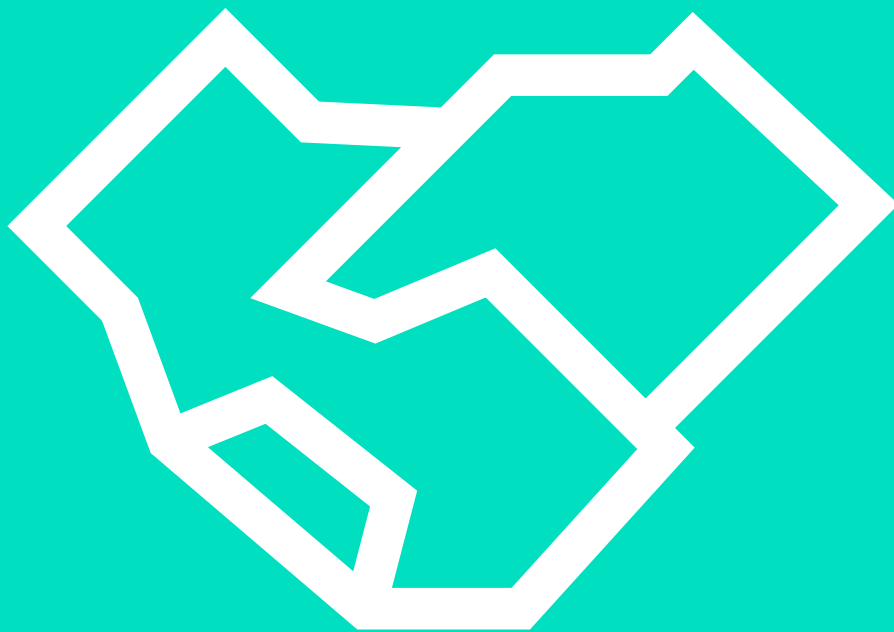


# Contract Recruitment: Everything You Need to Know



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## Contract growth

The world of work is changing. Driving this growth is professional contractors and freelancers. As the value of the UK recruitment increased from £32bn in 2017 to £35bn in 2018, contract and temporary placements were on the up, with the average value of a contract placement up 20% on 2016/17 to £34,976.

Capitalising on the growth is imperative for recruitment agencies who seek to increase their business value and offset perm hiring peaks and troughs. From candidate attraction to compliance, this eBook outlines what a business leader needs to know to enter the contract market.

Average value of a contract placement up 20% on 2016/17 to £34,976



£28.2<sub>b</sub> 2016/17  
£30.85<sub>b</sub> 2017/18

### The lion share of recruitment billing

- Contract accounts for 86% of the UK recruitment industries £35.7bn turnover (14%, £4.84bn generated through permanent placements.)
- Contract and temp work saw an increase in value of 9%, rising from £28.2 billion in 2016/17 to £30.85 billion in 2017/18

### Growth in professional contracting

- Currently 4.8m self-employed workers in the UK (IPSE, 2017)
- Self-employed contribution to the UK economy was £271bn in 2017
- The FCSA (Freelancer and Contractor Services Association) estimate that 70% of the growth in self-employment since 2008 has been at the highly skilled end of the spectrum in the following ONS categories: managers, directors and senior officials; professional occupations; and associate professional and technical positions.

 **70%**  
highly skilled

# Building a contract team

## How do we attract contract recruiters?

The best contract recruiters will have a pipeline of business and live placements extending over a period of months. Getting them to leave their role and join your business can be challenging.

The term “Golden Handcuffs” is an excellent example of why most contract billers find it hard to leave their agencies. One month they could place x amount of contractors on 3-6 month contracts, and for the duration of the placements the recruiter would be earning commission.

## So, how can you convince a recruiter with a constant flow of cash to give that up and move elsewhere?

- The new agency could provide the recruiter with a guarantee until they have the contract book up and running.
- Provide them with more autonomy to run their desk - so this could range from: flexible hours, remote working etc. so things that wouldn't cost the company any money but would improve their morale and work/life balance.
- An exciting uncapped commission scheme.
- Empower the individual to grow their own team, give them more responsibility.

