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MINI PRESENTATIONS ON PRODUCER PRICE INDICES

DEVELOPMENT OF A UK PRICE INDEX FOR LABOUR RECRUITMENT SERVICES

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Introduction

The UK Office for National Statistics (ONS) first published a Corporate Services Price Index (CSPI) for Labour Recruitment (SIC 2003 74.50) in 1997. Since then, the index has represented the price movements in a competitive and growing service area, which frequently operates discounted pricing. The ONS index aggregates price data from both the temporary and permanent placement of staff undertaken by agencies, which are mostly small enterprises. All private labour recruitment agencies in the UK must comply with the Employment Agencies Act and Regulations (1973) which provides regulations on fees and minimum standards of conduct. The Act is in the process of being amended to provide a reduced number of regulations, which seeks to respond to a more flexible labour market in the UK [1]. The labour recruitment industry is gaining importance in industrialised countries, evidenced by the respective 14.4 per cent and 6.6 per cent gross and net sector contribution to the top-level CSPI. The CSPI *net* sector weights reflect the total net sector revenue in the base year. The *gross* sector weights reflect CSPI product class sales to all UK companies and government (i.e. including sales to the corporate service sector itself). The imbalance in gross and net weightings reflects the dominant self-consumption of labour recruitment services by the corporate services sector.

This paper summarises the knowledge that has been gained through developing the labour recruitment CSPI and defines the product groups used in the index. The pricing methodology is described together with the sampling methodology applied, under the recent 2000 rebasing of the CSPI. The time series results of the labour recruitment CSPI are depicted, with commentary provided.

Industry Output

Labour recruitment agencies in the UK typically operate in one of three ways. They may:

- specialise in placing staff with particular skills in a particular sector;
- supply workers of all kinds within their locality;
- through specialist agencies, deal with head-hunting, out-placement or consultancy.

Across all of these activities, the agencies act as intermediaries through which parties find each other for the purpose of undertaking work. A recent UK Department of Trade and Industry (DTI) article [2] has reported that, since the early 1990s, the number of people employed in labour recruitment agencies has consistently increased. The number of temporary staff being placed by agencies, has also consistently grown, reflecting a greater participation in the labour market and more flexible patterns of work.

Within the UK, the SIC 74.50 companies employ around 78,000 people, with most labour recruitment agencies having less than 10 staff. A recent DTI analysis has estimated that around 20 per cent of employees work in single-site establishments,

with agencies employing over 100 staff, accounting for around 10 per cent of the industry by turnover. Around 63 per cent of agencies provide both temporary and permanent placement services, with around 23 per cent specialising in permanent services and 14 per cent specialising in temporary work. ONS estimate the turnover of the labour recruitment activity to be £22 billion per year (in the 2000 base year). DTI analysis estimates that just over half of labour recruitment agencies are located in the South of England (accounting for around 60 per cent of staff employed).

In temporary placements, the distribution of skills and occupations, placed by labour recruitment agencies, reflects the needs of the economy. It has been estimated that around 70 per cent of all temporary placements are male overall, with peaks of over 90 per cent of male temporary workers in occupational groups such as building labourers, building tradesmen, drivers, engineering and electronics. Temporary female workers provide around 80 per cent of placements in medical, healthcare and nursing occupational groups.

In permanent placements, most vacancies are in IT, computing and telecommunications, secretarial, clerical and junior office staff.

The UK SIC 2003 74.50 classification defines the industry activity as follows.

74.50 Labour recruitment and provision of personnel

- Commercial or industrial workers (supply)
- Domestic agency
- Employment agency
- Employment consultants
- Executive personnel (supply)
- Executive recruitment consultant
- Labour recruitment
- Medical personnel (supply)
- Nursing agency (supplying nurses)
- Office support personnel (supply)
- Personnel provision for employment
- Registry office for servants
- Sales management recruitment consultant
- Supply and provision of personnel
- Teaching personnel (supply)

The industry structure diagram of Figure 1, depicts the ONS model of labour recruitment applied in the compilation of the industry CSPI.

The labour recruitment industry structure was produced in collaboration with the Recruitment and Employment Confederation (REC) which is the biggest UK trade association for recruitment agencies. At the time this CSPI was first published, the REC membership comprised of 6000 recruitment agencies and over 8000 recruitment consultants, with an estimated representation of over 50 per cent of the UK market by number of companies.

