

Chapter 1

Working It Out: Industry Overview



This chapter focuses on the staffing industry and its niche markets. We'll tell you how some owners of staffing services got into the business, and we'll help you figure out if this kind of work is a good choice for you. Finally, we'll discuss the rewards and challenges of the industry and provide suggestions for conducting your own market research.

SIZING IT UP

In this section, you'll learn what staffing services are all about and why the industry,

which saw explosive growth during the 1990s but suffered during the recent economic slowdown, now seems poised for growth.

What They Are

Broadly speaking, staffing services are all of the following:

- **Employers:** Staffing services take on qualified candidates as employees. Such services not only pay their employees, but also withhold income tax and pay workers' compensation, disability and unemployment insurance. Increasingly, staffing services also provide benefits such as vacation, person-

Chapter 1
Working It Out



Stat Fact

Staffing services is a \$61.8 billion industry. Temporary help services account for the lion's share (nearly \$55.2 billion) of staffing industry revenue.

al time, health care and retirement plans.
● **Businesses:** All companies have clients and products. In the staffing industry, clients are the companies that contract for labor or expertise, and the product is that very labor or expertise. The more skills that workers possess, the better the products these staffing services are able to provide for their clients. As with any company, staffing services are in business to make money, which they do either by adding their markup to all labor charges or by charging clients a finder's fee. Some services use a combina-

tion of these strategies.

● **Contractors:** Temporary help and staffing services provide business organizations with employees for positions in all sectors of employment, from industrial to clerical to professional. In other words, staffing services match employees to client companies.

What They're Not

Staffing services are neither employment agencies nor professional employer organizations (PEOs). Although distinctions are blurring among the three types of companies, in most cases you will still find the following differences:

● **Employer status:** Staffing services are employers, while employment agencies and PEOs are not. When a staffing service sends an applicant to a company, the applicant becomes an employee of the staffing service, which assigns its employee to the client company for a specified length of time. On

R.E.S.P.E.C.T.

The growth of the professional staffing sector has taken the temporary help industry to a whole new level of respectability. Gone is the stereotype of the temp who, unable to find a "real" job, settles for less. Temporary professional workers tend to be highly skilled and experienced individuals, often in their 40s or 50s. Many earn more than their former yearly salaries. Higher-end professionals may make \$75,000 and up.

Recent corporate downsizing, the economic slowdown and other bottom line-oriented business trends account in part for the growth in professional staffing. Nevertheless, many professionals are choosing temporary work as a means of gaining more control over their work lives. These individuals like the challenge, variety and flexibility of temporary work. Some want a career change. Others want the flexibility they need for raising children. Still others want to reduce their work hours without retiring.

Even with the recent recession, the "free agent" work force has surged 27 percent since 1998, according to surveys conducted for Kelly Services, a leading global staffing company that serves 95 percent of Fortune 500 companies, and cited by the American Staffing Association. In 2002, free-agent workers accounted for 28 percent of the full-time U.S. work force, up from 22 percent in 1998 and 26 percent in 2000. There are now at least 30 million such workers in the nation.

Staffing Service

the other hand, once an employment agency matches an applicant with a company, the applicant becomes an employee of the company. PEOs typically take over the human resources functions of a company (e.g., payroll, insurance, etc.), leasing employees back to that company.

● **Service offerings:** Increasingly, lines are blurring among the three different types of companies in terms of the services they provide. However, staffing services offer training more consistently than the other two. Employment agencies still handle the majority of permanent placements. Finally, most PEOs are still, first and foremost, human resources specialists.

● **Recruiter status:** Both staffing companies and employment agencies recruit workers. Traditionally, PEOs have not handled recruiting but have instead taken charge of existing company employees, leasing them back to the company. Increasingly, however, PEOs have begun to offer recruiting services in addition to payroll, screening and other more traditional services.

● **Fee assessment:** Staffing companies usually charge clients an hourly rate that includes labor plus a markup. Those that do temp-to-perm placement or permanent placement charge fees for that service. Employment agencies charge companies one-time fees for finding applicants. Of the three entities, employment agencies are the only ones that collect fees from applicants (although not all agencies do so).



Stat Fact

Some 25 staffing companies cracked *Inc.* magazine's 2002 list of the 500 fastest-growing private companies in the United States. Of the 25 firms, four were in the top 100 and three were in the top 10. Integrity Staffing Solutions ranked highest among the firms, capturing second place overall.



Stat Fact

The American Staffing Association estimates that publicly owned companies generate about half of the staffing services industry's revenue. But there are just 30 to 50 public firms nationwide; the vast majority are smaller, privately owned companies.

● **Legal status:** Many states have no licensing requirements for staffing services. On the other hand, because employment agencies often collect fees from the applicants they place, these agencies are required to be licensed. Depending on the state, PEOs generally fall somewhere in between.

Types Of Staffing Services

Now that you know, in the very broadest sense, what a staffing service is (and isn't), let's discuss the different types. Here they are:

● **Temporary staffing service:** This type of service makes up the largest chunk of the staffing industry and is the type of service we discuss most in this book. Temporary staffing services supply client companies with workers on a short-term basis, either to fill in for absent employees or to supplement existing staff during particularly busy times.

● **Long-term staffing service:** This type of service, also known as "facilities staffing," specializes in placing employees in long-term assignments for indefinite periods of time. Project-related assignments, such as those found in the professional and technical sectors, often require long-term staffing.

● **Temp-to-perm staffing service:** This is a type of service seen more and more often, and one that is frequently combined with a temporary staffing service. A temp-to-perm staffing service offers clients a chance to try out a worker on a temporary basis and then hire that worker later if the client wishes to

Medical Problems

Having a health-care background might make starting a medical staffing service seem like a logical choice. However, that niche might not be affordable for the following reasons:

● **High administration costs:** Administrators in health care are very expensive because they have degrees.

