

Contractor umbrella sector remains healthy despite moves towards consolidation

Consolidation of the [contractor umbrella company](#) market claimed its latest victim last month, when Liverpool-based Filetravel went into administration.

This news appears to bear out the predictions of Rob Crossland, managing director of professional business services provider [Parasol](#), who earlier this year predicted in an [interview with ContractorCalculator](#) that consolidation in the contractor service sector was on the way.

But what does this mean for contractors? Traditionally, economic downturns prompt a Darwinian cull of weaker businesses, resulting in survival of the fittest firms. And consolidation can have a positive impact on contractors, too, providing them with a choice of reputable firms with good credentials and proven financial stability.

‘Neutral’ market demand

Speaking this week, Crossland commented: “We’re seeing a steady stream of contractors exiting the sector for permanent jobs, to be replaced by contractors new to the contracting business, who are frequently the casualties of redundancy.”

He believes the nature of these contractors is subtly changing: “We’re seeing clients replacing the more experienced, higher skilled and therefore more expensive contractors with contractors who are new to the sector, or who have little experience, and who are therefore cheaper.”

However, he says the cycle is likely to reverse as clients begin to realise the cheaper end of the market is a false economy. As projects start to run over time and budget and simply do not perform as predicted because the skilled contractors are not there to drive them, demand is likely to turn full circle. But in the meantime, how many of the best contractors will be lost to contracting forever?

“Blanket rate cuts that are edicts from corporate management cause huge issues for hiring managers who have to deliver projects,” says Crossland. “Contract periods are shorter and rates are softer as a result.”

Umbrella company in name only

Crossland observes that many service providers that made the transition from the old-style [Managed Services Companies](#) (MSCs), following the implementation of the [MSC legislation](#), into umbrella companies did so only superficially, and he believes they will struggle as a result.

“MSCs and composites were traditionally highly profitable and cash rich, so as a result did not have to manage cash flow tightly,” he says. “Now, when agencies are taking longer to pay because clients are holding onto their cash and margins are being squeezed, this has changed and some of these types of umbrellas are being shown not to be properly constructed employment management businesses.”

Some umbrella companies run their payroll every day (in Parasol’s case four times a day), so contractors get their cash in a matter of days from submitting their timesheets. Others, however, run their payrolls monthly, which means the contractor’s cash can be tied up and, if the umbrella company folds, they may never see it again.

“You get what you pay for in the umbrella company sector, and if a deal looks too good to be true then it probably is,” warns Crossland. “This could lead to the contractor not receiving the employment rights they should.”

Where do contractors fit as creditors?

In theory, contractors should be high up in the food chain when their umbrella company goes into administration or administrative receivership, as they are technically employees. But in practice, this may not be the case, as the only asset held by most umbrellas is cash, and if that’s gone, there is nothing left to pay the employees.

Then there is also the issue of insurance, as Crossland explains: “When a contractor’s umbrella company ceases trading for any reason, contractors lose their insurance, which for most means public liability and professional indemnity. Without these, most end-user clients won’t want contracts with them.”

In practice, many agencies have stepped into the breach to cover contractors’ insurances during their transition between umbrella companies, so clients will continue the contract. However, as Crossland concludes: “There are contractors out there working for providers who will find it very difficult to survive the current downturn, and unfortunately contractors may well get caught out

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Rob Crossland, Parasol Group

Mixed fortunes in key contractor sectors

Because Parasol has a highly diversified contractor client base, with contractors from all the major sectors, it does not suffer from the same demand cycles as many other contractor service companies that specialise in just one or a few sectors.

“When one of our market sectors is down, such as was recently seen with financial IT, another sector will be buoyant, like oil and gas,” continues Crossland. “We also have some sectors where demand is ongoing, which includes teaching, medicine and medical technology.”

In addition, Crossland notes a reversal of fortunes for some sectors previously underperforming: “We’re seeing a good flow of IT and telecoms contracts, with some agencies consolidating their positions with larger corporate end-users. There have also been recent skills shortages in the oil and gas sector, particularly in the international scene.”

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