



Summarising Search Fees and Situations in Different Market?

By Tom Nevins

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In ABC order from Brazil to the USA, 13 Glasford International search partners put fingers to keyboard.

About one-third of our Glasford member countries' Partners answered us on this. But there were no arm twisting, or second chances if they did not make the 7 day/5 working day deadline. Maybe there is not that much that is new or startling to most of us, but it is not a bad read. As we look it over we can all agree, or disagree with the views. It might be interesting to think about how you would have given a brief answer for your national market.

We went in alphabetical order. Our Brazilian Partner gave us an interesting starting story that many of us can identify with. I'll bet he was recently burned by that one.

Brazil

Paulo T. Coutinho, Managing Partner, Reggiani Hunting/Glasford International Brazil

"The only time we've agreed to work on a contingency basis, after we've mapped the market, built and personally contacted a consistent list of more than 20 professionals that fit the position, the client told us the process was postponed and he would contact us as soon as the hiring decision was valid again. No pay for all that work! We've asked the Consultant in charge of the process if he agreed with the idea of no pay for his work. His answer: For free, only automatic watches work, and you still have to shake your fist."

Finland

Antti Joutseno, Managing Partner, JL Consultants/Glasford International Finland

"The direct search market in Finland has become both more mature and more competitive during last 2-3 years. Three years ago there were 10-15 substantial executive search firms, today there are over 30. Some of the traditional media and public recruiting firms [Manpower etc.] have entered also the direct search market. This generates pressure on fees. However, consultant firm's corporate image and name recognition still effects fee levels. The average fees by sector are: Industrial 33%, Finance 35%, IT and ICT 30%."

Germany

David Buchberger, Managing Partner, Glasford International Deutschland

"In Germany, more and more of our clients see the effectivity and necessity of having exclusive commitments with the search companies. The fact that candidates get contacted by several headhunters for the same position, throws a very bad light on the searching companies. This fact leads to a single-sourcing strategy also in search and recruiting. This leads to the fact that consultants must work as part of the companies and build up a very close and trustful relationship and communication with the clients. That's why we have been working together with a reasonable number of our clients since more than a decade!"

Japan

Thomas J. Nevins, Managing Partner, TMT/Glasford International Japan

"In Japan too many players can make for some desperate, sometimes unscrupulous operators who discount, but that drives them out of business. If not three one-third retainers, modest commitment/retainer fees are certainly prevalent among established executive search firms of reputation. A major IT, high tech specialist is contingency, but a 50% fee. A modest retainer finance industry specialist moved up from the typical 35% to 40% recently, although on big financial service placements it can be 25% or a fixed fee. A consensus is developing that we have to hold the line on fees to stay in business."

After the Employment Security Law was revised in 1997 to lower the bar to obtain the required recruiting industry license, the number of recruiting companies drastically increased. During 1993 to 1996, (the bubble burst, but not that many managers had lost their jobs yet, thinking to become a recruiter would be nice), the % increase from the previous year was almost nothing--0.04%. For three years after the new law was introduced, the % increase was about 5% on average. Then in 2000 the % jumped to a 25.4% increase, and since then the % has stayed high at an annual average increase of 18.35% per year (2001-2006). In 2006, the number of recruiting offices was 12,808, and the increase from the previous year was 23.5%. My guess would be that the influx of baby boomers retiring from their companies has a lot to do with this.

Even though the new law became less strict, to open a business requires all applicants to comply with, for example:

- 1) Total minimum assets of more than 5 million yen (US\$50,000), and cash/bank deposit of more than 1.5 million yen (US\$15,000)
- 2) More than 20 m² (215 sq²) of office space
- 3) A system to maintain secrecy of personal information.
- 4) Every year reporting applicant numbers, job category of 'applicants' (Executive Search firms like TMT have to scout non-applicants!!), their employment status, number of placements, and fee level of placements to the authorities

'To keep running the company is much more difficult and a considerable number of companies closed', said the officer of the Tokyo Labor Department. Although there is no official data, they know this because 'so many licensed operators don't come back for renewal of the license'. The license is initially valid for 3 years, and then renewable every 5 years. After the first three years, a firm must have 3.5 million yen (US\$35,000) minimum assets/profits for that last fiscal year.

In the case of within Japan domestic jobs, in 2006, about 1,715,000 million people applied to these 12,808 firms (16.4% increase), 1,703,000 million positions were posted (a 24.3% increase), and 340,000 people found positions through these private recruiting firms. This means only 19% of the applicants were placed by these private firms.

