

Human Capital Insights

September 2021

The Future of Recruitment

Contributors:

Mark Kingston, finnCap Cavendish

Ross Crook, Sanderson

Rob Blythe, Instant Impact

Steve Beckitt, SourceBreaker

Fiona Hudson-Kelly, Not a CV





Foreword



DIRECTOR, HEAD OF HUMAN CAPITAL M&A
FINNCAP CAVENDISH

Mark Kingston

Welcome to our report on the *Future of Recruitment* in which we examine how the sector is predicted to evolve as the world emerges from the Covid-19 pandemic and the key trends which will shape activity in the recruitment industry over the coming years.

For all those connected with the recruitment sector over the last 18 months, it has been nothing short of a 'roller-coaster' experience. UK recruitment sector activity levels fell sharply as Covid-19 lockdowns were implemented by governments around the world in March 2020, with many industry commentators referring to this fall in activity as being the most severe in a generation. However, the downturn in recruitment was short and sharp, reaching its nadir in June 2020 when employer confidence, job postings, and hiring activity all bottomed out.

Since summer 2020, the sector has enjoyed a truly remarkable recovery with recruiters across nearly all recruitment verticals experiencing not a just a return to pre-pandemic level trading, but in many instances, a significant increase in demand over and above 2019 levels. The exceptionally strong recovery in recruitment

activity has been supported and accelerated by a number of factors including: the unprecedented level of government-backed financial support provided to corporates, the speed at which both employers and employees adjusted to work-from-home and hybrid working models, the acute skills shortages (exacerbated by the Brexit impact on the number of EU citizens working in the UK) causing employers to be increasingly reliant on recruiters to identify and recruit scarce talent. Also, pressure on corporates to deliver efficiencies is driving demand for outsourced recruitment solutions including Recruitment Process Outsourcing ('RPO') and Managed Services.

The valuations of quoted recruitment companies have continued to perform robustly, the finnCap Cavendish Recruitment Index which tracks all global quoted recruiters is trading at 70% above the pandemic lows seen in March 2020 and 15% above its three-year historic average, reflecting positive investor sentiment towards the short-medium-term growth prospects for the sector.

Foreword (continued)

M&A activity in the recruitment sector proved surprisingly resilient once the initial impact of the pandemic has been absorbed. In spite of continuing uncertainty during 2021 year-to-date, recruitment M&A deal volumes were only 20% lower than those achieved during the same period in 2019. Strategic trade buyer M&A activity remains focused on re-positioning their service portfolios for greater exposure to high growth post-pandemic recruitment verticals such as Life Sciences, Technology, and Healthcare, and also in deepening their presence in embedded managed services and RPO and other solutions-based services which offer stronger visibility of revenue compared to traditional transactional recruitment.

Private equity investors remain highly active in the recruitment sector as they seek to deploy record levels of funds raised over the last two years, either through platform investments or through buy-and-build strategies. In August 2021, K2 Partnering Solutions, backed by Inflexion Private Equity Partners, announced its intention to acquire UK/German IT recruiter Marlin Green. Once completed, this deal will be K2's fifth acquisition in during 2021.

Global venture capital fund raising for recruitment and human capital technology investments reached a record level of \$2bn during the 12 months to June 2021 as investors seek to back highly innovative technologies which have the opportunity to materially disrupt the sector on a global basis. Recent UK recruitment technology investments include the Business Growth Fund's £5m investment into video interviewing technology platform Odro.

As the worst effects of the Covid-19 pandemic begin to fade, the recruitment sector is enjoying record levels of confidence and activity. However, for recruiters to succeed over the longer term, they will need to be agile in adapting to changing delivery models, work effectively with rapidly evolving technologies, and never lose sight of the fact that people and talent remain their most important assets.