## How can we identify contract business amongst existing client base?

Talk to your current clients, get to know their business in detail:

- Who are the heads of departments?
- All of the products/services they sell? (This may seem obvious but how many of your clients know the full scope of what your business offers?)
- Where these products/services are offered?
- If you're an IT recruiter - knowing the clients tech stack is a priority.
- The interdepartmental relationships: Who is the decision maker? Who do they report to? Who makes decisions if they are unavailable?
- Gather information related to future projects / objectives / desired expansion.
- Draft an organogram. Don't wait for a company to tell you if or when they need someone. Be proactive so you can be in a more informed position to provide talent options.

Have discussions with hiring authorities: find out what projects they're implementing, capacity needed needed to complete the project, the duration of the project. This will allow you to sell in contractors there and then if you know their availability and have up to date CVs with full references.



## What are the traits of a good contract recruiter?

A good contract recruiter should have these traits:

- **Market knowledge** - it's essential to know the key projects happening in your market over the next three-to-six months. The more detail you know about your market, e.g. what your candidates are meant to do on a day-to-day basis, the better you grasp a role specification, gain flexibility from clients and pre-screen candidates.
- **Constant business development** - the best contract billers are always looking for new ways to develop and to connect with new clients.
- **Proactive** - work with your candidate/s to understand the role, responsibilities and future project opportunities they can add value to. They don't let contracts run out without already having another opportunity lined up for the contractor.
- **Check in with candidates and clients** - keep in touch with candidates and clients to help ensure your relationship with them doesn't dry up. Investing your time in maintaining a good relationship will increase the chances of securing an extension or renewal.
- **Obsess about metrics** - the most successful recruiters judge every scenario numerically, set realistic goals, and then ensure you hit the numbers you set out to achieve.
- **Know your network inside out** - The best contract recruiters close the deal before the phone goes down. How they do this is simple, yet difficult to do in practice. They have an encyclopedic knowledge of their contractors, where they've worked, their accomplishments and successes. Above all, they have a number of contractors ready and available to start immediately.
- **Stay goal oriented** - Even when the workload is overwhelming, the best contract recruiters are able to remain positive and focus on reaching their goals. To do so, you need to focus on the things you can effect. Prioritise your workload, keep track of where you're at with each of your clients and candidates and have realistic expectations of what you plan to achieve each day.

## What ROI should you expect from a contract recruiter? / How quickly should they be billing?

All recruitment agencies have different requirements and expectations of contract recruiters. Are they an already established biller? Are they a new graduate in their first position after university? Each role would have different expectations.

Let's take an established biller who has been in recruitment for several years as an example.

- They'd be expected to bill right away, unless a guarantee was pre-agreed
- The recruiter would know their net fee income/gross profit

You also need to consider other factors such as: how warm the desk is, which sector are you recruiting in, how quickly will they need to build their book, when is the contract arm of the business launching?

However, it all relates to one simple ratio. Capital employed per consultant (commission, base salary, overheads of desk) you need to be billing more than you're costing the company for your desk.

## What sort of KPIs should we have for contract recruiters? Should it be different from perm recruiters?

KPIs in contract recruitment aren't hugely different from perm, however as contract moves faster, a consultant would focus on:

- How many jobs have you picked up?
- Interview to job ratio
- CV to interviews e.g. 4 CV's sent, 3 interviews
- Interviews to offer e.g. 3 interviews, 1 offer
- Meetings to jobs taken
- Contractor availability

## What commission structure is best for a contract recruiter?

Commission structures vary agency to agency and are influenced by the sector you work in.

### An example structure:

If you bill

£0-10k

you would receive

10%

If you bill

£10-15k

you would receive

15%

If you bill

£15-20k

you would receive

20%

If you bill

£20k>

you would receive

25%

## Incentivisation ideas:

Key client won: consultant is paid higher commission percentage.

- **“Kicker”**: if the consultant brings on a client at a higher margin, then they would get a higher commission percentage.
- **Sliding scale**: consultant is gradually paid higher rates of commission based on performance against a target. e.g. 5% of revenue up to 100% of target then 10% from 101-125%, then 15% for 121% upward.