When this CSPI was first published in 1997, the industry was split into three separate regions: Greater London, England/Wales (excluding London) and Scotland. These

regions were later merged, under the recent 2000 rebasing project. The merger was undertaken to both provide sufficient sample coverage in each product group and to accommodate a lack of a regional split in some of the salary data provided by the ONS National Earnings Survey.

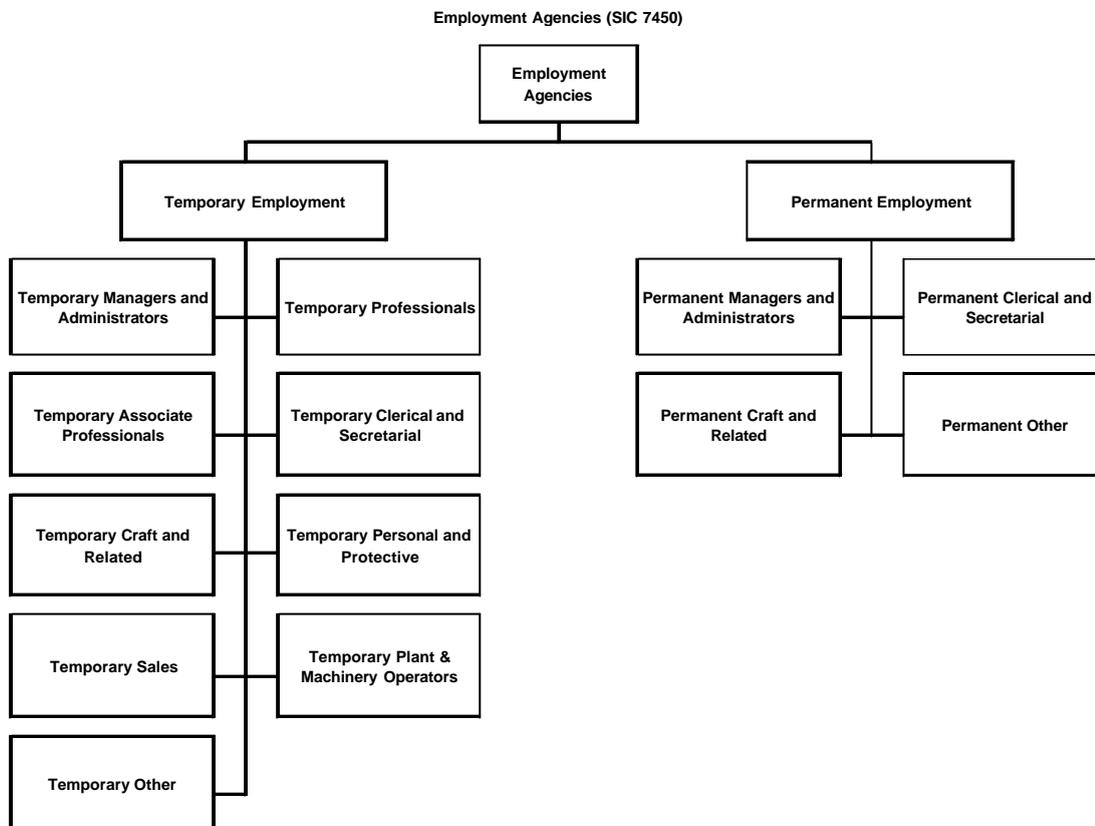


Figure 1 The Industry Structure for Labour Recruitment

Pricing Methodology

Most UK labour recruitment agencies tend to work to a set of rules, known as their *Terms and Conditions of Business*. In general, most of their work will be governed by these rules. However, the market is highly competitive and the terms can be waived in order to win a contract. Highly specialised agencies can also work differently.

Within the UK, the labour recruitment activity may be broken down into several different activities, as detailed below.

Executive Search Services

This activity is directed towards finding senior administrators and managers for specific positions, often known as *head hunting*. The potential new employer will have specified the type of person that they are looking for and the agency will attempt to fill the post for them. It is a specialised area and is carried out by specialist agencies.