Sources: CapitalIQ, MergerMarket, finnCap Cavendish

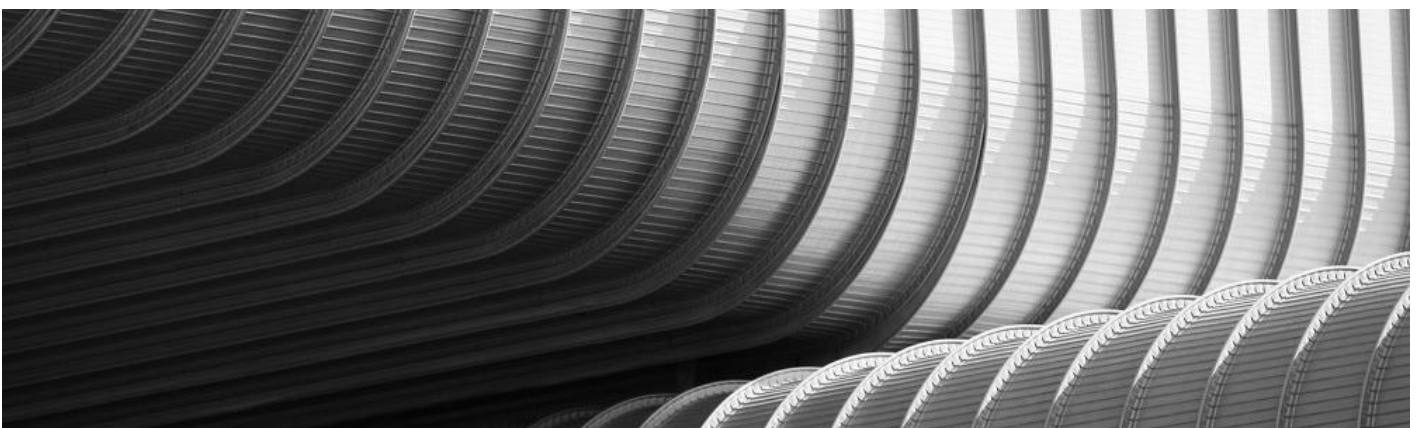
Report | The Future of Recruitment

Through discussion with an expert panel of four business founders and leaders who are at the forefront of innovation in the sector, we examine how the recruitment industry is predicted to evolve as the world emerges from the Covid-19 pandemic, and we look at some of the key trends which will shape activity and accelerate change in the sector over the coming months and years.

Some of the key trends emerging from discussion with our contributors include:

1. The evolution of transactional focused recruiters towards becoming more embedded, trusted partners to clients through delivery of RPO and Managed Services.
2. How technology will increasingly be leveraged to drive productivity and to create a seamless recruitment experience for both employers and candidates;
3. How both corporate employers and recruiters will manage their own cultures in order to attract, develop, and retain the very best talent over the longer-term.

Finally, we would like to thank Fiona, Rob, Ross, and Steve for sharing their unique insights and predictions for the future development of the recruitment sector which are presented in the coming pages. We hope you find our report informative, enjoyable, and thought-provoking.





Sanderson



MANAGING DIRECTOR
SANDERSON

Ross Crook

About Sanderson

The Covid-19 pandemic has provided mixed fortunes for the UK recruitment sector. Businesses went through a lengthy period of not hiring, only to come back in recent months needing to scale up. Sanderson, which serves clients across contract recruitment, executive search, RPO and other areas, has been helping businesses manage a return not to pre-pandemic normalcy, but to an economy where they now have huge scope to expand, yet lack the human resource to do so.

“There’s now this economic spike and there are a huge number of vacancies opening up, but there’s a massive shortfall in talent,” says Ross Crook, managing director at Sanderson. “This means that organisations are really competing for strong applicants, compared to two years ago when applicants were battling for positions.”

