



# EXECUTIVE RECRUITING AN INDUSTRY STUDY

## Things you will learn from this whitepaper:

1. What makes the executive recruiting businesses successful?
2. How does the global economy affect the executive recruiting industry?
3. What are the challenges presently affecting the executive recruiting industry?
4. How has competition impacted the executive recruiting industry?

## This whitepaper will have special interest to:

1. Attorneys consulting with recruiting executives considering mergers or acquisitions.
2. Judges presiding over business disputes & litigation cases.
3. Business mediators & arbitrators.
4. Financial & income tax advisors.
5. Those concerned with the valuation of executive recruiting businesses.

---

## Notice & Disclaimer

In a forensic accounting setting, the purpose of an industry analysis is to allow a comparison of the subject company to its industry. This comparison is vital to assess the strengths and weaknesses of the subject company, as well as its industry and company specific risks.

The following study contains a brief, selected analysis of the specified industry. It is based upon a review of current economic statistics, articles in the financial press, reviews found in current business periodicals and information posted on numerous internet sites. It does not purport to be all-inclusive or to contain all of the information which a prospective investor or lender may require. Projections and opinions are based upon information provided by third parties. We make no representations or assurances that this information is complete or accurate. Neither Mark S. Gottlieb, CPA, PC nor any of its officers, employees, or representatives make any representation as to the accuracy of completeness of this report or its contents, nor shall any of the foregoing have any liability resulting from the use of the information contained herein or otherwise supplied.

Copyright © 2011 by  
Mark S. Gottlieb CPA, PC, New York, New York. All rights reserved.

The material contained herein is for private use. No part may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except as permitted under Sections 107 or 108 of the 1976 United States Copyright Act, without prior written permission of Mark S. Gottlieb CPA, PC. Violations of these applicable laws will be subject to severe civil and criminal penalties.



ACCOUNTANTS,  
CONSULTANTS &  
BUSINESS VALUATORS

**EXECUTIVE RECRUITING  
AN INDUSTRY STUDY**

---

## Table of Contents

Industry Overview.....	4
Operations.....	4
Workforce.....	5
Executives.....	5
Government Involvement.....	6
Recent History.....	6
Industry Challenges.....	7
Industry Outlook.....	8

*For More Information Please Contact*

MARK S. GOTTLIEB  
*CPA/ABV/CFF, CVA, CBA, DABFA, MST*

Tel: 646-661-3800 / 914-294-4300 / 203-357-1500 / 973-226-4500

Email: [msgcpa@msgcpa.com](mailto:msgcpa@msgcpa.com)

Website: [www.msgcpa.com](http://www.msgcpa.com)



ACCOUNTANTS,  
CONSULTANTS &  
BUSINESS VALUATORS

**EXECUTIVE RECRUITING  
&  
AN INDUSTRY STUDY**

## Industry Overview

The executive recruiting industry is a \$13 billion offshoot of the employment agency industry. Like its parent industry, executive recruiting is comprised of large and small firms providing permanent and temporary employment placement to client businesses. Executive recruiting firms place junior, mid-level and senior executives earning a minimum of \$50,000 annually, and some firms restrict themselves to jobs paying over \$100,000 per year. Currently there are over 4,000 executive search firms in North America; 1,600 of these work on a retainer basis. The three largest retained executive recruiting firms in the U.S. are Korn/Ferry International, Heidrick & Struggles International Inc., and Russell Reynolds. Together, they account for over \$1.5 billion in annual revenues.

Client companies employ executive recruiters to draw from a global network of candidates, as in-house human resources departments are often limited in scope. To remain competitive, recruiters are behooved to locate candidates quickly. Though the protocol of executive recruiting is fairly static, the industry has undergone rapid change of late, with firms diversifying broadly. Recruiting revenue has more than doubled in the past fifteen years, and the industry proved itself capable of weathering a difficult stretch through the first years of the 21<sup>st</sup> century. Reasons for the executive recruiting industry's recent success include:

- A limited pool of qualified applicants
- A growing demand for high-caliber executive talent
- A low national unemployment rate
- Continued economic expansion
- Steadily rising salaries, many of which now pay in excess of \$250,000 annually

## Operations

The process of executive recruiting is intricate and time-consuming. Initially, the recruiting firm and client company agree to terms, at which point a written, detailed job description is prepared. The recruiter (often referred to as a "headhunter") then conducts a broad search, contacting potential candidates. Attractive candidates require reference checks, a time-consuming but important undertaking for the recruiter. Finally, client interviews are arranged with the top two or three prospects identified. The recruiting agency may then confer with the client company, at which point a candidate is selected.