Placement Services

This activity charges client employers a fee for the selection, referral and placement of applicants in a post, usually on a permanent basis. The fees charged for providing a permanent employee are less volatile than for head hunting services and are typically governed by the standard terms of business. The charge made for this service is sometimes split into three payments:

- **Retainer fee:** This payment is paid to the agency to search for potential employees and recruit for the post ;
- **Short list fee:** This payment is paid to the agency to cover interview costs;
- **Final fee:** This payment is made when an individual has been selected and supplied to the client employer.

If the fee is paid in three stages, the agency may keep each part of the fee once it has been paid. The three fees may total the same as the standard percentage fee in the terms of business. However, the total fee is often negotiable and could be a different percentage.

Often all costs will be covered by the one-off fee, charged by the agency once the employee has been given the job. This means that the agency will earn nothing if they fail to fill the vacancy. To avoid this, some agencies will offer a discounted rate if they are given exclusive details of a vacancy.

Supplying Temporary Labour

In temporary employment, an employee will work under the terms of a contract. A *principal contract* is provided, when the labour recruitment agency is the employer of the individual supplied to the client. If the client is the employer, however, an *agency contract* is provided instead. In pricing temporary services, it is important to recognise that the price that should be collected is that charged to the client rather than that paid by the agency to the employee.

A client pays the agency to fill a post that is vacant, with either a temporary employee or a permanent one. If the post is permanent, a fee (usually a percentage of the annual salary) is earned by the agency. If the post is temporary, there is an hourly (or sometimes weekly) rate charged for supplying the employee. In either case, this fee/rate will not only cover the wage of the employee but also National Insurance contributions and other overheads of the agency.

Pricing model

The fee or rate may be negotiable and can depend on factors, such as:

- Geographical location;
- Salary offered, if permanent;
- Type of work offered;
- The potential employer relationship status with the agency ;
- Length of contract offered;
- Level of skill required.

After discussion with REC, it was agreed that prices would only be collected for the supply and placement of staff by labour recruitment agencies. This decision recognised that the placement activity, in either temporary or permanent vacancies, is governed by standard business practices that can be specified and measured on a consistent basis. The resulting CSPI would then act as a price index for the rest of the industry activities.

Head hunting prices were excluded from the CSPI because it involves unique matching of individuals to posts and is only carried out by a relatively small number of agencies.

In the development of the CSPI, vacancies have been classified using Standard Occupational Classifications (SOC), which was first published in 1990 and designed to follow the International Standard Classification. SOC is also used in the ONS's Labour Force Survey and New Earnings Survey.

The SOC classifications used in the labour recruitment agencies CSPI are as follows:

- Managers and administrators;
- Professional occupations;
- Associated professionals;
- Clerical and secretarial occupations;
- Craft and related occupations;
- Personal and protective service occupations;
- Sales;
- Plant machine operators;
- Other.

The above classifications formed the product groups under which prices were collected. They were, however, split further between temporary and permanent vacancies. Assessed by turnover in the 2000 base year, the placement of temporary staff carries the highest weight, with prices collected for temporary placement for all nine of the classifications listed above. For permanent placement, prices were collected under four classifications, with the lower weighted classifications being grouped together to form a 'permanent other' product group.

One of the difficulties in collecting prices for labour recruitment is separating what the client pays the agency for its services and the salary that is paid to the employee being placed. In some cases, a labour recruitment agency will actually employ the staff being placed rather than the client. This means the client is paying the agency both the employee's salary and their commission fee, making the two components difficult to separate. To avoid this problem, respondents to the CSPI are allowed to return price information in a number of different ways:

- 1) In most cases a labour recruitment agency will return a commission rate. For example, 50p per hour for a sales assistant.

- 2) They may also return a standard fee for placing an employee in a vacancy.
- 3) Finally, a respondent may return a commission fee in the form of a percentage figure that represents the proportion that they take from an employee's salary.

The first two price specifications can feed directly into the CSPI. The third is less straightforward because an estimate of the price has to be calculated. This is achieved by applying the percentage figure to a gross weekly earnings figure for the SOC in question. The earnings figures are provided by the ONS National Earnings Survey (NES), which only provides figures annually on a non-regional basis. Prices returned in this way account for 15 per cent of the labour recruitment CSPI.

For each service listed below, please provide the price/value for the calendar periods requested and the date on which the new price took effect.

Supplier reference: 79901234567

Supplier: Mediocre Recruitment Ltd.