Sanderson offers services across four strategic areas: Recruitment, an Executive search arm, Solutions, such as RPO or MSP, and Projects. It offers scalability and the ability to augment a client’s in-house recruitment team, if not embed itself within it. If, for instance, an organisation wants to scale up its tech function and needs 50 new hires within six months, Sanderson’s Project RPO function is equipped to deliver high-quality candidates at speed, and to do so anywhere in the UK, if not beyond. This Solutions capability is a key driving force behind Sanderson’s growth and success, as its RPO and Project RPO services address the bespoke needs of clients in the UK and internationally for both short-term and long-term talent.

After Ross joined in December 2020, Sanderson has been looking at the continuation of global expansion, acquiring additional overseas businesses and setting up organic entities in a range of different geographies, ensuring that it can provide its services more globally and, Sanderson hopes to grow from a £0.5 billion company to a £1 billion company by 2025.

Market dynamics

The take up of talent acquisition technology by Sanderson and its competitors has been rapid. “We’re seeing competitors and ourselves investing in AI and tech platforms that can embed themselves into applicant tracking systems,” Ross says. “We need to help clients hire more quickly, and that’s where things like AI and chatbots that facilitate the candidate journey come in.”

Companies have to be closely attuned to generational changes in tech, and to that end, Sanderson has created a Director of Client Engagement and Innovation position to build out the understanding of tech and, at the Solutions end of the business, the efficiencies it delivers to clients entering projects.

The huge spike in hiring demand as economies recover from the pandemic has caused capacity issues within the recruitment world. Recruiters across RPO, in-house and agency are advertising for employees but like the industries they cater for, the sector itself is experiencing a lack in talent. “Salaries or day rates are going up, and that’s going to continue until organisations start to think about how they retain their best people,” Ross says.

In that situation, organisations need to pay special attention to how they treat their employees, and examine their workplace culture more closely than before. If employees leave, it will be hard to replace them. Ross also questions whether organisations should look more closely at building in-house teams of developers, IT and otherwise from the bottom up, rather than waiting on a skewed market to deliver. “There’s huge investment required to have those graduate or apprenticeship schemes but in the long-term, the gains are much better because they’ll likely retain those people throughout their careers.”

Predictions for The Future of Recruitment

- Evolution of certain agencies towards RPO or Solutions-type models.
- Slow decline in desire for organisations to use generalist agencies in place of in-house and out-sourcing models.
- More offshoring to low-cost centres where recruiters, finance functions and various other departments are based.
- Project RPO models being deployed to support client growth for shorter periods of up to 12 months.
- Continued roll out of tech that drives efficiency, but which stops short of taking up the role of humans where they are needed.

Instant Impact



FOUNDER & CO-CEO
INSTANT IMPACT

Rob Blythe

About Instant Impact

Instant Impact began life as a traditional recruitment agency, before shifting to a challenger RPO model that allows it to improve everything from quality and speed of hire through to diversity and employer brand. Its recruiters work in-house as embedded members of client HR teams. There, they gain a detailed understanding of the culture of businesses and can better deliver on core recruitment objectives: reducing spend while improving the quality of incoming employees.

"We believe recruitment is complex - it's not as easy as simply hiring a recruiter and hoping they do well," Rob Blythe says. "A successful in-house recruitment function requires expertise in everything from setting up applicant tracking systems, to implementing diversity centric recruitment processes and training Hiring Managers."

Market Dynamics

Economic uncertainty resulting from the Covid-19 pandemic last year forced many companies to stop recruiting. But with economies now in recovery, the market has taken off. The pent-up churn resulting from the year-long freeze on hiring and the inertia around promotions and transfers has caused not a gradual ramp up in recruitment, but a step-change. Businesses have consequently had to think hard about their commercials and scrutinise their cost.

“They’re wanting to build an in-house team, having worked with costly agencies, and they want to become more proactive in their recruitment, rather than reactive,” Rob says. “Having the expertise of a part-time director of recruitment combined with the cultural alignment that comes from having high quality recruiters embedded on-site—that’s the proposition that’s winning.”

