

NATIONAL ASSOCIATION OF PERSONNEL SERVICES

Independent Study Course Number 9

This is the ninth in a series of independent study courses offered to certificate holders and members of the National Association of Personnel Services (NAPS). By completing this independent study course, individuals can earn Continuing Education Units (CEUs) that can be applied toward the maintenance requirement that NAPS has instituted for individuals receiving the Certified personnel Consultant (CPC) and Certified Temporary Staffing Specialist (CTS) designations after January 1, 1995. All individuals will be required to complete the examination section of this independent study course to receive credit. Those achieving a passing score on the examination will receive the .2 continuing education units (CEUs) associated with this particular course. Refer to the registration instructions on the last page of this study course for additional instructions. Future issues of *Inside NAPS* will include additional independent study courses.

CONTINGENCY TO RETAINER, THE RIGHT MOVE?

By Paul Hawkinson, The Fordyce Letter

The delineation between being paid on a contingency basis and being a retained recruiter is fading fast. The philosophy that has prevailed for years is that you can't successfully o-mingle these two methods of search, where one is paid for the product (contingency) and the other is paid for the process (retained). It has also been thought that the transition from contingency to pure retained is almost insurmountable...a mythology, which we suspect, has been promulgated by the retained community.

Of course, there are still pure contingency recruiters who, for their own reasons, would have it no other way. The same is true from the retainer end. But what about those contingency firms who have become exhausted by working their hearts out, only to have the opening evaporate or to have their efforts ignored when a walk-in is hired?

Proficient veteran contingency practitioners experience this outcome far less frequently than rookies and it is not a major factor in their business lives. Just as contingency lawyers become wealthy by only accepting "winners," so successful contingency people only work on job assignments where they have a much higher than average potential for a successful conclusion.

Usually, if a contingency recruiter thinks that they will be better off by switching to some form of partial or full retainer, they are suffering from self-delusion as well as business analysis skill deficits. They are often chasing mirages, mentally turning lukewarm "maybes" into "hot" job assignments...then guaranteeing their psychic self-destruction by acting vigorously upon those delusions.

We've been watching the evolution of the industry since the late 1950s. We can understand why there was such a vast chasm between the caliber of contingency people versus retained. An un-credentialed warm body with a willingness to work for minimum wage until the first

commission check came through was the profile of the desk jockeys of old. No wonder the blue bloods of retained search looked down their pecking-ordered noses at us. For the most part, those days are long gone. Contingency fees of \$50,000 and more are now commonplace. Hirers have learned that the method of payment or the level of the job has little bearing on the ability to get the job filled *if the right person is conducting the search*. On the other hand, supposedly pure retainer firms are occasionally working on contingency, even though few will "fess up" to the practice. The *Directory of Executive Recruiters*, Corporate Edition, shows salary minimums of their listees. It used to be thought that openings paying \$50,000 or beyond were rightfully and exclusively within the retainer bailiwick - and 26% of the listings in the current *Directory* still list \$50,000 as their minimum. But almost 18% show their minimums as \$45,000 or less, with four entries showing their minimums between \$15,000 and \$24,000. Common, who's kidding whom?

If you assume, as we do, that a \$50,000 salary is no great shakes in today's economy, who do you think might win a shootout between a contingency recruiter and a retained one for an opening at or below that level? We'll bet on contingency every time. \$75,000 seems to be the new (and more logical) threshold for considering a retained assignment versus contingency. Over half of the 40 largest retained search firms in the U.S. (according to *Executive Recruiter News*) have salary minimums of \$75,000. 8.75% claim they won't work a job paying less than \$100,000. One showed a minimum of \$250,000 and while those jobs are few and far between, it doesn't take many to make a bundle. Talk about working the very tip of the pyramid!

OK, so how do we go about moving from pure contingency to pure retained (or some other hybrid method of charging) assuming we've decided to do so?

First, you must understand the dynamics of the marketplace. At the very minimum, there are at least 500 *contingency* openings given out for every retainer assignment. The reason is simple: A contingency assignment doesn't cost the hirer one thin dime until they hire someone...and that's strictly up to the hirer. This face, however, doesn't mean that, on a per capita basis, the retainer folds make fewer marketing calls. It's just an economic fact that retainers are harder to get than contingency assignments.

You may think that you'll someday become the recipient of unsolicited calls from hirers offering five-figure retainers if only you'll agree to fill their confidential positions for them. In fact, only a very few of the long tenured retainer icons can lay claim to that exalted status. The rest plod along just like everyone else...selling deals one by one...and hoping you get there with the right pitch at the right time. Hirers can be very fickle and timing is excruciatingly important.

On average, top-level contingency searchers earn more than retained recruiters, but retained recruiters with a fairly full pipeline probably use less Maalox than their contingency brethren since they have some assurance of income regularity. If stability is your thing, perhaps the switch might be beneficial. Your deadlines are usually more self-imposed than inflicted by the fear that some contingency competitor might beat you to the punch.

While relationships are important in both contingency and retained, the contingency liaison is more *transactional* in nature while the bond between a retained recruiter and his client appears to be a stronger one (although not always a happier one).