Item Reference Number (Please quote this when telephoning with a query). 745000001	Item description or specification England (outside London) and Wales. Temporary staff managers and admin. Production Manager. Hourly rate.	
Prices required for the following:		
Period		Effective Date
01/01/1998 - 31/03/1998	£1.50	14/02/1998
Comments (to provide reasons for significant increases or decreases in the quoted price, for example).		

Item Reference Number (Please quote this when telephoning with a query). 745000002	Item description or specification England (outside London) and Wales. Permanent Other. Sales Assistant. Percentage cut of salary.	
Prices required for the following:		
Period		Effective Date
01/01/1998 - 31/03/1998	5%	12/03/1998
Comments (to provide reasons for significant increases or decreases in the quoted price, for example).		

Figure 2 CSPI Questionnaire Extract

The lack of regional earnings data contributed to the decision to remove the regional component from the CSPI in the recent 2000 rebasing project.

Figure 2 depicts an extract from a labour recruitment CSPI questionnaire. The entries shown are examples and do not relate to an actual survey respondent.

The labour recruitment item specifications are defined by the respondents themselves. During the recruitment stage of the development process, the respondents were each asked to define item descriptions for up to four SOC based occupational groups.

Sampling and Weights

The initial sampling frame for the labour recruitment CSPI was based on a list of companies provided by the REC and information from the ONS Inter Departmental Business Register (IDBR). The IDBR is a database compiled and updated by the ONS that contains turnover and employment information on a comprehensive list of UK companies. All companies who pay Value Added Tax (VAT) or are on the Pay As You Earn (PAYE) tax scheme are included. An extract was taken from this database, which listed all the companies classified to SIC 74.50.

To ensure sufficient representation of the labour recruitment industry the sampling frame was stratified into employment size bands. A recruitment questionnaire was then sent to a representative selection of companies from each of these strata. Figure 3 depicts an extract from one of the recruitment questionnaires sent out to respondents.

Recruitment and Personnel Services: Recruitment form
 Price Quotation for Greater London
 Please provide prices for services or contracts that you expect to continue to provide into the future

INDUSTRY SECTOR Please refer to family tree diagram	Sales 1995 - 1996 (£000)	Current Price £ : P	DESCRIPTION OF SERVICE YOU PROVIDE Please refer to the examples provided and the notes page. The price quotes should be the actual/achieved rate paid to the agency
TEMPORARY STAFF			
1. Managers & Administrators			
2. Professionals			
3. Associate Professionals			
4. Clerical & Secretarial			
5. Craft & Related			
6. Personal & Protective			
7. Sales			
8. Plant & Machinery Operators			
9. Other (than the above)			
PERMANENT STAFF			
	Sales 1995 - 1996 (£000)	Current Price £ : P	The price quotes should be the percentage of salary actually achieved (after discounts), or other fee charged.
10. Managers & Administrators			
11. Clerical & Secretarial			
12. Craft & Related			
13. Other (than the above)			

Figure 3 Extract from a CSPI Recruitment Questionnaire

The recruitment questionnaires asked the respondents to provide a current price for up to four occupational groupings and an annual turnover figure for the specification in the original, 1995 base year. On subsequent CSPI survey questionnaires, the same item specification was used to collect prices. The turnover figures were used to calculate the product group weights.

Using the results from the recruitment phase of development, a second sample was drawn up for the quarterly CSPI survey. This sample became a fixed panel and originally consisted of 63 respondents, returning prices for 268 different items and providing an estimated 28 per cent coverage of the industry turnover. This sample was later expanded as part of the 2000 rebasing project to 115 respondents,

supplying prices for 488 items and providing 45 per cent coverage of the industry turnover.

Rebasing Project and Sample Expansion

In 2001 a rebasing project commenced to re-reference and re-weight all ONS CSPIs to the year 2000. As part of this project, the sample size for the labour recruitment CSPI was nearly doubled. The methodology used to expand the sample and reweight the CSPI was slightly different to that used when the CSPI was initially developed.

To provide a weighting data source for the 2000 rebasing project, a turnover survey was undertaken, with survey questionnaires delivered to a random sample of respondents in the labour recruitment industry. The IDBR was used to define a sampling frame for the survey, which was stratified by employment size bands. Respondents were selected randomly from each of the strata and sent a turnover survey questionnaire. Each respondent was asked to return turnover information for up to four of the product groups defined in the industry structure diagram, as appropriate.