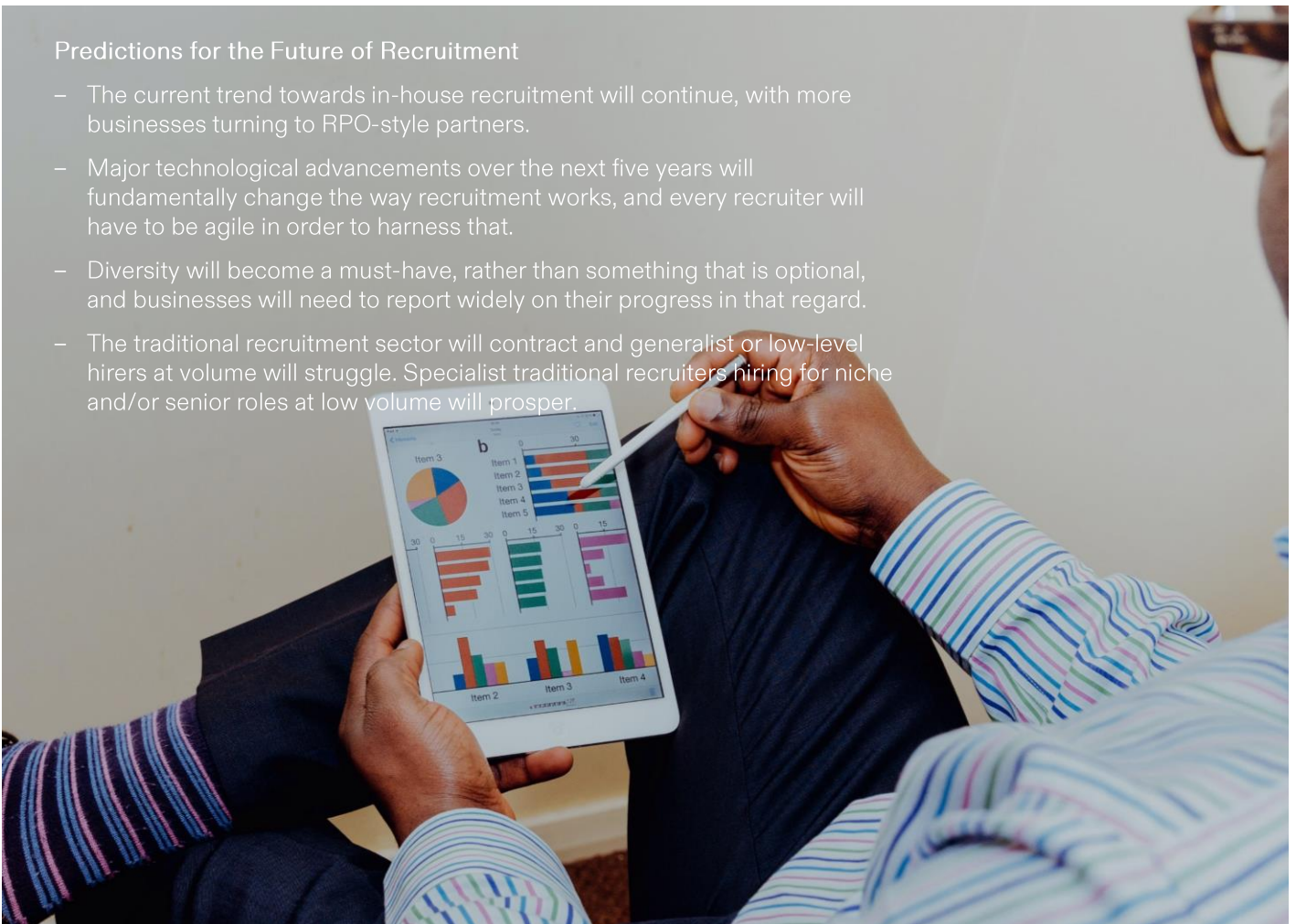
Many RPOs have recorded significant growth. Instant Impact, for instance, has doubled in size this year alone, and Rob thinks that will continue.

