

Recruitment Industry Insights

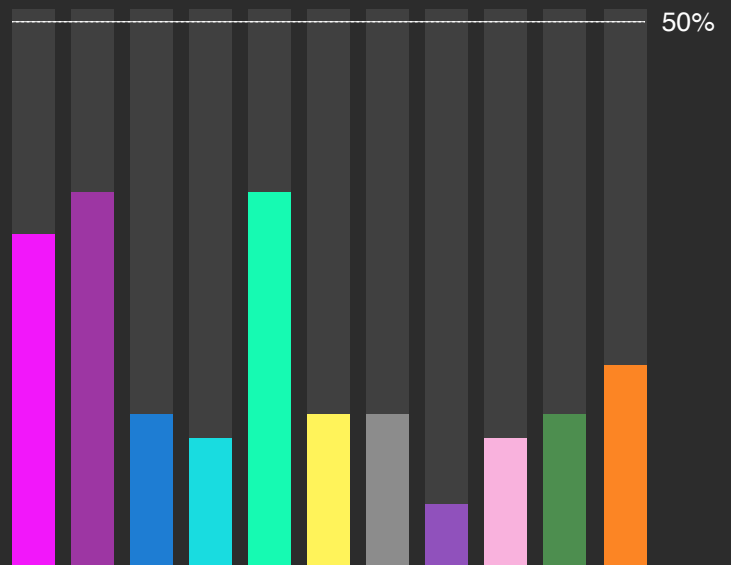
Q1 2025

The survey taken just before Christmas 2024 focussed on Recruitment business owners and their perceptions of their market conditions, rather than wider economic data or jobs outlook.

Overwhelmingly UK based, our respondents characterised themselves as 31% healthcare, 31% professional services, 28% engineering. 10% of respondents represented each of the HR, IT/tech, sales and marketing sectors, with 7% education, 7% financial services, 3% transport and logistics, 14% other (please note that totals come to more than 100% due to some respondents having multiple specialist sectors).

Sector specialisms

Engineering	28%
Prof. Services	31%
IT / Tech	10%
Financial Services	07%
Healthcare	31%
Sales	10%
Marketing	10%
Transport / Logistics	03%
Education	07%
HR	10%
other	14%



In terms of size, our sample broadly reflects the recruitment industry itself. **55% are micro businesses** (1-10 employees), a further **28% small** (11-50), **7% medium** (50-100), and **medium-large was 10%**. None of our respondents fell into the government definition of a large business (250 or more employees, representing just 0.2% of British businesses (gov.uk).

Our sample group, therefore, represents those arguably closest to the challenges facing all SMEs, but crystallised by recruitment in itself feeling like something of a “canary in the coalmine” for market sensitivity.

The budget

We asked 2 questions about the Autumn 24 budget - most of which takes effect from April 2025. One was phrased positively, the other negatively.

This was designed to elicit any “mixed feelings”. Instead, it showed a resoundingly negative impact expected from the budget, if not already experienced by respondents. When asked if the budget would have a positive effect on their recruitment businesses, respondents **overwhelmingly disagreed (79.3%)**, while just 20% agreed. Even more emphatically, when asked whether the budget would have a negative impact on their businesses, **a resounding 93% agreed** to a greater or lesser extent.

Interestingly, respondents in healthcare recruitment gave the most polarised scores. Anecdotally, despite pay settlements and increased investment in healthcare, recruiters have experienced consistent downward pressure on margins and frustrating procurement and recruitment practices. Demoralised by repeated anti-agency rhetoric, they were also among the three most likely sectors to consider moving into new specialisms.

Both the increase to employer NI rates and to the minimum wage have already had a significant impact on businesses, which have to plan and take action immediately.

A particular injustice seems to be being visited on agencies supplying the NHS, which is exempt from the NI increase, and merely expects agencies to soak up the cost in their (very small) profit margins.

The Employment Rights Bill

Although the ERB is unlikely to result in specific regulation until 2026, recruiters are already feeling some pain. The proposed equalisation of worker/employee rights has already affected small and medium companies hiring plans, although with the UK's specific skills shortages, it remains to be seen how chilling this will be on the overall recruitment market.

Sentiment from recruitment business owners is strongly negative - 93% agree to some extent that the ERB will have a negative effect on their businesses.

It is important to remember that recruiters reacted similarly to the WTR changes to temp reward, and the AWR. However, the potential removal of our legal distinction between employees and workers would certainly be an attack on the system that has encouraged flexible working models in the UK for decades **(we have a high rate of temporary agency work in the UK, at just under 6% (ONS, 2023) compared to the EU27 at under 3% and the US at around 2% (SIA, 2022))**. As the proposed changes would remove much of the economic argument for this type of flexible staffing, it does appear to be a politically, rather than economically motivated change.

How are recruitment business leaders responding?

It depends...



It appears to depend very strongly on sector specialism(s). About 65% of respondents expect to delay internal pay increases, and this is not sectoral, reflecting the NI increase hitting small employers across the board.



Interestingly, recruitment business owners don't generally expect to slow down their own hiring, with only one in 5 expecting to do this. Anecdotally, this reflects the impact that any good hire can make on profit. Some respondents commented that they had already shed any underperformers, and their combined investment in their tech stack and L&D was expected to yield results.



This does provide an example of how, although market conditions are challenging, great recruitment businesses consistently outperform the competition. While some sectors are very challenging (healthcare, engineering and professional services), adaptive recruitment businesses have grown market share by changing their business model, service offerings and pricing, and moving into adjacent markets.

