

The Russam GMS Interim Management

Snapshot Survey – December 2003

Highlights

- **Market activity has increased in the second half of 2003.** 48% of all Interims were actually on assignment at December 2003 compared with 40% at 30th June . This compares with 48% at December 2002, 50% at June 2002 and 57% at June 2001 which was the highest we have recorded since we started the Snapshot Surveys in December 2000. Taking into account that many Clients seek to complete assignments by Christmas, this increase is good news.
- This increase in activity reflects **a strengthening in the number of full-time Interims on assignment** at the expense of part-time which is what we have come to expect when business conditions improve. At the same time as using more Interims, clients have also bought more time from currently engaged Interims. Again, the proportion of full-time Interims compared with part-timers (anything less than 5 days a week on a continuing basis) continues to be two thirds/one third.
- **The Providers' share of the market adjusts upwards** by one percentage point from 36% at June to 37% at December. Prior to 2003, it had been consistently about 40% and slightly more. When applied to full-time assignments the 51% at June moves downwards to 48% at December. Clearly, some Providers are not increasing their share of the Market. We look at the possible reasons for this and what this says about the trends in the market in Section 9 of this Report.
- **Daily rates have eased since June** for all Interims to £477 from £506 at June 2003 (6%) but part-time rates have borne the brunt of this with full time rates decreasing by only 2% to £481 from £490. Within this, Finance and General Managers have increased marginally their daily rates whilst the biggest decreases have occurred in IT and HR. IT daily rates have been falling consistently over the past few two to three years. Not fully understood is the easing of rates when volumes increase which seems to happen every time. Certainly, the market is seeing growing pressure on daily rates and, thereby, margins.
- **Market changes mean Clients have more choice.** We found again that Interim Managers as a group continue to take a very flexible and pragmatic view of their careers. Virtually the same as 30th June, only 26% say they are committed interims who would never take a permanent full-time job with 56% saying they would do so if they got a tempting offer, although only 13% are actively job-seeking. The middle ground is occupied by 48% of managers who say they would happily move from interim to permanent and back again in the future. Temp to Perm is serious option in the Market.
- Sectors using the most interim managers were once again engineering and manufacturing (18% of all assignments) and the public sector (16%)

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1. Interim Managers on Assignment – Full-time & Part-time

An improving situation at the end on 2003 is reflected in the number of Interim Managers on assignment increasing from 40% at June 2003 to 48% at December 2003. This compares with 48% at December 2002, 50% at June 2002 and 57% at June 2001 which was the highest we have recorded since we started the Snapshot Surveys in December 2000.

This reflects a strengthening in the number of full-time Interims on assignment at the expense of part-time which is what we have come to expect when business conditions improve. At the same time as using more Interims, Clients also seem to buy more time from currently engaged Interims.

Respondents on Assignment			
	Total	% of those on asgmt	% of resps.
Full-time	359	66%	32%
Part-time	181	34%	16%
Total	540	100%	48%

Respondents analysed over Professional Disciplines						
	Total	%	F/T	%	P/T	%
Finance	215	19%	80	37%	40	19%
General management	323	29%	101	47%	55	26%
HR	86	8%	36	17%	15	7%
IT	96	9%	36	17%	10	5%
Not specified	10	1%	2	1%	3	1%
Other	76	7%	15	7%	13	6%
Production/ and/or Engineering	90	8%	23	11%	9	4%
Purchasing and/or Distribution	75	7%	28	13%	8	4%
Sales and/or Marketing	137	12%	44	20%	30	14%
	1108	100%	365	33%	183	17%

This response matches the profile of the Russam GMS database which we present as industry standard. With about 35 mainstream Providers currently operating in the Market, some will report profiles at variation from this standard either because they specialise in certain sectors or professional disciplines or operate at differing levels in the market, particularly at the top end of the market which seems to get a disproportionate share of the media attention but is comparatively small.

Generally, the Interim Market is regarded as starting at about £40k “salary-equivalent”. Those who badge work undertaken at less than this level as Interim distort the market view though, clearly, current pressure from clients continues to push rates downwards.

Interims on Assignment by Discipline			
	No	Yes	%
Finance	93	118	22%
General management	166	153	29%
HR	35	51	10%
IT	51	44	8%
Other	47	28	5%
Production/ and/or Engineering	59	30	6%
Purchasing and/or Distribution	38	36	7%
Sales and/or Marketing	63	72	14%
Total	552	532	100%

2 Daily rates

It must be borne in mind that Daily rates quoted here are arithmetic averages and relate to a wide range of actual rates.