Other trends, such as the push for greater diversity in hiring, has allowed them to focus closely on ways to remove bias from the assessment process. RPOs can also harness a range of technological innovations to improve their hiring, including applicant tracking systems, video interviewing, psychometric testing and project management software. AI will play a more central role in the future, but largely as a supplement to the recruitment process for companies who hire for the same role at high volume, and thereby produce enough data points for AI to analyse.

Tech will also help with emerging patterns of working. *“Every client is looking at flexible working being a part of their future,”* says Rob. *“That flexibility opens up massive possibility in terms of being able to hire based not on geography but on skillset, and tech can be used to look at heat maps of where supply and demand imbalances exist, and act on them.”*

Predictions for the Future of Recruitment

- The current trend towards in-house recruitment will continue, with more businesses turning to RPO-style partners.
- Major technological advancements over the next five years will fundamentally change the way recruitment works, and every recruiter will have to be agile in order to harness that.
- Diversity will become a must-have, rather than something that is optional, and businesses will need to report widely on their progress in that regard.
- The traditional recruitment sector will contract and generalist or low-level hirers at volume will struggle. Specialist traditional recruiters hiring for niche and/or senior roles at low volume will prosper.

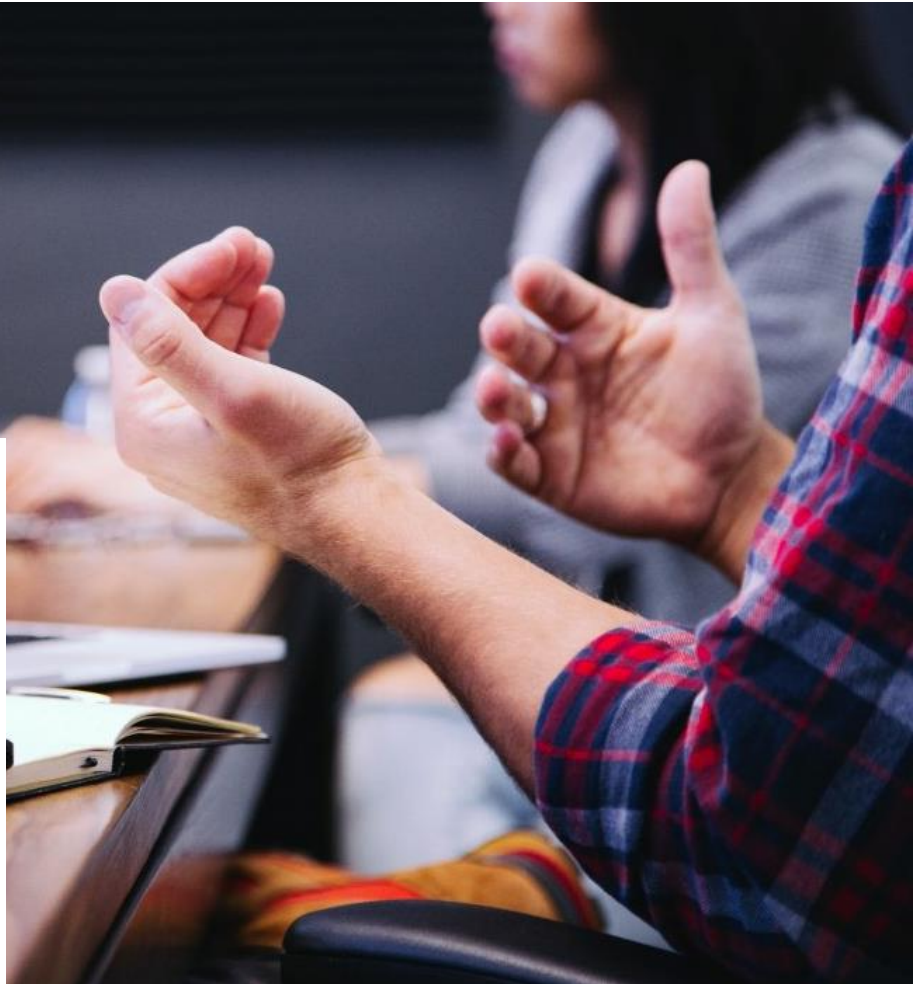


SourceBreaker



FOUNDER
SOURCEBREAKER

Steve Beckitt



About SourceBreaker

SourceBreaker began life seven years ago, in a market in which the principal technology it used - AI-driven talent matching - was largely unheard of. Getting recruiters to understand the platform was the first problem, says Steve Beckitt, founder of SourceBreaker.

“Once they’d bought it, the challenge then was to get users to really adopt the tech. Recruiters are hired for their ability to communicate well and to persuade a candidate to take a job and a hirer to take a candidate, rather than their ability to utilise technology effectively.”

SourceBreaker’s platform works by automatically matching candidates with opportunities, using machine learning technology to ensure high levels of accuracy. An employer looking for a finance director from a Russell Group university with a background in software will struggle with such a high level of specificity on a regular job search websites. SourceBreaker’s search technology allows users to quickly identify and produce longlists of high-quality specialist candidates. Integrated into applicant tracking systems and CV databases, the platform can provide recruiters with all the details of each candidate at the click of a button, and with its search expertise, it can support clients with search strategies.

Market dynamics