Pricing

Responses on pricing underline this. With **65.4% of respondents expecting to increase their fees** to some extent, it appears that these leaders have confidence about the value their team can add to clients, and are keenly focused on profit rather than revenue. Linking this up with other questions, it seems that business owners expect to achieve this increase by securing more retainers, entering new geographical territories, and continuing to offer a more high-value consultative approach.

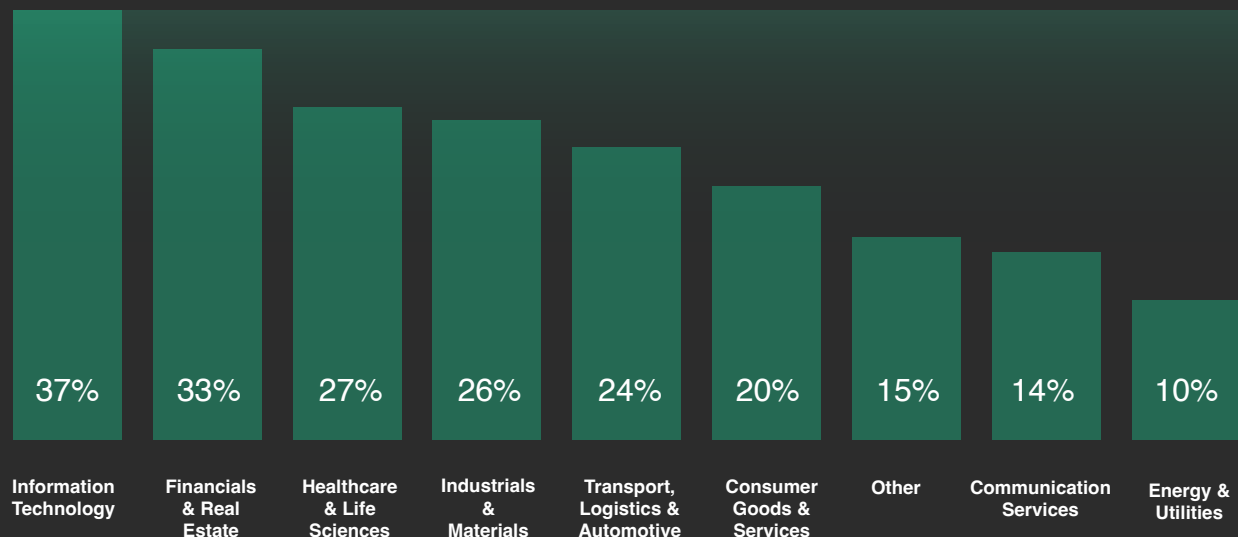
Expected fee increases were most marked in the following sectors, in order:

01	Engineering	04	Education
02	Healthcare	05	Sales
03	Hospitality	06	Marketing

It is interesting to note that the last four groups here were all sectors that dried up dramatically over the last 2 years, so one hopes this is at least a rebound. Curiously, no responses from the IT/tech sector suggested an increase, despite the positive outlook: according to Manpower Group's Employment Outlook survey Q1 2025, IT and tech has the most positive outlook of any sector:

Global Employment Outlooks Across Key Industry Sectors

Businesses in the IT industry reported the brightest outlook, improving by two percentage points since the previous quarter and the same time last year.



**Government or Public Service: Not for Profit/NGO/Charity/Religious organisation; Other Industry; Other Transport, Logistics & Automobiles Sub-Industry; Educational Institutions, Agriculture & Fishing.*

Changing business models

Respondents do report being open to the idea of re-engineering their business models. **40% say they are likely** or very likely to consider offshoring some parts of their work (reflecting the high costs of employing UK staff), although a core **35% remain adamantly opposed**. Anecdotally, this is often based on one bad experience several years ago. In fact many new markets have opened up to cost-effective offshoring, with South Africa and the Philippines getting high marks from UK recruiters for language and culture synergies.

What else can we do?

A majority (**57.5%**) of respondents consider their businesses likely or very likely to start or expand their offerings of retained recruitment, temp/contract recruitment, or some sort of a RPO model. This makes sense from a client retention point of view - being unable to provide alternative solutions often leads to losing clients altogether.

55% say they will not consider redundancies, but anecdotally this does not rule out job losses. **12% say that redundancies are very likely**.

New sectors?

Curiously, recruitment business owners seem very reluctant to branch out into new sectors, with healthcare and professional services recruiters **making up the majority of 38%** who would consider this (**31% replying that it was not likely**). The time and investment we make in building networks, and understanding industry dynamics and job profiles, is highly prized by the recruiters themselves.

Finally, recruitment leaders expressed an overwhelming concern about the UK economy, low growth and high operating costs. And when asked what they were optimistic about, half of all responses were bleak: "Things can only get better", or "I hope that we will have a more settled period after all the elections". One respondent commented, "at least in HR recruitment if there isn't any recruitment, there's downsizing".

Causes for optimism?

Certainly. Several respondents quoted candidates as being "increasingly realistic" in expectations, and the possibilities of AI to improve productivity and reduce costs were alluded to. Leaders already operating in the US had high hopes, and an increasingly global market featuring borderless recruitment and offshoring were positive signs for some.

It's interesting to reflect that many recruiters in "hands-on" roles in healthcare, engineering and hospitality were the least optimistic.

For certain, on the basis of this sample, UK recruiters can't just hold their breath any longer. We are going to have to make major changes - to specialisms, services and delivery mechanisms - or have them made for us.

Thank you for reading, we hope you found this report insightful

To learn more about Alison and how Recruitment Leadership can provide strategic support, holistic advice and objective expertise to bring your business goals within reach, get in touch today:

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