Staffline Market View

Q1 2025

Enabling People Into Good Work

Introduction

2025 promises to be a turbulent year, bringing both challenges and opportunities.

As the saying goes, **"you don't have to be the fastest to outrun the bear - you just can't be the slowest".**

This year, however, we're facing a whole pack of bears, meaning only the quickest and leanest businesses will survive and thrive.

Yet, within this landscape lies a significant opportunity. Companies that strategically outsource non-essential activities, maximise flexibility, and enhance productivity will gain a competitive edge.

Those that deliver high-quality, cost-effective services will emerge stronger in a more consolidated market, securing greater market share and fostering customer loyalty.

The best clients and top talent will naturally be drawn to businesses that adapt and lead.

This virtuous cycle is within reach - but only for those willing to work hard and maintain an unwavering focus on success.

Below, we outline key economic factors affecting the market and strategies to help businesses navigate the evolving landscape.

1. Global Economic Outlook

- The global economy is expected to grow by **2.7%** in 2025 and 2026 *(World Bank)*, while the IMF projects **3.3%** growth in 2025.
- Growth in developed economies remains sluggish, with Europe and Central Asia projected to grow at just **2.5%** - the lowest this century.
- Global headline inflation is projected at **4.2%** in 2025, meaning growth is largely being driven by price increases rather than increased activity, impacting wealth and consumer confidence.

2. UK Economy & Consumer Spending

- Inflation remains persistent at **3.5%** *(ONS, December 2024)* with projections of around **3%** for 2025. Chancellor Rachel Reeves forecasts **2.6%**, though this is widely questioned.
- Business and consumer confidence is declining. T*he YouGov and Cebr January 2025 Report* highlights:
  - The **fastest decline in business confidence since 2020**.
  - Household finance confidence dropping from **95.3 to 92.7** - the biggest fall since 2022 (scores below 100 indicate negative sentiment).
- A British Retail Consortium survey shows **70% of top UK retail CFOs** are pessimistic about the next 12 months.
- The *KPMG and REC Report on Jobs* signals falling demand for permanent and temporary hires, with temp billings declining at their fastest rate since 2020.

3. Government Policy: Rising Costs for Businesses

- April 2025 introduces a **triple cost hit:**
  - National Minimum Wage increase from **£11.44 to £12.21**.
  - Lower **National Insurance threshold**.
  - Higher **National Insurance rate**.
- The cost per minimum-wage employee will increase by **£50.80 per week (10.23%),** equating to **£2.64 million annually** for a company with 1,000 employees.
- This cost pressure extends beyond entry-level roles, as businesses face pay increases across all levels to maintain salary differentials.
- Increased labour costs will likely lead to **redundancies and price inflation.**
- Employers are already warning of job losses. **81 leading businesses** signed a British Retail Consortium letter in December cautioning about inevitable price hikes and redundancies.

4. The Employment Rights Bill: What Businesses Need to Know

In the words of the Government, the Employment Rights Bill will be *"the biggest upgrade in employment rights for a generation"* and it continues to evolve and expand in scope.

While most changes are set for consultation in 2025 and implementation in 2026, businesses must start planning now to ensure compliance without sacrificing operational flexibility.

Key elements so far include:

- **Ending zero-hours contracts** deemed 'exploitative'.
- **Day-one protection** from unfair dismissal.
- **Stronger collective redundancy** rights.
- **Mandatory employer explanations** for denied flexible working requests.
- **Greater employer responsibilities** to prevent sexual harassment.
- **Expansion of gender pay gap reporting** and equality action plans.
- **Increased Statutory Sick Pay (SSP) & Statutory Maternity Pay (SMP)** and the removal of the lower earnings limit.

Meeting the Challenge

How do UK companies face into 2025 to maximise success?

Even if the government rolls back some policies, economic pressures will persist. Companies must focus on efficiency, flexibility, and strategic cost management.

The solution? Get lean fast.