Platforms like SourceBreaker might be viewed as threats to traditional recruitment agency models, but Steve thinks otherwise. “Our tech can find on paper the perfectly matched person for the job, but the candidate might decide they’re not interested in the role, or a hiring manager will deem them unsuitable,” Steve says. “Where a recruiter can’t be replaced by machines is in the kind of situation in which they’re needed to explain to the candidate in far greater detail the suitability and benefits of the role: the skills learned, the chance for investment, the potential for growth. That persuasion element is critical and can’t be done by a machine, so we’re very much complementary.”

The talent shortage means the market is currently so tipped towards candidates that employers are offering up to a 20% uplift on salaries compared to a year ago. Well-resourced start-ups and scale-ups can afford now to pay more for top talent, meaning that in terms of hires, they’re doing well while traditional SMEs are struggling to fill vacancies.

This has given rise to a new trend in which employers have to actively cater to candidate wishes. “Because it’s a candidate-led market, most employers will have to be flexible to the demands of candidates,” Steve says. “If they want the best and brightest in the office five days a week but have a very bright candidate who wants to work from home two days a week then that commercial decision has to be made.”

Towards that end, SourceBreaker has ensured it foregrounds employee wellbeing and enjoyment. During the pandemic, this meant being highly flexible to the needs of staff, giving them space to manage their personal lives as well as their professional lives. Now that many have returned to work, the lively social calendar the company has created means the informal interactive element of the work is back.

Tech is also shortening the amount of time employees spend in jobs, in large part because the availability of new opportunities is right in front of them on a screen, in a way it wasn’t decades ago. Tech is moving closer towards the centre of recruitment, so much so that Steve thinks it will take the place of any recruitment function that doesn’t require an element of human persuasion. Automation of initial engagement with a candidate is already happening; so too is more funding going towards diversity and inclusion tech, whether it’s software to remove bias from hiring or to enhance job adverts so that a diverse array of candidates are attracted to a position.

Predictions for The Future of Recruitment

- More tech that will enable better diversity and equality, and remove bias from the hiring process.
- More automated processes, including engagement and matching of candidates. There will be more consolidation in this from an M&A perspective.
- There will be more embedded in-house recruiters, and agencies offering customers fully-managed solutions. This will likely mature within the SME space.
- There will be greater push towards permanent in-house recruiters; not just standard HR roles, but dedicated recruitment. More money provided by companies to encourage this.
- Long-term, there will be a need for agency recruiters, and the likelihood of new tech displacing them is unlikely, except at the lower end of the recruitment market.