As for recruiting for overseas jobs, it is still small scale with 10,829 applicants, 7,858 positions, and 6,290 people finding jobs in 2006. However this shows there is a higher successful placement % (58% of applicants and 80% of positions) than there is on the domestic scene.

In other countries where licenses are required, I wonder if there are similar statistics. As we do our job, day in and day out, never advertising for 'applicants', such statistics are off the radar screen. To get a license, attendance at a full day seminar is required, along with considerable paperwork, and modest fees. About 500 people at a sitting attend the seminar several times a year. The seminar instructors will actually say, 'this business is not as easy as some of you think. Look to your left, look to your right, after one year, one of you won't be in this recruiting business'. As in any country, clients that may be tempted to hire an actively looking, inventory candidate sold by a recruiter at a low fee may find they have hired a problem. Clients also risk opening up their organizations and their staff to desperate recruiters that have no reputation to lose."

Malaysia

Peter Lisney, Managing Partner, Lisney Search/Glasford International Malaysia

"The Malaysian market has been rather price focused and there is a mentality of not wanting to pay money for a service in advance. Unfortunately, the outcome of this is that there are several operators quoting ridiculously low success fees and in return they provide their clients with a shabby hit-and-run service. It tends to be data-based driven with volume rather than quality their main priority. To protect themselves, some organisations sign up multiple firms for the same assignment. Needless to say a vicious circle is created as these types of search firms subsequently provide even less quality in their work. There are no winners in such a game. It's beginning to dawn on companies that a retainer model or money up front in some way or form protects their own interest and provides them with a far superior end-product."

Netherlands

Roel Carati, Managing Partner, Bjork search, selection & development/Glasford International Netherlands

"Traditionally the Dutch market has been a highly competitive market with numerous players each trying to get their share of the search business. Now that the economy is rising and the labour market is tightening, we see a rise in the number of agencies entering the market. There is a 75% rise! in the number of agencies compared to three years ago.

Based on this, one would expect competition to be fierce and fee levels to be under pressure. Surprisingly, this doesn't happen. Moreover, the upper level agencies (about a 10% - 15% of the market) continue to work on a retainer based fee (three times 1/3 or a substantial start fee and success fee) and a percentage between 27.5% and 35% (with some higher level fees for specific assignments) and fees are actually rising bit by bit.

What could be the reason for this?

There seems to be a distinctive barrier between the upper level agencies and the relatively newcomers in the market. The upper level agencies that work on exclusivity of assignment are able to raise their prices because they are specialized in specifically the kind of positions where their client recruitment departments lack the right skills and networking power: the senior, board and hard to fulfill highly specialist positions. Plus they bring in experience in their specific client market, understanding the industries' specifics do's and don'ts. Client organisations have grown more mature over the years and they make a clear distinction as well; asking their trusted suppliers in executive search for the upper level positions on the one side and trying to bargain extensively for their lower level positions (which will make the entrance barrier, higher and viability of sustaining business for newcomers even more difficult)."

Norway

Fredrik M. Vegsgaard, Partner, Cappa AS/Glasford International Norway

"2001-2002 was the top year for executive search in Norway as regards size of fees. After a significant decline in 2003, the business has not managed to get back to the same levels (in general). This is due to hard competition, again as a result of many new actors on the market. 2007 was a good year for the search industry in Norway in general. This includes Cappa, with an increase in revenue of about 30%. Cappa conducts searches (often combined with internet advertising) not only in the top management level, but also middle management and specialists. However, we always work on a retainer basis. The standard structure is between 1/3 and 1/4 of first year salary, although a fixed fee is very normal in Norway. With an unemployment rate off less than 2% (1.8% overall in Norway January -08!!) the competition in attracting the best candidates is harder than ever. This again makes the future bright for the serious and established search companies...and I suppose we will see an increase in fees rather than the opposite."

Russia

Nina Agibalova, Managing Partner, Metropolis/Glasford International Russia

"In the Russian market usually the fee is 30-35% of gross annual income including guaranteed annual bonuses, or can be a fixed fee not less than 30,000 USD. The fee is paid in 3 stages; usually each one is one-third of the amount, though some companies prefer the first payment of 15-30%, as the market is not ready to accept the typical international scheme. There is a substantial income increase in Moscow and some other regions for the last year especially, and now the gross annual income for top-management positions can exceed by 20-35% the salary paid for the same position in Europe or USA."