Executive recruiting firms service several industries, among them: wholesale/retail trade, manufacturing, business/financial services and health care. Firms may charge on a retainer or contingency basis, or some combination of these. Contingency firms usually work with positions paying \$100,000 or less, while retainer firms commonly work with employers and applicants seeking to fill more lucrative positions. By claiming a high percentage of the market, smaller contingency firms have spurred many larger, retainer-oriented firms to expand services. Competition has intensified.

A contingency search typically costs 20 to 30 percent of the hire's salary, though some searches cost up to 50 percent of salary. The recruiting firm is paid once the search is completed, and is not compensated for an unsuccessful search. Firms that work on a contingency basis usually recruit junior or mid-level executives, and these searches comprise a bulk of the industry's services.



Retained searches, usually for senior executive jobs, are billed at a third of the placement's first year pay package. The client company usually pays one-third of the fee up front, another third halfway through the search, and the final third upon successful candidate placement. Generally speaking, the larger the firm, the more retained-search clients it is able to attract.

While these fee schedules are industry standard, other fee arrangements are possible for both contingency and retained searches. Furthermore, some firms will cut their fees in exchange for a guaranteed series of assignments. A recent trend has seen some firms within the industry charging on an hourly basis, as well. With so many start-up firms looking for talent, and the expansion of Internet recruiting, the balance has shifted toward clients and it is not uncommon for recruiters to receive equity stakes in lieu of cash compensation.

Often, clients need to fill positions immediately and/or temporarily. In other cases, they can afford long lead times to replace outgoing personnel, or to staff newly created positions. Because each situation is different, recruiters must tailor their schedules to meet the needs of clients.

Industry experts estimate that an executive recruiting office needs to sustain between \$1 million and \$3 million in business annually. While general competence and experience are critical to success, firms' profitability is also based largely on location. Most executive hiring firms exist in large, metropolitan areas, and fees for services may vary greatly from city to city.

## **Workforce**

Executive recruiters must have thorough knowledge of their hiring fields, and cultivate an extensive network of contacts. For this reason, most recruiters have held fewer professional positions than the executives they hire, with the top 250 headhunters averaging nearly 23 years in the industry. Recruiters tend to be older, and most hold advanced degrees. Women compose just over 10 percent of the field, and minorities are few.

Even the largest firms in the industry do not claim many employees. Industry leader Korn/Ferry, for example, claims over \$450 million in annual sales, but employs only 1,837 individuals. Smaller, contingency-based firms may employ as few as two or three individuals, and a good headhunter may bring in around \$1 million in annual revenues. Some firms, such as Compass Group of Birmingham, Michigan, employ both part- and full-time headhunters. Compass Group claims three main divisions: global executive search, executive interim management and management consulting. Of their 22 employees, only 5 are retained full-time.

## **Executives**

The Association of Executive Search Consultants (AESC) publishes regular results of the studies it conducts concerning executives. As with employees throughout the U.S. business sector, executives and other top-level employees have become increasingly likely to change careers in recent years. Currently, a full 53 percent of executives expect to change careers at least seven times before retirement. This is a drastic change from the 1980s, when nearly 75 percent of executives expected to change careers no more than three times.



ACCOUNTANTS,  
CONSULTANTS &  
BUSINESS VALUATORS

**EXECUTIVE RECRUITING  
AN INDUSTRY STUDY**

Because executive salaries are so high, and because demand for services is strong, top-level executives seldom take it upon themselves to seek out positions. Few executives come into new positions from employment gaps of any significant length, and nearly all are approached by headhunters while at another job. According to the AESC, most executives claim they had not given much thought to switching careers at the time of their approach by recruiting firms.

