

## Chapter 1

# Recruiting Realities



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We all keep hearing about how frequently workers now change jobs, so it should come as no surprise that executive recruiters (those folks also known as headhunters) are rapidly increasing in numbers. The more people change jobs, the more work there is for recruiters. Unfortunately, the business can also be terribly competitive.

In this chapter we'll give you an idea of what the executive recruiting business is all about. We'll start with an overview of the industry, including how much money a recruiter can expect to make and what the competition is like. We'll also look back at how this business got started and take a peek into the future.

### **Recruiting 101**

In a nutshell, a recruiter is someone who is hired by a company to find people qualified to fill a job opening—*candidates*. Often, companies hire recruiters only after they've tried to fill the positions themselves. Recruiters usually work on a project-by-project basis. The client company pays the recruiter a percentage—between 20 and 35 percent—of the annual salary of the candidate who accepts the position. While the recruiter finds and screens candidates for the job, the client company makes the final decision on which person to hire.

Recruiters generally work in one of two ways: *contingency* or *retained*. If a recruiter

## Recruiting Realities



### Bright Idea

Paul Hawkinson, editor of *The Fordyce Letter*, has written an excellent article, titled “So You Want to Be an Executive Recruiter,” which is available on the World Wide Web. Visit [www.fordyceletter.com](http://www.fordyceletter.com) to order this article. Click on the Special Reports link.

works on contingency, it means they take an assignment on spec—a client asks them to fill an open position, but will pay them only if they find the candidate who eventually accepts the job. For recruiters who work on retainer, the client pays the recruiter before they start the search. A retained recruiter pretty much has to guarantee that he or she will fill the client’s position. Between two-thirds and three-quarters of the recruiters in the United States work on contingency. The rest are retained or a combination of retained and contingency.

Working on retainer is generally viewed as the more prestigious billing method, and client companies generally retain recruiters for filling those positions at the top of the corporate ladder. Contingency recruiting is the bailiwick of new recruiters and those who place lower-level employees.

“The retained recruiters are considered the silk slipper people of the industry,” says Paul Hawkinson, editor and publisher of *The Fordyce Letter*, a newsletter for recruiters, “to the extent that they generally work these higher level openings, and they’re dealing with CEOs and presidents and CFOs.”

Recruiters tend to specialize in one industry, such as electrical engineering, finance or law enforcement. Doing so allows them to understand one industry and the players in that industry thoroughly.

Recruiting is an unregulated business, so industry statistics are difficult to come by, but Hawkinson puts recruiting at a \$10 bil-

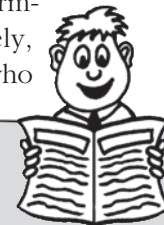
lion—and growing—industry. There are about 5,000 recruiting firms in the United States, he says. A few very large firms dominate the industry, but most are very small: The average-size recruiting company has between two and three people. While some clients always prefer to go with big names, many others use smaller firms because of the usual advantages small businesses offer—more personal service and often a lower price. Also, the big firms generally use the retained payment structure, so clients who want contingency recruiters will use smaller firms.

### Why Use A Recruiter?

Recruiting is essentially a consulting business. A company doesn’t have to hire a recruiter, just as it doesn’t have to hire a management consultant, but a recruiter, like a consultant, can save the company time and money.

Recruiters take over the job many managers don’t have time for—finding and screening candidates for a job. But more important, recruiters can find candidates quickly. They usually know so many people in their area of expertise that they can pick up the phone, ask who might be interested, and within a week or so get a list of names.

Recruiters also find quality candidates—again, they have so many contacts they’ll hear about the bad seeds that might interview well but have performance shortfalls. Conversely, they can refer candidates who



### Fun Fact

In case you were wondering, executive search fits under the category of “management consulting” in the U.S. Government’s Standard Industrial Classification (SIC) codes.

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**Executive Recruiting Service**

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don't sell themselves well but make exceptional employees.

Finally, recruiters provide an unbiased assessment of the candidates for the job. A manager's opinion is often colored by the fact that a candidate attended the same school or enjoys the same hobbies, causing him or her to overlook the fact that the candidate has never managed a staff or sold a widget.

Besides providing qualified candidates quickly, a recruiter can help a company throughout the hiring process. A recruiter can advise what salary the company can expect to pay its hires, how to better interview candidates, and how to negotiate hiring conditions. In short, a recruiter can act as a hiring consultant to companies.

### **It's Dog Eat Dog**

One reason so many people try to get into recruiting is that the business can be exceptionally lucrative. Some recruiting entrepreneurs make as much as \$3 to \$4 million per year. Before your eyes drop out of your sockets, however, be aware that these people are very much the exception. The

average recruiter makes between \$100,000 and \$125,000 per year. Not a bad salary, certainly, but keep in mind that there are also many who make \$30,000 a year or less (it takes an awful lot of low earners to balance out those millionaires).