# I Doing deals

## Building a network of contractors

In a candidate driven market your number one priority is the contractor. It sounds obvious, but when contract recruitment deals are measured in hours, not weeks, you need to be 100% on top of your network. Knowing who's available and when will be difference between doing the contract deal and missing out.

### Three things you need to do:

1. Speak to people. Again, obvious, but relying on job adverts to provide a stream of contractors looking for their next role is optimistic. Speaking directly with a handful of contractors who meet your current needs, will provide a lot more insight into who's available and who's hiring. Sourcing these calls can come from cv, linkedIn and database searches.
2. Be specific. Contractors are busy people with job opportunities being pitched to them from a variety of sources. You know you're not the only recruiter who's in their network so be specific with what you want to get out of the relationship and what you can offer.
3. Retain regular contact. As contractors move from role to role, they possess massive amounts of knowledge about what's happening in the market. To keep up with what's going on, speak to your network.

## Pulling jobs

If your current clients are not active in the contract recruitment market, finding clients who hire contractors is predominantly the combination of CV stripping, reference requests and talking to your network.

### CV Stripping

**CV stripping sounds like a black-hat technique but in reality it's just gathering information from the contractor's CV about their recent contract role(s). Focus on finding:**

- Where did the contractor work previously?
- Who ran that project?

By gathering this information, you will have a list of companies who recruit contractors and contacts who are involved in the hiring process.

### Reference requests

- Speak to prospective clients about contractors they worked with. Don't use the call to sell your service, that's not the objective. The objective is to find out a) what the referee thought of the contractor's work and b) to recommend other contractors they rate.
- Make contact with rated contractors and request their CV.
- You can then repeat the process.
- By doing this, you are building a network of contractors AND are familiarising your name with potential clients in a non-sales way.

## What's the candidate process?



### Profile the position

- Why is a new employee needed?
- What skills or abilities will the successful candidate require?
- Where does the future employee fit into the business?



### Prepare job/person spec

- Include as much detail about the role and candidate as you can - without giving potential applicants too much information.



### Finding the candidates

- In the digital age, there are hundreds if not thousands of places for you to advertise a role.
- Social media - LinkedIn, Twitter etc.
- Niche job boards
- Portfolio sites



### Review the applications

- Qualified candidates should quickly be able to explain how they fit the role by giving examples from their prior work. Check back over the job description and person specification to see how they compare.



### Study their portfolio or previous pieces of work

- This is key - this is where you will be able to judge what they can and can't do.
- Is the work backing up what the candidate is stating, are they proving themselves?



### Conduct interviews / tests for the selected candidates

- Conduct a face-to-face or video interview.
- Many contractors work remotely so video interviews will allow you to gain a better sense of the candidate.



### Checking references, drawing up a contract and offering the job

- Once the interviews are complete and you're happy with the choice of candidate, draw up a contract and offer it to the candidate.

## Payment contractors: umbrellas and limited companies

Due to their employment nature, contractors can be eligible to work in a few different ways, such as working under/ for an umbrella company or as a limited company. Being able to work with both types of contractors will increase the number of contractors you have on your book.

### Limited company

Contracting under a limited company means the candidate is responsible for establishing their own company and submitting their own accounts and taxes directly to HMRC.

- If the end client wants to use different terms and conditions, check that they will not hold you accountable if there are any issues with the candidate you supply.



- Make sure your agency has the correct insurance in place to cover yourselves, should any issues arise.
- In the same light, ensure that the candidate has insurance to cover themselves if there are any problems with the end client. This covers your back as well.
- Make sure you have all the necessary paperwork available for the candidates on your books, should HMRC want to see it.

## Umbrella

Working under an umbrella solution means the candidate is essentially an employee of the umbrella company. The candidate submits a timesheet, which when approved creates an invoice for payment.. The candidate is paid by the umbrella company as an PAYE employee with the umbrella company's processing fees deducted from the candidates pay. The umbrella is responsible for HMRC statutory deductions and employment liabilities.