## Government Involvement

At one point, most hiring needs in the U.S. were addressed by the U.S. Employment Service, created in 1918. This service focused broadly across all U.S. industries, and was created primarily to deal with an influx of U.S. immigrants seeking jobs. At the time of its creation, most private-sector employment firms were limited in the scope of their operations, and many had acquired unflattering reputations.

In this period, white-collar workers typically obtained work on their own. After World War II, however, private sector employment agencies began to multiply rapidly, and the first executive recruiting firms took hold. Employers found it difficult and time-consuming to find qualified office help and became increasingly dependent on these firms to provide them with personnel. Firms sprung up all around the U.S., and began to specialize by industry and by position.

The debate over whether employment agencies should be run by the government or by privately held companies continues today, as both types of firms provide services to the public. In the 1980s, however, sentiment began to shift away from government- and municipally-run agencies toward private firms, as the latter appeared more efficacious. A 1991 Current Population Survey by the Bureau of the Census first noted this trend. The survey found that "job seekers using private employment agencies had the highest likelihood of finding employment in 1991; almost one-fourth of them found jobs. In contrast, job seekers placing or answering ads or using public employment agencies were among those least likely to find a job in the second month." The survey also found that "almost 28 percent of the women who used private employment agencies were employed by the second month. In contrast, private employment agencies were the least successful for men—less than 23 percent of them found jobs" in that time period. Since that time, private recruiting firms have held a distinct advantage over public agencies, particularly in executive recruiting, where they have come to dominate.

## Recent History

According to the *Encyclopedia of American Industries*, the executive recruiting industry maintained a growth rate of 10 percent to 14 percent in the mid-1990s. Much of this was due to the proliferation of information technology firms, and this sector became a prominent field of outsourcing. Companies also requested more executives in the computer, health care, legal and financial sectors. Around this time, the staffing industry began a strong trend toward consolidation. In 1997 alone, the staffing and IT services industry recorded 356 mergers and acquisitions, up 16 percent from the previous year. Many of these mergers and acquisitions involved international players, and the industry has become increasingly globalized.

Around this time, quickly developing industries created strong demand for just-in-time temporary workers. In 1995, a record 2.26 million temporary employees worked daily. Executive recruiting firms



ACCOUNTANTS,  
CONSULTANTS &  
BUSINESS VALUATORS

**EXECUTIVE RECRUITING**  
**AN INDUSTRY STUDY**

rushed to fill thousands of new positions, particularly for junior and mid-level executives. Challenges in finding personnel with appropriate skills to cope with this sudden demand were steep; most positions required very specific skills while the labor force shrank due to an aging population.

From the late 1990s through 2003, however, demand shrank. Despite the continuing trend of consolidation, executive recruiting firms struggled to remain profitable. The languishing economy, shaken further by the terrorist events of 2001, stifled the industry. Heidrick & Struggles International Inc., for example, one of the nation's largest publicly held executive search firms, employed more than 500 executive recruiters in the year 2000, when annual sales reached \$594 million. After a recession and three rounds of layoffs, though, the company slimmed down to 325 recruiters and an estimated \$351 million in 2002 revenue. Although there were recruiting industry gains in a few isolated sectors during this period—notably health care, biotech, energy and security—these were not enough to offset the losses in other areas. Information technology, telecommunications, financial services and retail were hit hardest of all.

While publicly held search giants came under severe pressure, the poor economy and diminishing labor market were even worse for privately held firms, many of which were forced to shut their doors. According to a series of surveys by ExecuNet, an Internet-based executive career management firm based in Norwalk, Connecticut, demand for senior-level talent was hit the hardest of all. This segment of the industry posted a double-digit drop in 2001 from the previous year, and fell again in 2002, by 17 percent.

By mid-2003, though, the economy had begun to improve, galvanizing the recruiting industry. Demand rose for executives in industries across the board, with the strongest showings coming from the consumer products, health care and pharmaceutical/biotechnology industries. Korn/Ferry International posted a stellar 38 percent rise in revenues for 2004, and executive recruiting firms began posting revenue increases in nearly all sectors, with no sign of slowing.