Daily rates have eased for all Interims to £477 from £506 at June 2003 (6%) but part-time rates have borne the brunt of this with full time rates decreasing by only 2% to £481 from £490.

Within this, Finance and General Managers have increased marginally their daily rates whilst the biggest decreases have occurred in IT and HR. IT daily rates have been falling consistently over the past two to three years and this is mirrored in the results of many IT services companies. HR Interims have seen a 13% decrease in daily rate but more volume. We think that this reflects the type of work now being seen in the wake of the current wave of legislation.

Not fully understood is the easing of rates when volumes increase which seems to happen every time. Certainly, there is growing pressure on daily rates. More clients openly say that hiring an Interim through a Provider is more expensive than hiring one direct and expect to negotiate hard, as they do with everything in an economy where there is oversupply in virtually everything, particularly professional services.

There is no evidence that hiring through a Provider is more expensive than hiring direct particularly when taking into account the benefits. Noticeably, the Management Consultancy Market is seeing increasing difficulties in maintaining charge out rates and margins and Interims are well placed to compete here on price – and are doing so - particularly when the attraction of a big name (with professional indemnity very much in mind) dominates decision making thinking. Clearly, Interims are less attractive for big projects than the major Management Consultancies but an increasing number of these are staffing up by using Interims on their teams.

Average Daily Rate		
F/T	P/T	Overall
£481	£468	£477

Daily Rates by Discipline			
Discipline	F/T	P/T	All
Finance	£493	£453	£479
General management	£537	£504	£527
HR	£412	£493	£438
IT	£505	£554	£516
Not specified	£550	£367	£413
Other	£446	£439	£442
Production/ and/or Engineering	£370	£443	£391
Purchasing and/or Distribution	£487	£401	£468
Sales and/or Marketing	£437	£428	£433

Daily Rates by Sector			
Sector	F/T	P/T	All
Banking Financial & Insurance	£541	£540	£541
Construction & Property	£391	£393	£392
Engineering & Manufacturing	£430	£447	£436
FMCG	£481	£500	£485
IT (Hardware / software / training & services)	£466	£545	£500
Leisure Entertainment & Hospitality	£614	£549	£592
Not for Profit/Charities	£424	£418	£422
Not specified	£445	£375	£417
Other	£491	£481	£486
Professional services	£491	£489	£490
Public Sector	£454	£446	£457
Retail	£551	£360	£484
Supply chain	£547	£459	£518
Telecoms	£540	£446	£515
Utilities	£373	£404	£386

Daily Rates by Region		
Region	Avg Day Rate	% dec from 06/03
South	£505	-1%
Central	£482	-9%
West	£436	-16%
North	£431	-4%

Against a background of pressure on daily rates, the South has shown most resilience.

3 Source of Interim Assignments

Providers are struggling to compete with Interims themselves in finding the assignments. The 36% recorded at June, being the part of the Market sourced through Providers has increased only marginally to 37% at December which has to be seen as disappointing in view of the increased activity. We look at the possible reasons for this and what this says about the trends in the market in Section 9 of this Report.

Source of Assignments				
	Independently	Other	Through a Provider	
Full-time	157	29	173	48%
Part-time	141	13	27	15%
Total	298	42	200	37%

Source of Assignments by Discipline					
	Independently	Not specified	Other	Through an agency	%
Finance	66	95	5	49	23%
General management	96	168	13	46	14%
HR	25	34	2	25	29%
IT	19	51	6	20	21%
Not specified	2	7		1	10%
Other	17	48	4	7	9%
Production/ and/or Engineering	15	59	2	14	16%
Purchasing and/or Distribution	11	39	2	23	31%
Sales and/or Marketing	48	64	8	17	12%

Interestingly, Providers are used most by Purchasing and/or Distribution Interims closely followed by HR and Finance were the specialist agencies are particularly active. Not unexpectedly, Sales & Marketing Interims use Providers less.

Source of Assignments by Sector			
	Independently	Other	Through an agency
Banking Financial & Insurance	26	3	14
Construction & Property	6	1	5
Engineering & Manufacturing	53	5	36
FMCG	16	1	15
IT (Hardware / software / training & services)	30	4	4
Leisure Entertainment & Hospitality	8	1	6
Not for Profit/Charities	5	2	13
Other	49	7	26
Professional services	24	1	10
Public Sector	33	6	45
Retail	10	4	6
Supply chain	16	4	12
Telecoms	15	2	6
Utilities	6	2	2

4 Industry Sectors where Interim Assignments have taken place

The two sectors of Engineering/Manufacturing and the Public Sector continue to dominate.