Spain

Jesus Espinosa Lopez, Managing Partner, RH Asesores/Glasford International Spain

"In the Spanish market fee for Executive Search services go from 20% to 30%. There are substantial differences between well known and recognized Executive Search companies and the new operators. There are always rising operators trying to find their niche systematically cutting fees or offering their services on a contingency basis. But except in some cases fees are around 25% of the gross annual salary."

Sweden

Sven-Bertil Tornkvist, Managing Partner, Glasford International Sverige

"In Sweden, staffing organizations such as Manpower, Proffice etc, lately having invested heavily in staffing their search operations tend to dominate in most generic searches on a mid management level such as e.g. controllers, charging some 25%. In IT more and more multinationals insist on a

contingency arrangement. Competition is coming from chiefly UK based search firms who tend to search people abroad without actually coming there and interviewing candidates locally.”

Switzerland

Thomas Limburg, Managing Partner, Nellen & Partners/Glasford International Switzerland

“Financial Services is traditionally a very important industry in Zurich, Geneva and Vaduz/FL. Total compensation and search fees are a bit higher than in the rest of the industries. Fees are usually 30% with three one thirds. In the rest of the industries such as Consulting (Audit, tax, law etc), production, IT etc fees are rather 20% to max 30% with often a retainer of one third and two thirds at completion. Competition is getting stronger as a lot of foreign search firms open offices in Zurich. Very difficult to find good candidates in Switzerland, therefore we search and find worldwide. Our luck is that Switzerland is an attractive country and a lot of international companies and people are moving to Switzerland.”

UK

Rob Wilkinson, Managing Partner, Glasford International UK

“Search fees in the UK can vary significantly dependent upon industry sector, client ‘drivers’ and the ‘name’ and thereby the status of a search firm. The most well known, London based headhunters, frequently trade on their name and position in the market and, inevitably, there are organisations who will only use such firms. Conversely, there are organisations that place greater emphasis on personal service, industry expertise and cost.

Typically fees vary from 27% to 35% of the employee’s first year earnings, with the largest search firms commanding higher fees often with a minimum fee level of £50,000. Smaller ‘boutique’ search firms frequently agree to lower search fees to secure business in this highly competitive market, and some accept greater ‘back-end’ risk. Consequently, there is increasing flexibility on stage payments, though many firms still protect the more traditional three, one-third installments. Interestingly, there has been a move towards fixed fee arrangements to counter some clients’ perceptions that consultants are tempted to ‘negotiate the salary upwards’ as a way of increasing fee levels, or simply, as a unique selling point.

However, I believe smart organisations are now recognising that the ability to recruit the best talent quickly outweighs the small cost savings they might make by negotiating fiercely on fees. There is now greater pressure on UK search firms to deliver within increasingly shorter timeframes. Such pressure inevitably tests the depth and flexibility of a search firms resources and its capability to manage the search process quicker than was previously the case.

The ability to succeed without compromising on quality of service despite tight deadlines is an increasingly important aspect of maintaining fee levels. A search firm that can do so and genuinely still add value to a client’s business has the opportunity to rightly justify and maintain higher fee levels.”

U.S.A.

Lawrence I. Hollins, Managing Partner, Hollins Corporation/Glasford International USA

“In the U.S. executive recruitment market, we continue to see professional fees for private sector search engagements stay stable at three one-third retainer payments. For non-profit organization, educational institution and public sector clients, there is a trend toward fixing the professional fee based on the estimated cash compensation of the newly hired executive. In some engagements, money is left on the table when clients have to pay higher-than-expected salaries to lure top talent.”

So there we have it. Without coordinating or knowing what each of our Glasford Partners would write, there are quite a variety of perspectives, and focuses of interest put forward. The example we gave our Partners was the first paragraph of my Japan presentation, thus many of their entries are rather brief—to my Glasford Partners, my apologies for Japan’s subsequent embellishments! Japan did a little research and came up with those statistics, which were, even for me, rather fresh and interesting.

Like Japan, in many major economies, there are possibly thousands of licensed recruiting operators and perhaps unlicensed ones as well. For those of us who have a good, successful business, I

suppose we can pat ourselves on the back, ever mindful that we had better keep doing a very special and good job, to keep our clients' loyalty, and to maintain our viable search fee levels.

Tom Nevins is the Founder & President of TMT Inc/Glasford International Japan. Based in Tokyo, this firm is celebrating its 30th anniversary.