

Even when both **client** and **recruitment consultant** are well intentioned, and have a good relationship, **valuable working partnerships** can dissolve over the subject of cost.

You can however put yourself on a solid footing from the start by paying careful attention to the types of fees agencies charge, and giving thought to the rationale behind these fees. By agreeing fees with your agency from the outset you can avoid unnecessary stress and embarrassment once the candidate has been placed

Here is a quick description of typical agency fee types and an explanation for each.

Temporary Worker Fees

When hiring a temporary worker, typically the amount you pay comprises of the worker's basic salary plus a percentage on top of this that is paid to the agency itself: this is known as the "margin".

Temporary Worker Salary

Remember that the agency is responsible for paying the worker at least the legal minimum wage and, for most skill areas, much more than that to attract workers of the appropriate calibre. Your agency should be able to advise you of typical salary rates for workers at the level you are seeking.

Remember that the worker's salary needs to be charged at a rate that will include holiday pay, employers national insurance contributions and PAYE income tax and will make provision for other mandatory worker benefits such as Statutory Sick pay. Although you do not have to pay for the worker while they are taking holiday time, the Agency does. For this reason you may find that the agency calculates on the basis of a salary somewhat higher than the base salary excluding holidays.

There have been incidences in recent years where organisations have asked agencies to bid for contracts

where the base hourly rate was actually lower than the Statutory Minimum Wage! This is both illegal and unethical, and no reputable agency will accept such a contract.

Margin

Typically a percentage will be applied on top of the worker's salary to both cover the agency's costs and to allow them to make a profit. Margins vary widely depending upon the industry sector, part of the country and the type of contract you have with your agency. Sometimes it is possible to negotiate a lower margin, if you have a good relationship with the agency and you can guarantee a steady supply of business, however we would warn you that this is not always a good business strategy.

Recruitment is not a business that normally allows for volume discounts – the per person cost of filling one position is roughly the same as the cost of filling 100 positions. If you are being offered a big discount you will often find that the agency is having to reduce their level of service to remain commercially effective. This could mean that your costs actually increase, as you are forced to take on more responsibility and potentially wind up with less appropriate candidates.

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Employer Guide

Recruitment Agency Fees Explained

Temp to Perm Fees

When an agency places a temporary worker with you initially on a temporary basis, you may elect to hire that candidate in a permanent capacity. In this case, since it was the agency that made the introduction of the worker, the agency is entitled to charge you a Temp to Perm fee to compensate them for the loss of that worker's value. The amount of this fee will vary, and you should clarify with your agency up front what their standard temp to perm fee is. If you would prefer not to pay a flat fee, by law, the agency must offer you the alternative of an Extended Period of Hire –this means that the worker will continue to be employed on a temporary contract paid by the agency for a further fixed period of time, at which point they will transfer to your permanent employ. The legislation states only that this period of time must be "reasonable" – typically this will be a time during which fees make up a similar amount to the lost temp to perm fee.

Permanent Placement Fees

Permanent placement fees are applicable if you engage a candidate an agency has introduced to you. The fee will traditionally be a percentage of the starting salary but some agencies will negotiate a fixed amount if you work with them on an exclusive basis. The fee represents a contribution to their overheads, expenses incurred for their ongoing advertising media, plus the services of their consultants. Having a database of high calibre applicants will save you time and money and if you select a reputable agency will prove a stress free experience.

Retainer

If you are specifically seeking to hire one or more permanent candidates, especially for senior level positions, it is quite common to contract an agency on a retainer basis. Under this system, you will pay a fixed fee for the placement and the agency will devise and manage a recruitment strategy for you.

Normally, this fee is payable in thirds:

- **1/3 up front** when the work is commissioned
- **1/3 on production** of a viable shortlist
- **1/3 on successful offer**, acceptance and (if applicable) resignation of the candidate from the previous post.

Costs

Any costs associated with a tailored recruitment process are also payable by you and should be factored into your budgeting and considered when conducting your strategy planning. For instance, if you instruct the agency to conduct an advertising campaign in national newspapers, be prepared for the cost of running such adverts. Some other costs of permanent placements include meeting venues and research costs. Make sure to clarify up front with your consultant what the estimated costs are likely to be.

Rebates

In some cases an agency may offer a rebate of the permanent placement fee if the candidate leaves soon after being hired. You should check the agency's Terms very carefully for this, since it is a common condition of the rebate that you pay your invoice within a fixed period of time.