A subsequent recruitment exercise was undertaken, using the results of the turnover survey as a sampling frame. The recruitment questionnaires collected prices and item specifications for each of the labour recruitment product groups. Additional turnover data was not required because this information was already available from the turnover survey. Respondents who completed the recruitment questionnaire were then selected for the quarterly CSPI survey.

Results

Figure 4 depicts the quarterly, labour recruitment CSPI. Price changes in the labour recruitment industry have shown a steady increase since 1997. Feedback from respondents indicates that the sharp increases in prices shown during 2001 are associated with increases in demand for staff and price reviews within the industry.

Comprising of 13 product groups, the most heavily weighted product groups in the labour recruitment CSPI (shown in Figure 1) have effective weights, which are less than 20 per cent. The largest weighted product groups are *Temporary Professionals* and *Temporary Clerical & Secretarial*. The significance of this is that there is no particular product group, which dominates the price movements in the index.

Although not obvious from the graph, there are regular, small increases in prices during the second quarter of each calendar year. This aligns with the timing of annual salary increases in the industry. The NES provides annual earnings data for the previous year during this quarter. Price relatives for the previous four quarters are revised, once these data are received, to reflect the changes in annual earnings. The same data are also used for the next four quarters until new earnings data becomes available and the figures can be revised.

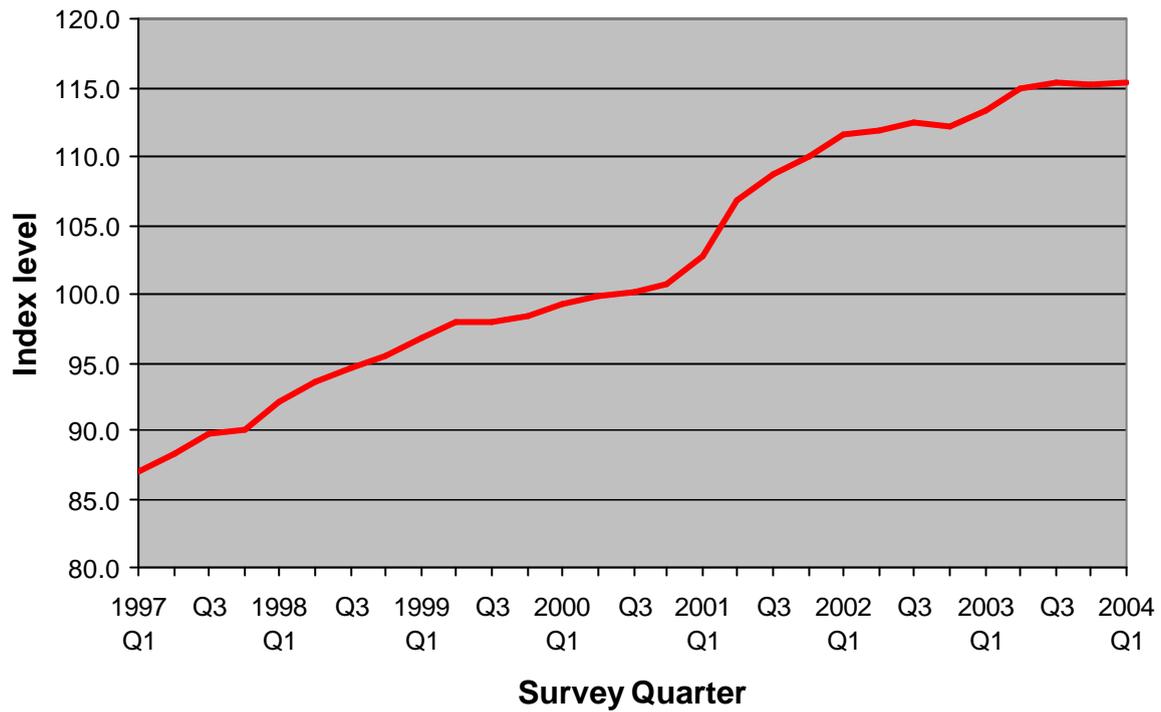


Figure 4 The Labour Recruitment CSPI Time Series

References

- 1 Employment Agency Standards: <http://www.dti.gov.uk/er/agency.htm>.
- 2 Recruitment agencies in the UK: <http://www.dti.gov.uk/er/emar/recruitment.pdf>