## Industry Challenges

**Self-Managed Careers** — Self-managed careers have been on the rise of late. This may be due in part to individuals' concerns over their dispensability by large firms, impelling them to take greater management roles with regard to their own careers. Though the executive recruiting industry considers the effects of this trend marginal, for now, the idea that a growing number executives may take it upon themselves to seek out new positions could have a corrosive effect on the industry.

**Internet Firms** — This growing sector of the executive recruiting industry has increased competition both within the U.S. and abroad. According to a recent Nielsen/Net Ratings survey, over 17 million individuals log onto career websites each month in the U.S. While most firms still prefer to go through executive recruiters in order to fill top-tier positions, the proliferation of online sites and companies should claim a larger portion of market share in coming years.

## Industry Outlook



ACCOUNTANTS,  
CONSULTANTS &  
BUSINESS VALUATORS

**EXECUTIVE RECRUITING  
AN INDUSTRY STUDY**

---

Because the executive recruiting industry supplies employees to the labor force, it is profoundly affected by swings in the economy. Therefore, it is always difficult to predict the future health of the industry. The trend of mergers and acquisitions should continue, though. Interestingly, a recent trend has seen online firms purchasing traditional firms, and traditional firms building presences online. Also, the once-strong delineation between contingency-based firms and retainer-oriented firms should continue to fade, and smaller firms will have to fight to retain market share.



ACCOUNTANTS,  
CONSULTANTS &  
BUSINESS VALUATORS

**EXECUTIVE RECRUITING  
AN INDUSTRY STUDY**



Mark S. Gottlieb, CPA PC (MSG CPA) is distinguished as one of the Tri-State’s premier business valuation and litigation support firms. Our practice is devoted exclusively to providing attorneys and their clients with a diverse continuum of:

- Forensic Accounting,
- Business Valuation, and
- Litigation Support Services.

Our services include:

- Business Valuations
- Litigation Support
- Forensic Accounting & Investigations
- Record Reconstruction
- Asset Tracing
- Economic Damages & Analysis
- Enhanced Earnings Calculations
- Trial Preparation & Settlement Negotiations
- Expert Testimony
- Financial Affidavit Preparation
- Lifestyle Analysis
- Report Critique & Analysis
- Stock Option Valuations
- Delinquent Tax Return Preparation

To learn how we can assist you and your clients, please feel free to contact our offices or visit our website at [www.msgcpa.com](http://www.msgcpa.com).

**Visit our Industry Library often for new and updated whitepapers and other practice resources for Attorneys.**

**Stay connected with us:**



**MARK S. GOTTLIEB, CPA, PC**

<p><b>NEW YORK, NY</b>  <b>1430 BROADWAY, SUITE 902, NEW YORK, NY 10018</b>  <b>TEL: 646-661-3800 / 516-829-4936 / FAX: 646-661-3801</b></p>		
<p style="text-align: center;"><b><u>WHITE PLAINS, NY</u></b>  <b>50 MAIN STREET</b>  <b>SUITE 1000</b>  <b>WHITE PLAINS, NY 10606</b>  <b>TEL: 914-294-4300</b>  <b>FAX: 914-294-5302</b></p>	<p style="text-align: center;"><b><u>STAMFORD, CT</u></b>  <b>ONE STAMFORD PLAZA</b>  <b>263 TRESSER BOULEVARD, 9TH FLOOR</b>  <b>STAMFORD, CT 06901</b>  <b>TEL: 203-357-1500</b>  <b>FAX: 203-357-1505</b></p>	<p style="text-align: center;"><b><u>ROSELAND, NJ</u></b>  <b>101 EISENHOWER PARKWAY</b>  <b>SUITE 300</b>  <b>ROSELAND, NJ 07068</b>  <b>TEL: 973-226-4500</b>  <b>FAX: 973-226-4508</b></p>



**EXECUTIVE RECRUITING  
AN INDUSTRY STUDY**