1. Minimise your fixed cost base

Outsource, outsource, outsource.

Outsourcing activity is significantly increasing in 2025, with many companies looking at how they can divest fixed costs to specialists that can offer economies of scale, lower cost and improved performance.

In the recruitment sector, this is manifesting primarily in increased **Managed Service Provider (MSP)** and **Recruitment Process Outsourcing (RPO)** activities; however, we also predict that **workforce outsourcing** will grow significantly over in 2025.

Meeting the Challenge:
Minimise Your Fixed Cost Base

Managed Service Provider (MSP)

MSP outsourcing is the outsourcing of the management of the recruitment supply chain, reducing the internal cost of supplier management and improving process efficiencies. It also provides the advantages of spend consolidation and leverage.

Features of an MSP arrangement vs a Preferred Supplier List (PSL):

- One point of contact and one point of accountability for all outsourced temporary and permanent recruitment.
- Outsourced supplier management, audit and compliance by the MSP partner instead of the client's supplier management team.
- Single invoice.
- Supplier-delivered software platform managing the process from order to invoice with 3-way interaction between client, MSP partner and supplier panel.
- One set of consistent MI and SLA.
- Uniform charge calculations and set rates improving budgeting and cost management.
- Internal resources that previously spent time managing the PSL can now be diverted to more revenue-generating activities.
- Lower unit costs.
- Access to recruitment expertise including market knowledge and problem solving.

Meeting the Challenge:
Minimise Your Fixed Cost Base

Recruitment Process Outsourcing (RPO)

RPO is the outsourcing of some or all of a permanent/direct recruitment process to a specialist business in order to achieve better hiring results and improved cost base. RPO is an extension of a company's overall talent strategy and allows the company to run the leanest possible internal talent function, outsourcing anything that is too onerous, too repetitive, too expensive, or requires too much flexibility to deliver efficiently.

Elements typically outsourced as part of an RPO agreement:

- End-to-end recruitment for a particular skill set (e.g. high-volume, higher-churn entry level roles so the internal team can focus on high-skilled, exec roles and HR management).
- Total recruitment for a new location or new account win on a project basis.
- Job marketing campaigns and applicant capture, using the resources of a large recruiter to turbo-charge candidate attraction.
- Screening and vetting services.
- Candidate engagement, particularly on volume campaigns where the internal team may lose candidates due to pinch points in headcount.
- Recruitment software (ATS) for applicant capture and tracking if the client's system lacks the capabilities required and investment in a new system is not viable or desired.

Features of an RPO arrangement vs internal hiring

- Opportunities to move the focus of the internal HR talent team to key-hiring and personnel management rather than high volume recruitment activity.
- Opportunities to reduce direct internal hiring costs including team size, premises, advertising bills and ATS software packages and licences.
- Improved project capacity and flexibility for new site openings or specific campaigns.
- Market expertise from a specialist recruitment business.
- Reach and scale with fast access to larger candidate pools.
- Faster and more accurate hiring (supported by KPIs and SLA).
- Up to date recruitment software and ATS.
- Improved market and comparator insight.
- Lower cost-per-hire.

Meeting the Challenge:
Minimise Your Fixed Cost Base

Workforce Outsourcing

Workforce outsourcing is reducing the internal employee headcount in favour of workers/contractors supplied by a third-party. This has been common practice for decades for companies that only require a proportion of their workforce for a certain project or certain time of year due to seasonality.