The high level of Interims working in the Engineering/Manufacturing Sector is a surprise to many. Our judgement is that cost cutting has got to the stage at which fluctuations in volume can only be met by using Interims and previous redundancy programmes have created a readily available resource of Interims with excellent local knowledge and are relatively inexpensive. Daily rates of Interims in this sector are the lowest in the Market.

Public Sector organisations are now well known users of Interim Managers with 54% being introduced by Providers including specialist public sector Interim Providers. Anecdotally, many of these are at rates less than £40k salary equivalent and would probably be regarded by the some traditional Interim Providers as Contractors or Temps rather than Interim Managers. (We wonder how durable these distinctions will prove to be!)

On Assignment by Sector		
Banking Financial & Insurance	43	8%
Construction & Property	12	2%
Engineering & Manufacturing	93	18%
FMCG	31	6%
IT (Hardware / software / training & services)	34	6%
Leisure Entertainment & Hospitality	15	3%
Not for Profit/Charities	20	4%
Other	81	15%
Professional services	35	7%
Public Sector	83	16%
Retail	20	4%
Supply chain	31	6%
Telecoms	23	4%
Utilities	10	2%

5 Types of Assignment undertaken

What this analysis clearly shows is that Interims are being used as a strategic resource. Twenty years ago, Interims were used for crises, filling gaps. Now, progressively, businesses see the advantages of Interim Management in vigorously promoting the business rather than as defensive and reactive measures. More business processes are being treated as projects or tasks which can be handled outside the core team and short-term over-resourcing is seen as a very effective and legitimate approach.

Top Ten Reasons for using an Interim	
Specialist Skills	18%
New Strategy	15%
Special Projects	12%
Restructuring	10%
Mentoring/Coaching	9%
Business Turnround	5%
During Recruitment	5%
Merger/Acquisition	4%
New Division	2%
Temporary Absence	1%
Other	19%

6 Professional Disciplines

Disciplines by Sector									
	Total	Finance	Gen Man	HR	IT	Other	Prod and/or Eng	Purch and/or Dist	Sales and/or Mktg
Charities	20	3	4	5	2	1		1	4
Computers	38	8	9	1	7	2		1	10
Construction	12	4	4	1	1	1			1
Engineering	94	17	35	5	2	4	18	4	9
Finance	43	14	11	1	8	3	1	2	3
FMCG	32	7	10	2		2	6	1	4
Leisure	15	8	3	1		1		2	
Prof Serv	35	7	9	6	1	1		2	9
Public Sector	84	20	24	11	12	5		4	8
Retail	20	4	6	1	1			5	3
Supply Chain	32	5	10	1	3	1	2	8	2
Telecoms	23	3	3	4	2	2	1	1	7
Utilities	10	1	2	2			2	1	2
Total	458	101	130	41	39	23	30	32	62

7 Age

The trend, identified at June, of younger Executives moving into Interim Management is accelerating as seen here:-

On Assignment by Age				
Age Range	Total	Yes	%	% (Jun 03)
Late 20's & 30's	80	50	63%	40%
40's	394	201	51%	43%
50's	556	255	46%	40%
60's	60	19	32%	26%
Total	1090	525	48%	40%

Whilst the most populous age range and slightly higher daily rates have now switched marginally from the 40s to the 50s, the younger you are the more likely you are to get the work.

Daily Rates by Age		
Age Range	Avg Day Rate	Jun-03
Late 20's & 30's	£464	£500
40's	£478	£513
50's	£482	£506
60's	£434	£462
All ages	£477	£506

8 Career Plans & Aspirations of Interim Managers

This is the second time we have enquired into this area. Again, what it shows is that only a small proportion of Interims have an irreversible commitment to a career as an Interim Manager, an attitude which flies in the face of the traditional message from the Interim Management Providers. The message has been that to be taken seriously as an Interim by Clients and by the Sector, the fullest commitment has to be made and track record demonstrated. This is not the way it actually is. The truth is that every individual has a skill-set. The primary task is to grow that skill-set. Next, the challenge is to sell it. It matters little where that skill-set is sold and the Interim market is just a market like any other market.. These figures, which are virtually identical to June 03, do not, in our view, show any lack of ability, of purpose or of commitment.