Our observations over the years lend credence to the fact that the most successful conversions from contingency to retained occur when a solo or small (four or less) partnership takes their solidly-built and carefully-maintained contingency relationships and introduces the retainer concept, either partial or complete, to them. These partnerships have almost always proven their ability to perform, and clients show less resistance to the retained concept with a demonstrated reliable source. But, if more than four people in a firm attempt to make the switch, problems occur. It's not that they all wouldn't like to be paid up-front, but retained relationships carry with them a certain mindset which frequently differs from the persona needed for contingency. Some people find the change impossible to manage.

How about maintaining both capabilities within the same firm? Touchy, but it can work. One four-consultant firm set a \$50,000 cap on contingency assignments. From \$50,000 on up, they required some type of retained relationship. If they agreed to a partial retainer of one-third, the fee was based upon 30% of the anticipated salary. If a full retainer was sought, the fee was based upon 35% of the anticipated salary, but included expenses.

The toughest part of this firm's transformation was the marketing aspect. They suffered an internal identity crisis until they became comfortable with the new techniques and dialogue necessary to acquire retainers. Another problem was fighting the institutionalized "good old boys" network of existing retained recruiters. They were denounced and degraded as "those employment agency guys" at every opportunity, despite being well-known producers before the changeover. Their business took a 50% nosedive before they had enough retained successes to feel secure enough to begin refusing all contingency work. It took them two years to reach the income level they enjoyed under the pure contingency method and they're not sure they'll ever surpass it. Was it worth it? One of the four partners has since left and gone back to contingency search, but the other three are happy with the decision to switch.

We know of many others who unsuccessfully attempted to make the change, ultimately returning to the more "exciting" and "risk/reward" business of contingency search. One aspect of retained search is the feeling that considerably more time must be spent on the business development. Contingency searchers can dial and smile for a day and probably come up with a reasonably viable assignment.

Working the telephone is an entirely different story for the retainer recruiter, for if he finds a suitable assignment, he's not nearly as likely to convince the hirer to agree to a full retainer without some interim "mating ritual" to convince that employer to come up with some front money. For the retained recruiter, developing enough business to keep the pipeline full enough to meet the overhead is very often a long, drawn-out affair and it must be balanced with the ultimate obligation of performing the search work won through this "love connection" routine. If this becomes tedious, a retained recruiter cannot easily walk away; a contingency recruiter can. In fact, many retained firms split the functions of "sell" and "do" with the premium dollars paid to those who sell. This differs significantly from the contingency firm where the emphasis is on the "do" part.

As a contingency recruiter, you can fail to fill an opening and continue to come back to the trough. Fail to perform after a retainer has been paid and you can count on *that* client locking their doors to you forever. In a retained marketing effort where a good part of the sale's sizzle revolves around testimonials from successful clients, failures can stand out like pimples on a forehead.

As a management consult whose specialty happens to be search, the retained recruiter must often get more involved with the client than his contingency counterpart. It's difficult to sell a retainer without a fact-to-face potential client meeting. This frequently involves extensive and expensive travel, which in the selling phases, is not reimbursable. More often than not, retained recruiters *personally* interview candidates. While the top contingency firms also personally interview, the process is not normally as intense in the initial candidate evaluation stage.

It is also felt that retained recruiters "select" the finalists as opposed to contingency recruiters who are thought to be "selling" the candidates on the opportunity. A minor nuance, and not true in all cases, but this is the perception. Also, because the retained recruiter is considered to be more consultative, they often have greater latitude in form-fitting the position (and salary) to the best-choice candidate rather than finding the square person to fit the square hole.

CONTINUING EDUCATION UNIT (CEU) REGISTRATION

Complete the registration information below and forward this page, continuing the independent study examination and your answers, plus payment to NAPS, 131 Prominence Lane, Suite 130, Dawsonville, GA 30534. The processing fee for the continuing education units for each NAPS independent study course is \$10 for members and \$20 for non- members. Feel free to reproduce the registration and examination page to allow additional individuals to apply for CEUs. Following receipt, each examination will be scored and CEU credits will be added to your compliance record..

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EXAMINATION QUESTIONS

True/False questions. Circle the letter of the response you believe to be correct.
Be certain to answer all of the questions.

1. **Over time, the prevailing philosophy in the personnel services industry has been that firms can successfully co-mingle the contingency and retained search functions.**

T F

2. **In the 1990s it is commonplace to see contingency fees of \$50,000 or more.**

T F

3. **One of the dynamics of the current marketplace is that retainers are more difficult to get than contingency assignments.**

T F

4. **Studies have shown that there is little difference in the earnings of retained and contingency recruiters.**

T F

5. **Stability and assurance of income regularity are sound reasons for functioning as a retained recruiter.**

T F

6. **The most difficult aspect in the transformation from contingency to retained search is the adjustment in staff attitudes and demeanor.**
- T F
7. **Those who were unsuccessful at making the change from contingency to retained search returned because of the attraction of the more "exciting" and "risk/reward" characteristics of contingency search.**
- T F
8. **Developing sufficient business is one of the critical elements in the early stages of the retained search and requires a balancing of the "sell" and "do" functions.**
- T F
9. **Retained recruiters are required to become more heavily involved with their clients.**
- T F
10. **Contingency retainers, because of their consultative roles, are more likely to be able to "form fit" their candidates to the position.**
- T F