The current economic environment is driving a larger strategic workforce outsourcing conversation:

- The waning UK economy and rise in unemployment levels means that there is a larger pool of available labour that is prepared to work flexibly and compete for long-term placements.
- There are large elements of the UK workforce who now prefer flexible contracts and the freedom it gives them to take different work and try new things.
- Legacy internal employees may be less efficient and productive than flexible colleagues due to greater security in role and a longer disciplinary journey.
- Companies are less certain of customer orders and need a lower core headcount, but still need to meet demand when it comes.
- No redundancy costs when downsizing. The supplier will redeploy the workforce.
- Outsourcing entire job levels minimises the impact of AWR legislation.
- You do not have the HR and tribunal costs of performance managing an outsourced workforce.
- Outsourced workforces can be aligned to new operating procedures and shift patterns without lengthy consultation processes.
- You can set the bar of mutual commitment including fixed-term contracts and more flexible permanent contracts with the labour provider, with all employment relationships being between outsourced labour provider and the worker.
- Outsourcing larger elements of the workforce to your labour provider, allows you to further leverage unit costs when already the cost per unit (even including the supplier’s management fee) is often lower than an equivalent permanent employee.

Meeting the Challenge: *Consolidate For Commerical Advantage*

2. Consolidate for commercial advantage

The more volume and the more services you place with one supplier, the greater the commercial benefits that come from this commitment due to improved economies of scale. This leverage is not just for unit cost and is also found in areas including payment term length, rebates and allocation of increased account management resources, dedicated service focus and customer prioritisation.

Consolidation also results in process benefits that include one point of contact, one invoice, one set of MI, one set of rates and one point of accountability, as well as bespoke software builds, costs control and visibility.

Why manage ten suppliers when you can work strategically with one? Working strategically means that you can engage on business enhancement projects including total cost reduction, workforce management and further outsourcing and joint round tables on all areas of recruitment.

Meeting the Challenge:
Secure Your Supply Chain

3. Secure your supply chain

Ensure your suppliers are stable and sustainable.

In tighter economic conditions, companies face increasing risks from a) suppliers going out of business and b) suppliers cutting corners on critical processes to make ends meet. We are seeing many companies putting a greater emphasis on supply chain security including financial assessment of suppliers and increased compliance audit activity.

Larger supplier benefits:

- The capacity to take on more volume and more services, allowing you to increase leverage.
- The financial security to offer sustainable commercially competitive price points and payment terms.
- The ability to offer MSP and RPO and the accompanying software solutions.
- The knowledge and experience to provide strategic advice, support and project delivery.
- The HR and operational capability to manage outsourced workforces.
- General compliance and governance security.
- Talent magnetism in difficult economic times.
- Maximised labour pools, recruitment scale and candidate attraction and capture strategies.

The recruitment market itself is consolidating with small and medium-sized businesses being unable to sustain competitive price and service models and going out of business. This consolidation also means consolidation of talent and the cream of the small to medium sized businesses will make their way to the larger partners for greater job security. This includes movement with their clients, as contract wins come with TUPE obligations for current account management teams.

Final Thoughts

2025 presents real challenges, but businesses that adapt will emerge stronger. **Outsourcing, workforce flexibility, and expert partnerships** will be crucial in navigating economic headwinds.

At Staffline, we're here to help businesses **stay agile**, **reduce costs**, **and secure top talent** in an uncertain environment.

We hope that you've enjoyed reading the fifth edition of our 'Market View' series.

If you've got any questions or comments regarding the content, please contact James, Chief Sales Officer (CSO) on: james.wilson@staffline.co.uk.

Equally, if you have any suggestions for future topics, please get in touch.

About Staffline & The Author

Staffline Recruitment GB is the UK's largest recruitment solutions provider, hiring more than 33,500 new starters annually into temporary and permanent roles for leading UK businesses across all major industries including aerospace & defense, automotive, construction, food & drink, general manufacturing, logistics, retail, security and service sectors.

We help clients develop, deploy and deliver recruitment strategies from a single hire through to national RPO and MSP solutions.

James Wilson, Staffline's Chief Sales Officer, has worked in the recruitment sector for 26 years and has developed long-term partnerships with many household name brands. He enjoys new challenges and consulting to build best-fit service models. James lives in Worcestershire with his wife and two sons.

If you would like to provide feedback, discuss any of the topics in this article or find out more about how Staffline can help you meet the challenges of 2024, please reach out to james.wilson@staffline.co.uk.

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