

Volatility rules!

Temporary hire and recruitment as a sector has seen considerable growth in recent years coupled to a high rate of business start up. Whilst asset-based lenders have tended to be enthusiastic about the sector given its readily verifiable receivables and strong cashflow, are the storm clouds gathering and, if so, what should the response be?

Volatile market conditions

Unemployment is increasing substantially in the UK but current signals offer conflicting indications as to the implications of the economic downturn for the sector. On the one hand we have seen evidence of the manufacturing and construction industries laying off contract workers in large numbers, particularly in preference to permanent employees, no doubt partly given the higher compensation due to the latter category. On the other hand, demand for temporary placements is reported to be holding up across the piece as, for example, healthcare and education continues to recruit and, more widely, firms look to retain maximum flexibility rather than add to core overhead. So is there cause for concern?

Competitive pressures impacting margins and cashflow

Whilst demand for contract workers may well be holding up margins are certainly under pressure, particularly towards the minimum wage end of the spectrum, and, as a consequence, absolute levels of cashflow. It is a general feature of the sector that businesses are typically highly operationally geared and we at MCR are seeing increasing numbers struggling to cover their overhead bases. In the world of conflicting demands settlement of contract workers' wages and one's own overheads inevitably take precedence and it is often in the liabilities to the Crown where problems can manifest themselves.

Tax arrears solutions and business improvement

MCR is highly experienced in the area of tax arrears solutions. Whilst we find HM Revenue & Customs supportive, and willing to help, this is a very delicate area for any business and issues do require to be addressed promptly and professionally. The implications of ignoring the issue of arrears, or worse be thought to be looking to take advantage of the Crown creditor, are serious and potentially life threatening. MCR tax arrears solutions is able to use its specialist expertise to work with HM Revenue & Customs to prevent a difficult situation deteriorating into one where the directors risk losing control. Specifically, in the first instance, we can assist firms in the preparation of credible financial forecasts. Following on from this we have a strong track record in terms of successfully leading the negotiation of realistic and achievable time-to-pay arrangements, hence creating the breathing space to create a plan to address the more fundamental issues facing the business. Through MCR Business Consulting we can provide hands-on, practical turnaround guidance and support which is likely to include recommendations around the effectiveness of cashflow management, options for overhead cost reductions and negotiations with commercial landlords. This broad capability was recently illustrated in the recruitment sector where we assisted a historically profitable business, which had encountered cashflow difficulties post an MBO. A seasonal lull in trading, exacerbated by an onerous schedule of deferred consideration payments contributed to the accumulation of PAYE and VAT arrears of £725,000. Following a financial and operational review, and in tandem with the introduction of enhanced cash management techniques, we were able to restructure the HM Revenue & Customs liability over 16 months, which enabled the business to continue to operate within the financial resources available to it.

Close monitoring

In these times it is of course harder for the lender to manage away problems. Therefore lenders clearly need to be both finely tuned into their existing clients, ensuring that they receive regular and relevant management information, including cashflow forecasts, and cautious when it comes to taking on new business. They need to ensure they look beyond the balance sheet and obtain general assurance as to the effectiveness of financial management, paying particular attention to margins as well as sales. MCR is well placed to provide enhanced visibility, and hopefully assurance, to the lender, through either pre-lending reviews or an ongoing monitoring brief which will expand upon the work of the lender's own auditor, targeting an appropriately broad understanding of the client's status.

Strategic options

MCR can also bring strategic assistance to bear. Recruitment is a highly fragmented sector and during this economic downturn many will find that whilst they may have excellent and loyal clients they no longer have the critical mass to successfully support their overhead. We do have clients who are looking to acquire businesses with these attributes in the sector. Equally we may be in a position to identify potentially complementary businesses which together would be in a position to drive out synergies of sufficient scale to ride out the downturn.

Ultimately, of course, if the difficulties become too great, MCR is also qualified to examine and advise on all corporate restructuring options.



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How can MCR help you and your recruitment sector clients?

- By helping to identify the fundamental business issues and remediation options.
- By leading negotiations with HM Revenue & Customs on time-to-pay arrangements.
- By assisting stakeholders to retain confidence in the client.
- By identifying strategic options when required.