

Critical steps to building a high-quality efficient executive search firm

By Robert Stein – Prospect City

Most recruiters who consider leaving the “mother ship” to start their own recruitment firms are so intimidated by the tax and business structure issues they often unnecessarily use high-priced law firms and accounting firms to gain peace-of-mind. In fact, many new startups spend nearly \$50,000 in business tax registration and accounting structure when an individual can register a new business online for less than \$750.00 with the same results – a sound legal structure with a legally binding operating agreement. Contrary to what many think – it’s easy. More importantly it can be changed later as your needs change.

Misdirecting early investments in a new firm can financially hamper other key areas, including the recruiter’s ability to develop new business and execute search – more important factors in a successful launch.

Starting a business structure requires very little time and investment if you set it up yourself via an online resource or if you use a low-cost vendor specializing in these areas. Today online resources can help a prospective business owner select the right structure for their business (LLC, S-Corporation, etc.) in minutes and include all of the information you need to select the appropriate structure.

Here are more tips for starting your executive recruiting business.

For an executive recruiter, image is important. Focus your investment on two market-facing areas - telephones and a website.

1. A VoIP PBX-style phone system allows even a home-office user to appear to have a more sophisticated operation. PBX-style phone systems allow for auto-attendant, dialing directories, voicemail-to-email delivery, etc. In fact, a VoIP phone system will allow you to include off-site research and administrative support in your call directory, giving callers a sense they are all in one office. Altogether the system promotes a great image for callers, both clients and candidates returning your calls.
2. Although the image of an executive recruiter is often based on a personal network over a brand image, a website is an important component to your business. It serves less to attract new business and more to *validate* your business with potential customers and candidates. When you are referred by associates, the potential client will often look for you on the web before calling you. The website should present a quality image with a high level of professionalism – but not be too long of a read. Remember, clients usually know about recruiting and therefore don’t need all the details about how you execute, or why you’re better than the competition. That may be something reserved for a direct conversation or a meeting. Secondly, when executing search you’ll often leave voicemail messages for prospective candidates and sources. These contacts often look you up via the web before returning your calls - especially if they haven’t heard of you. This validation is common and highlights the importance of presenting a quality image.

For other components of your business look to vendors who require a low investment on the front-end in exchange for a longer-term payment schedule, such as a subscription.

1. To organize information for you, your employees and clients, look for a database that is simple and basic, requiring a lower cost on the front-end while also limiting the need for technical expertise. While some vendors require in-house technology, be wary of the additional costs associated with supporting your equipment. Instead look for a hosted option where the technology resides in a secure location designed for the well-being and reliability of the database equipment, and supported by reliable experts.
2. To maximize your profit, look for external support in areas that might keep you from recruiting. For example, bookkeeping can be time-consuming and tedious. Today, there are many software programs that streamline this process such as Quickbooks. These programs are inexpensive and designed to meet the needs of small business. In fact, Quickbooks is offered via an online subscription so the information resides on secure files stored off-site to lower the risk to your business. Many software programs also include a direct import or export to your tax preparer or to tax preparation software. Bookkeeping services are available from a variety of professional firms and individuals who can attend to your needs so you can focus on recruitment.

Dealing with execution support is a key area of your business. Often recruiters tend to quickly hire internal support professionals in research and administration to support new search projects. Before committing to the ongoing financial support of employees, look for subcontracting options to simplify your operation while maximizing profit. On the surface subcontractors might seem expensive, but after factoring in employee costs, benefits, payroll taxes, etc. you may find the subcontracting option is advantageous. Best of all, subcontractors can be turned up or down to deal with a changing portfolio of business.

1. Research support can be found by exploring options from independent researchers, ex-associates from old firms, or new high-potential college graduates. Researchers must have a strong Internet potential and most importantly a great phone presence. Phone presence is gained through experience, so if you don't have the time to mentor a recent college graduate, an independent or ex-associate might serve you well.
 - a. For independent researchers look to ex-colleagues for sources they've used, or look for online networks or associations for independent researchers. There are several to choose from and most qualify their members. These researchers usually charge by the hour and vary greatly in price from \$40 - \$120 per hour depending on the work required. Clerical name/list generation is relatively inexpensive while sourcing and telephone pre-qualification of prospects can be more expensive.

- b. Another option to find an independent researcher is to look for ex-administrative assistants or ex-researchers who've left big search firms for family reasons. Many times these individuals have terrific training and knowledge of recruiting processes. In many cases they have limited time to dedicate to a job, but recruiting researchers can be extremely capable on a part-time basis, working from home. By providing a researcher of this type a computer and phone, they may find it attractive enough to work on their terms 15-30 hours per week on a subcontracted basis.

Whichever your preference, a subcontracted researcher or administrative assistant can be equally effective working remotely or part-time thanks to today's technology. We suggest you consider creative pricing for these individuals so they assume some of the financial risk in exchange for a higher reward for success. Rather than accepting an hourly rate of a researcher, offer a project rate with a small bonus for candidates presented to clients (quality measurement) and a bonus for successful completion of a project (commitment).

Whatever your choices, keep this in mind: Recruiters usually start their own firms to regain quality of life and to increase profit over what was offered while at larger firms. Stay focused on building an efficient profitable business from the start. Rather than building an internal infrastructure and hoping for enough business to build your profit, take another approach. Set your sights on maintaining a profit margin associated with each search project and budget for each. For example, if you can collect \$30,000 per month in fees, target a profit margin of 70%, or \$21,000 for you. In this example the remaining budget of \$9,000/mo. can be delegated to research, administrative support and technology and easily address 2-3 projects per month.

An efficient operating model should operate in a profit range of 55-85% depending on the portfolio, fee ranges, etc. Since large search firms typically pay out 30-40% to its recruiters the prospect of building a search boutique can allow a recruiter to increase revenue while maintaining a manageable workload.

Robert Stein has over 24 years experience in executive recruiting with large global search firms such as Korn Ferry and Russell Reynolds Associates. In addition Mr. Stein has built and consulted for numerous firms of all sizes in the U.S. and abroad. Today, Mr. Stein serves as President of Prospect City, a consultancy specializing in building and maintaining search firms with products and services that cover database technology, email/web systems, research, financial management and administration.