- Make sure the umbrella company is compliant across the board, and ask to see proof that they have a qualified, registered accountant.
- Get copies of the umbrella company's Certificate of Incorporation, VAT certificate and insurance certificates.
- Verify that the umbrella company has a policy regarding Agency Workers Regulations (AWR), so that you know your candidates will be paid the correct amount.
- Try to work with a list of approved umbrella companies, or do your research on the company your candidate wants to work with to ensure they're compliant.
- Ensure all parties sign the contract before the work starts.

## Placement process

### Verify the candidate details

- You need to ensure the candidate you are putting forward is who they say they are.
- Collect their CV, ID (passport/driver's licence), references and DBS checks.
- In some cases you may also need to verify their qualifications or if they have a right to work in the country.

### Ensure you have all documentation

- Check with the client as to what information they may require, it shows the client you are making every effort to remain compliant.
- Certain industries need high levels of compliance such as the medical industry in order to protect the client, the public and the agency from legal action.

### Ensure the placement complies with Agency Worker Regulations (AWR)

- Keep records of your communications with the client to protect yourself and the client from any future problems.
- Work with umbrella companies that have a policy in place around AWR to ensure the candidates are paid correctly.

### Verify the umbrella is compliant

- Have a list of approved umbrella companies or research the umbrella your candidates want to use
- Ask the company on their compliance, processes and payment structure
- Another step would be to ask for copies of their certificate of incorporation, VAT and insurance certificates.

## International placements

- When making placements overseas make yourself aware of the rules of that country. Each country has different policies regarding candidates working in them regarding; taxes, visas, tax and social security.

## Beware of fraud

- There are examples surfacing of third parties looking to defraud agencies, candidates and suppliers in the industry. By completing your full compliance checks you should be able to identify any fraud before it happens.

## Contracts are agreed and signed

- Ensure that all parties agree and sign the contract before the candidate starts.
- Look into cloud software that allows for e-signatures to speed up the process or have contracts with trigger actions i.e. if the candidate goes on site then the contract is deemed to have been agreed.

## IR35

IR35 is tax legislation that is designed to combat tax avoidance by workers supplying their services to clients via an intermediary, such as a limited company.

As an employee, contractors would have PAYE and National Insurance contributions deducted at source, and would forego the ability to offset certain expenses against their limited company.

- The responsibility for determining whether a contractor falls within IR35 in the public sector will shift from the contractor to the client.
- Although the decision sits with the client, the responsibility to deduct NIC and PAYE will be left with agencies.
- For IR35 to apply, HMRC has to determine whether the relationship between a contractor/freelancer and their client is in fact an employer-employee relationship.

# Financing contractors

## Why cash flow in contract recruitment is important

For a recruitment agency to successfully operate in the contract space, they need to overcome two challenges; time and money.

### Time

Whereas permanent recruitment is a one time event with a single round of paperwork, contract recruitment is cyclical. This takes up a lot of time. Everything from administering contracts and chasing timesheets, to making payments and invoicing distracts a business owner.

### Money

Contractors are typically paid on a weekly basis by the agency. Unfortunately, the recruitment industry has some of the worst debtor days\*, meaning an agency will have to pay the contractor(s) up to eight times before receiving payment from the end client, causing cash flow issues.

For e.g. one contractor on a 12 week contract at £320 per day means an agency will pay the contractor £1,600 per week for the duration of the contract, £19,200 in total. If your invoicing monthly but receiving payment between 30-45 days later, you have to find the money to pay the contractor at least four times (£6,400) alongside all your fixed and variable costs.

This doesn't factor in all the paperwork you will have to deal with - everything from contracts, credit control, timesheets, invoicing and making payments falls to an agency.

However, increased digitisation and financial competition means that agencies can choose from bigger group of suppliers than ever before.

Contractor	1
Charge Rate	£400
Pay Rate	£320
Margin (%)	20%
Placement Duration	12 Weeks
Invoice	£24,000
Contractor Payment	£19,200
Gross Margin	£4,800

### Times this by 10 contractors and the impact on cashflow is magnified:

Contractors	10
Charge Rate	£400
Pay Rate	£320
Margin (%)	20%
Placement Duration	12 Weeks
Invoice	£240,000
Contractor Payment	£192,000
Gross Margin	£48,000

## Finance types

Invoice finance comes in many forms and is typically broken down into:

### Invoice factoring:

where the agency sells their invoices to a third party at a discount. In addition to providing finance, the financier also performs credit control and collects payment on the agency's behalf in a disclosed manner.

