



Fees Explained

While it may never be possible to eliminate all fee-related stress, you can put yourself on a solid footing from the start by paying careful attention to the types of fees agencies do charge, and giving some thought to the rationale behind these fees.

Here is a quick description of typical agency fee types and a bit of background for each.

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

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, 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 to allow them to make a profit. Margins vary widely depending upon the 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 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 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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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..

"We recommend that you agree fees with your agency from the outset. This helps avoid unnecessary stress and embarrassment once the candidate has been placed."

John Potts
Director, Menzies Corporate Structuring

Permanent Placement Fees

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

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.

Costs

Any further costs associated with the 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.



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