Interim Managers' Career Plans		
	% Of all Resp	Jun-03
Would never take a permanent FT job	25%	26%
Would take a FT job if the offer were tempting	55%	56%
Take a permanent PT job	22%	23%
Actively Seeking	13%	13%
Hoping Interim becomes Permanent	8%	8%
Happily move between	48%	48%

9 What does all this mean for the future of Interim Management?

Russam GMS has a privileged view into the Interim Management Sector in publishing the only regular quantitative market research that identifies and measures changes and which has now become, arguably, the industry benchmark. Our views on the future are based on this Research but also on anecdotal evidence and our own observations, some of which has to be seen as subjective.

- **The Interim Management Industry** is changing. Our conclusion is that it is becoming bi-polar. At one end, Clients' focus is on quality and relationships. At the other end, growth is coming from Internet/technology driven solutions where the focus is on speed of delivery and low cost. Clients still expect quality performance from the Provider. The winners are those who manage to find the balance between paying a reasonable price for successful solutions from a chosen Provider – for quality - together with the immediacy and low cost expected from the Internet and technology driven solutions.
- **The Providers** who will emerge as the Sector Leaders are those who can find ways of reconciling quality delivery with immediacy and lowest cost. Exactly how this is achieved is the real challenge for the days ahead.
- **For Interim Managers**, the Industry will continue to provide insufficient work as it currently is – a market that needs slack in it to function effectively is never likely to provide enough work for all. This Snapshot Survey points to three answers, all of which work strongly for the benefit of Clients. Firstly, self-source assignments. Secondly, create a portfolio of activities based on strong networking and include your favourite Provider(s) in this process. Thirdly, take up permanent appointments as and when good opportunities arise – treat permanent jobs as fill-ins for Interim (not the other way round). The test is making good money. The prize is lifestyle.

For those who want to reflect more on the way the Interim market is, in our view, developing, here is some more comment.

- 1 The Interim Management sector appears to be growing at a modest rate though there is no past or current Research that can accurately measure the size of the Interim Market. The only data that could currently be made available is the turnovers of the Provider organisations. Anecdotally, the 90s saw serious growth with the Providers aggregate turnover probably falling in the range £100m to £125m at the end of the decade but volumes have probably been static

since then. All fairly modest.

- 2 The Russam GMS Research points to the Providers' share of the market peaking at between 40% and 45% (for f/t and p/t assignments) towards the end of the 90s but settling back to 35% to 40% thereafter. Clearly, some Providers are losing market share.
- 3 From early days, Interims could not rely of Providers to find them enough work (as, probably, they could do in the IT sector, for example) so they had to find their own work. They are continuing to get better at it whereas some Providers are probably not getting better as quickly.
- 4 Clearly triggered by the froth of the dot.com days, the internet has now become more popular as a resourcing medium and is proving effective. This has the effect of shifting the workload from the Provider to the Client. How well this serves the Client remains to be seen.
- 5 Linked to this is the Providers' sales and marketing message that top quality professional judgement and support is integral to a successful Interim assignment outcome and that a sole supply (and ideally a retained) relationship is the best way and the only way to achieve this - an excellent service in return for a fair reward. This solid mantra has to be incontrovertibly the best. No one can pretend otherwise. Where it does apply, it works very well. But, for some Providers, market forces and client pressure are working against this.
- 6 Client buying processes, particularly in larger organisations and the public sector, are shifting away from line managers towards purchasing departments and preferred supplier arrangements. Notwithstanding negative views on documented service level agreements, the clear outcome of this trend is pressure on price and cost. In the past, Providers' gross margins were around 30%. In more recent times these have moved downwards towards 20%- 25%. To be moved towards 10% - 15% by aggressive purchasing departments is simply not acceptable to many Providers. Uncertainty of call-off, difficulties in finding the right Interim Manager, demanding service level requirements and extended debtor-days are, to many Providers, simply too much to manage.

There is only one possible response to this emerging scenario.. The Providers have to give clients what they want, need and ask for and quality has to be built in. Processes have to change. Resources have to be re-arranged. Specialisations have to be developed. New products need to be offered. Technology and the Internet have to be brought into the mainstream. Rather than competing for work with Interim Managers themselves, providers need to work with them. Whatever happens in our working world, organisations will

always want excellent people choices, immediacy, successful outcomes and low cost. Interim Management must evolve to provide all that.

This is how we in Russam GMS see the future and this is where we are going.