Another reason that people are attracted to the recruiting industry is that it requires no exams, no degrees, and very little money to get started. The industry is unregulated, so literally anyone can give the business a shot. Other than being knowledgeable about a particular field and having contacts in that field, all you really need to do the job is a minimal amount of equipment—likely what you already have at home.

"There are no barriers to entry for the executive search business," says Joseph Daniel McCool, editor of *Executive Recruiter News*, a newsletter for recruiters who work on a retained basis. "If someone wants to be successful in executive recruiting, they need only have a solid background in a particular industry, an incredible network of professional contacts and people skills. Other than that, it's just a telephone and some business cards."

## **Casting A Net**

A recruiter's job is all about networking and finding information, so it should come as no surprise that the Internet is radically changing the way recruiters do their business.

Recruiters can often find candidates by going to Web sites of companies that compete with their client companies and checking out job listing sites, visiting newsgroups where people with certain skills hang out, and using search engines to locate names, organizations and even ZIP codes. Before the Internet, they had to find what information they could by phone—a time-consuming and sometimes fruitless process.

Naturally, e-mails to and from clients and job candidates speeds up the process once the candidates are located, too. But recruiters warn that as convenient as the Internet is, they still need to do old-fashioned networking and phone calling. Nothing works like the personal touch.



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## Recruiting Realities



### Stat Fact

The Association of Executive Search Consultants reported that the number of searches for CEOs and presidents nearly doubled in the last quarter of 2000, compared with the same period in 1999. Overall, searches increased more than 20 percent in 2001 over 2000.

So we have a business that has the potential to make you a millionaire and that costs you almost nothing to get started. What does this mean? Competition—and lots of it. There are thousands of people out there with the same idea. They're thinking "It's nearly cost-free, it could net me a lot of money—why not give it a try?"

As a result, McCool estimates that 75 to 80 percent of recruiting firms fail within five years. Most recruiters who take a job with an existing firm also leave within two years.

### How It All Began

It's a good bet that throughout history, whenever there were worker shortages, some form of recruiting helped fill the bill. But the first record of an employment service was in 14th century Germany. The first record in the United States was an employment exchange in Boston in 1848.

The first modern-style retained search firm was started in 1926 by Thorndike Deland, who concentrated on placing people in the retail industry. Larger consulting firms got into the act and started adding candidate searches to their consulting practices.

There were many other placement agencies, but the approach was completely different from what it is now—job applicants, not employers, had to pay fees to get the firms to place them in positions. That changed in the late '50s, with the advent of the defense and chemical processing industries, according to Hawkinson. These

businesses had big government support, so they could pass costs onto the Feds.

"They needed a lot of people and they needed them quickly, and they couldn't find them through ads, so they went to recruiters. The recruiters said 'You need to pay a fee.' That's when companies got used to paying a fee for their services," says Hawkinson.

Then other businesses found out that "recruiters are more effective than alternative methods, paying a fee is tax-deductible and a good investment, and most applicants are unwilling to pay a fee to find a job," Hawkinson adds. The industry grew during the '60s, but dipped during the '70s, he says. "The '70s weren't bad, but the recessions came and went, and you lost a lot of practitioners during the down times. When the boom times came again, they got back into it."

Those boom times were the '90s, when some search firms went public and the media discovered them. "The 1990s were really the golden age of executive search," says McCool. Worker shortages in the late '90s and early '00s caused many more businesses to turn to executive search, and more and more recruiters got into the business.

### Where It's All Going

There's no end in sight for boom times in recruiting. The industry has doubled every five years, and it continues to do so. More businesses, even smaller companies that typically don't use recruiters, are turning to search firms to fill their open slots. They're recognizing the value recruiters can offer them, and they're willing to pay their fees.



### Stat Fact

According to the U.S. Bureau of Labor Statistics, the labor force is expected to increase by 17 million between 1998 and 2008.

## **Executive Recruiting Service**

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Whether the economy slows or not, executive search will become even more critical as baby boomers retire, McCool points out. Companies turn to recruiters not because they have money to burn, but because they're having trouble filling positions. "Corporations are going to be faced with some really monumental tasks, and search firms will be well-positioned to as-

sist them," McCool says.

Now that you have a roadmap of the recruiting industry, we're going to look at whether it's the right business for you. In the next chapter, we'll talk about what makes a successful recruiter, including the kind of personality and experience needed. We'll also give you an idea of what a day in the life of a recruiter is all about.