### Disclosed factoring with back office:

the agency factors invoices with financier in a disclosed way (i.e. the financier collects money on behalf of the agency in the financiers name.) The product is accompanied by back office functions to support, manage and administer the running of contractors. Back office functions vary between provider in terms of quality of tech product and service levels.

### Invoice discounting:

purely money all other responsibility remains with the agency – (credit control, payroll, etc).

### Confidential invoice discounting (CID):

Invoice financing that is arranged confidentially, so end clients are unaware that the agency is being advanced capital against sales invoices before payment is received. ID and CID is typically available to agencies with turnovers in excess of £250k+. A third type of discounting – Disclosed Invoice Discounting is known as a halfway house between factoring and confidential invoice discounting and is for those companies whose balance sheets are not quite strong enough for CID.

## Provider considerations

### Fees

**Fees vary between financier. Large banks for e.g. (Lloyds, RBS, HSBC, Barclays) have setup fees, where other independent financiers don't. Key fees to enquire about include:**

- setup fee
- service fees
- insurance (if factoring)
- termination fees
- refactoring fees
- interest fees (also check how BOE base rate rises affect)
- fees associated with reviewing, renewing or increasing your funding
- administration fees
- account service fees
- legal documentation and process fees

## Terms and conditions

**Larger recruitment agencies who have used or are using a form of invoice finance will be familiar with personal guarantees and lengthier setup processes, typically owing to the complexity of the facility.**

- personal guarantee
- debenture (the name typically given to a security agreement that sets out the terms under which the borrower provides security to a lender.)
- contract length (ranges from no fixed term to fixed)
- Invoice finance facility limit

**Some financiers will apply limits to your funding to protect all parties interests. These include:**

- concentration limits
- drawdown limits
- export debt
- facility size
- reserves
- withholding profit

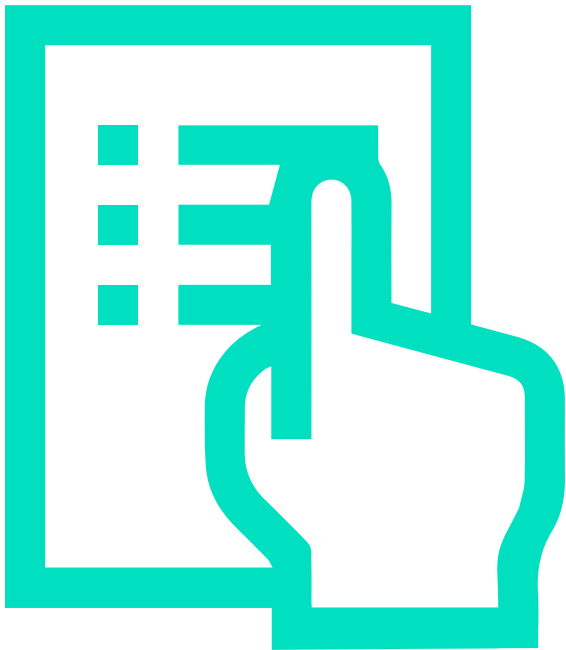
Again, it's worthwhile going through each point listed with a prospective financier to see if they apply and at what point they would 'kick-in'. Providing access to your sales ledger will help you understand your position with regards to the above.

## Processes

Process requirements vary from agency to agency. Agencies on invoice discounting will be in charge of their credit checking, payment and invoicing processes. However, other routes require the agency to develop a relationship with the financier.

**All financiers will offer demonstrations of their product / service. Here are some questions to ask during this phase:**

- How does the credit checking process work?
- Who issues contracts?
- Am I covered in the event of a bad debt?
- How is customer service structured? What are they responsible for?



### **Tech platform**

Depending on the size of your business and type of invoice finance needed, you will have differing tech requirements. An agency with an established back office team and processes may pursue invoice factoring or invoice discounting. Other agencies may want to bring the solution all under one provider – this is where disclosed factoring with back office financiers comes into play.