Not a CV



About Not A CV

Not a CV, a digital platform that offers employers a more holistic view of job candidates than your average CV is able to, launched earlier this year. Its founder, Fiona Hudson-Kelly, who founded her first company aged 26 before going on to build Smart Apprentices, one of the UK's fastest-growing tech companies, traces the genesis of the idea back to the problems she had as a business owner fielding hundreds of applications for each job.

"We would get applicants spamming us with CVs that gave a very flat impression of their character and abilities. Processing those took up a lot of bandwidth and distracted us from other areas of the business."

Fiona had spent much of her early career helping young people in employment use technology to develop more dynamic showreels of their work. Not a CV applied that idea to a different cause, enabling job applicants to showcase a range of qualities to employers beyond just the "traditional" selling points, such as qualifications and prior work experience. Instead, the platform gives employers examples of candidates' critical thinking skills and demonstrations of emotional intelligence and otherwise that indicate their cultural "fit". All of this is done via a platform that, upon the first interaction between employer and candidate, filters out information that could allow bias to creep into the hiring process, such as which university the candidate attended.

Market dynamics

The kind of technology being used in platforms like Not a CV - psychometric testing of candidates, a digital “image” of team dynamics within the business, and more - is beginning to render traditional recruitment tools redundant, Fiona says.

“All the skills people develop outside of work, such as empathy and good listening skills, aren’t showcased on a CV and they’re not advertised for on a job board. Employers want that rounded view, because task-oriented skills alone don’t give much indication of how well someone will fit into a dynamic, team-based organisation, or how flexible they are.”

Algorithms and AI can be used to pick up on and analyse different types of intelligence in a way that CVs and other traditional recruitment tools can’t. Candidates meanwhile can get clarity early on in the application process of not just the work their role entails, but the culture within the business and how it aligns with their character. New technology therefore hands greater agency to the candidate and gives them a clearer sense of whether they would feel fulfilled in the role.

“With this new tech there’s a big question around what the role of traditional recruitment agencies is,” she says. “We’ve got new innovative platforms and better access to talent through technology, so how does the recruitment agent now add value?”

Another benefit of new tech is the work it does to match the character of the candidate to the culture of the organisation prior to the actual hire. Traditional recruitment focuses on the role itself; new technologies are providing candidates with profiles of the team they would be a part of, long before they sign up. Because employment is likely to evolve more in the direction of project-based work carried out by ‘pop-up’ teams that comprise both staff and freelancers, rather than the traditional way of doing everything in-house, the need for detail on team dynamics becomes crucial.

“If your vetting of the candidate is holistic, and if the candidate is sure they’d be a good fit, then part of the cultural nurturing has been done even before the candidate joins,” Fiona says.



Predictions for The Future of Recruitment

- A greater push to remove bias from the recruitment process, using technology that blocks employers from seeing biasing detail - age, ethnicity, gender, disability, social mobility indicators - while still giving a full picture of the candidate’s capabilities.
- The central role that interviews play in recruitment will be phased out, and in its place will come a more holistic evaluation of the candidate by employers.
- The trend towards greater numbers of hybrid employed/self-employed workers will continue.
- In 2020, around 211,000 more companies were formed than went bust. This trend will continue.
- There is a growing gap between availability of talent and demand for talent, which is pushing companies to offer high starting salaries and perks in order to recruit skilled graduates. Traditional recruiting processes that don’t include any upskilling of candidates are consequently likely to wane.





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DIRECTOR, HEAD OF HUMAN CAPITAL M&A

FINNCAP CAVENDISH

Mark Kingston

+44 (0)20 7908 6001

+44 (0)7388 380 442

mkingston@cavendish.com



1 Bartholomew Close
London, EC1A 7BL

+44 (0) 20 7220 0500

+44 (0) 20 7220 0597

WWW.CAVENDISH.COM

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