

## Parasol buys Quay Accounting: will this mean consolidation in contractor services?

Contractors are likely to welcome the recent acquisition of [Quay Accounting](#) by contractor umbrella [Parasol](#) as a step in the right direction for the stability of the contracting services sector.

As the economic downturn worsens, many firms supplying services to contractors will start to find trading conditions difficult, and it is inevitable that not all of the contractor service companies will survive.

According to [Parasol](#) Managing Director Rob Crossland, consolidation of the sector prior to the recession was already happening, but in the current climate acquirers may find it difficult to raise the finance to buy target firms.

### Contracting sector consolidation

"We are seeing an increasing number of contractor services firms approaching us and wanting to sell out completely," explains Crossland, "but we're not interested in this type of transaction."

Smaller players, including umbrella companies, are likely to struggle as the economic downturn worsens. According to Crossland, tightening agency relationships and bad client debt will inevitably mean some won't survive.

Therefore, it would seem to make sound sense for contractors to use those providers that can demonstrate the best combination of service and reliability with, importantly, a solid financial structure.

"We will certainly see market share changes, and some service providers, such as smaller local accountants, will do well," Crossland continues. "But those companies previously in the [Managed Services Legislation](#) space who had high margins will find it difficult to maintain their levels of profitability, and so may opt to exit completely."

### Impact on contractor numbers

Crossland is convinced that total contractor numbers are likely to at best remain steady and at worse go down: "On the one hand, contractors offered permanent positions, albeit at lower rates, are increasingly likely to accept to remove uncertainty.

"On the other, redundancies will see many workers consider the contracting route as an alternative to seeking permanent work. Whatever happens, there will be a downwards pressure on rates, with more contractors chasing fewer contracts."

Although not complacent, Crossland says Parasol is well diversified across all contractor sectors. He views any industry consolidation as an opportunity to gain market share, and possibly growth, as a result of contractors seeking a stable service provider.

### Maintaining service levels

Although contractors may be left with less choice as contractor service companies exit the sector, ultimately they will gain because the surviving firms will be, by necessity, more competitive, leaner, more customer focused. Plus, they will have to be financially robust, something Crossland insists prudent contractors should always check out before using any service provider.

"Parasol invested in Quay Accounting to continue to run it as a separate business," says Crossland, "because limited company contractors are looking for a different service to umbrella company contractors.

"Where there is synergy, such as in the areas of systems where Parasol is strong, and the high-value professional adviser-client relationships developed by Quay, we will exploit it for the benefit of our contractors. But we won't force inappropriate service models on our customers."

Maintaining 'Chinese walls' and resisting the temptation to become a one-stop-shop, which risks producing a one-size-fits-all strategy, will be hard work, agrees Crossland. But, he says, it will ultimately benefit contractors as they choose to move between the trading options as their circumstances change.

"In the next 12 to 18 months we will see fewer companies setting up umbrellas, and the long 'tail' of the 100 or so umbrellas currently trading could drop significantly to 20 to 30. This," concludes Crossland, "will still leave contractors plenty of choice when seeking a service provider to suit their needs."

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