### **Things to check if your financier is providing tech to support the process:**

- Manual and online timesheets
- Credit checking
- Contracts (inbuilt, customised)
- Invoicing
- Payments
- Insurance
- API connectivity (accounts, CRM)
- Apps
- Reporting

*\*56 days according to commercial law firm EMW.*

# Introducing Sonovate

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# Sonovate helps you get paid, easily and on time

Sonovate provides invoice finance and back-office support to businesses who place contractors.

“Sonovate gives us flexibility, a streamlined portal, and simplified admin and back office. It allows us to focus on the core aspect of our business: recruitment.”

Dr Raja P Pappu,  
Director  
SkillRecruit

Our whole approach is designed to save you time, get admin out the way and focus on the work that grows your business.

- 1 Add a placement
- 2 Confirm timesheets
- 3 We pay candidates and 100% of your invoice profit into your business bank account.

## Fund and manage with one platform

- 100% invoice profit paid to you
- Quick and easy funding process
- Freedom to use Sonovate as and when you need to
- Credit control, timesheets, invoicing and payments managed for you
- Industry first iOS and Android timesheet app
- No setup, additional or exit fees

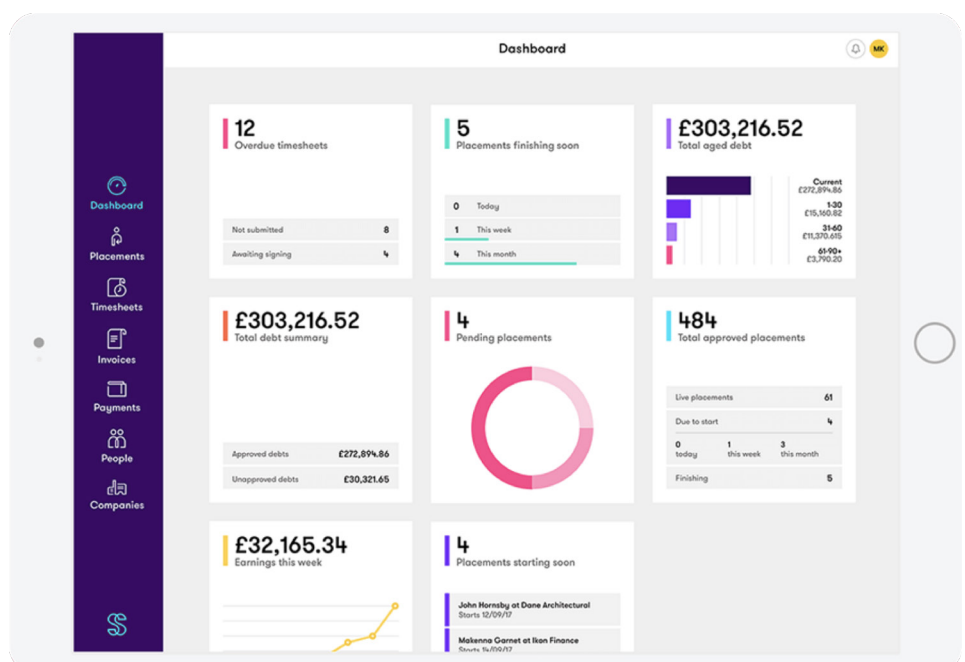
**Dashboard:** manage your contract business in real time, everything from timesheets to financial forecasting.

**Placements:** add new placements effortlessly and view account history from one place.

**Timesheets:** fully-automated, streamlined timesheets means efficiency up, margin for error down.

**Invoices:** funded, issued, and paid — we take care of all your contract invoice to-do lists, leaving you to do whatever you need.

**Payments:** one view of your clients' companies - contracts, contact info, payment history.





## I Sonovate in numbers

Over £750m  
invoices funded

Over 350,000  
payments made  
to clients and  
contractors

Over 2,200  
businesses use  
Sonovate

Raised  
£20m in VC  
investment

**Fastest-growing UK fintech and 12th  
fastest growing private British business**

*Beauhurst and SyndicateRoom profiled the 100 fastest-growing companies based on how their valuations have grown over the past three years*

## I See Sonovate in action

Click here to select time and date to demo Sonovate

Arrange demo



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