● **High training costs:** The personnel and medical equipment needed to supply temporary employees with ongoing training is expensive.

When you add up these factors, you have a very high start-up cost for a medical staffing service. But this is not the only barrier to entry. It can be hard to collect money from doctors and various agencies. For example, a nursing home might not pay for 120 days—and that's if it doesn't get sold or go out of business before paying you. Waiting for public funds to come through is a common scenario in the medical staffing industry. If you want to pursue this staffing sector, you'll need some serious financial resources as well as patience.

do so. In most cases, clients who hire a staffing service's employees pay a hiring fee for the privilege.

Although it is important to understand the distinctions among these types of staffing services, keep in mind that the lines dividing them have become indistinct and, in fact, have nearly disappeared. Many services do all these types of staffing.

The industry gets even more interesting when you examine the different sectors within it. Some, like the office and clerical sector and the industrial sector, have been around since the beginning (see "The Temp Timeline" on page 6). Others, like the professional sector, are newer and still growing at phenomenal rates. We will touch on the various sectors again later in the chapter when we discuss finding your niche, but for now we'll provide a quick run-down. The staffing services industry is divided into the following three broad sectors:

● **Office/clerical:** Historically, this sector accounted for nearly half of all positions filled by temporary workers. But that has changed since the late 1990s, in response to marketplace shifts and the recent recession. As

a result, office/clerical now accounts for roughly one-third of the staffing industry's revenue and payroll. The sector covers the following positions: secretaries, general office clerks, receptionists, administrative assistants, word processing and data-entry operators, cashiers, etc.

● **Industrial:** This sector used to comprise the second-biggest chunk of positions filled by temp workers. But it is also on the decline as the U.S. economy shifts away from manufacturing. Like the office/clerical sector, the industrial area now generates about one-third of the staffing industry's revenue and payroll. The sector includes the following jobs: manual laborers, food handlers, cleaners, assemblers,

Stat Fact

Staffing companies employed 9.7 million people for temporary or contract work in 2002, according to the American Staffing Association (ASA). Of these, approximately 7 million made the transition to permanent jobs, based on previous ASA research.



Staffing Service



Stat Fact

In the 1980s, roughly 165,000 temporary workers were employed each day. That number has grown to approximately 2.2 million.

drivers, tradesmen, machine operators, maintenance workers, etc.

● **Professional/technical:** This combined sector used to be broken into several smaller divisions, including professional, technical, health care and marketing. All these areas have been growing, thanks to shifts in the market as more people with higher skill and education levels look for the flexibility provided by temporary and contract work, and as the demand for these people increases. As in the first two sectors, the professional/technical area now accounts for about one-third of industry revenue and payroll. It covers a wide range of positions, including engineers, scientists, lab technicians, architects, technical writers and illustrators, draftsmen, physicians, dentists, nurses, hygienists, medical technicians, therapists, home health aides, custodial care workers, accountants, bookkeepers, attorneys, paralegals, middle and senior managers, and advertising and marketing executives.

Growing Fast

This is a good time to be in the staffing industry. Despite the 2000-2002 economic downturn, the industry is picking up steam again, and future prospects are bright. In the first quarter of 2003, U.S. sales of temporary and contract staffing services rose 5 percent, to \$13.1 billion, according to the American Staffing Association (ASA). That marked the third consecutive quarter of growth after six straight declining quarters.

The personnel supply services sector, which includes the staffing industry, is projected to grow rapidly over the rest of the

decade as the economy expands. In fact, the U.S. Bureau of Labor Statistics (BLS) predicts that more jobs will be created in personnel supply services than in any other industry over the next few years. Further, BLS forecasts that personnel supply services will be the fifth fastest-growing industry through 2010.

There are approximately 7,000 to 9,000 staffing service firms in the nation, many of them very small. The list of firms changes each year as 1,000 or more go out of business or merge with others, while an equal number enter the business. "The barriers to entry are very low," says Steven Berchem, vice president of the ASA. "It costs almost nothing to open a staffing service. It's getting an office, a phone and a computer system."

The 1,300-member ASA represents the staffing industry. About 1,000 of its members are actual staffing firms, while the others provide services to those firms. Members operate more than 15,000 offices and generate 85 percent of the industry's revenue. The organization has 69 chapters in 43 states and Washington, DC.

The following factors account for the staffing industry's strong growth during good economic times and its ability to withstand even the toughest recessions:

● **Labor shortage:** This may seem a strange thing to say during a period of higher unemployment. But even in rough economic times, many companies have trouble finding workers with the proper skill sets.



Bright Idea

As your staffing service grows, consider offering other potentially lucrative services. For example, Seattle's Dyana Veigle, who owns Law Dawgs, has considered starting a training program for legal secretaries.

Chapter 1
Working It Out



Stat Fact

What are the biggest staffing services companies? Thanks to mergers and acquisitions, three firms now dominate the industry. They are Adecco, Manpower Inc. and Kelly Services, all publicly held.

Firms also know that when the economy kicks into high gear again, they will face more pressing labor shortages, just as they did in the late 1990s. In addition, employers are concerned about upcoming labor shortages as baby boomers start to retire, leaving a smaller group of younger replacement workers.

● **Skills shortage:** The recent and continuing shift toward more service- and knowl-

edge-based jobs has produced a shortage of skills in the U.S. labor market. Furthermore, rapid changes in technology mean that what is state-of-the-art today can be obsolete tomorrow, and often so are the skills associated with that technology. Compounding the problem, companies cannot produce and stockpile service and knowledge as they used to be able to stockpile manufactured goods. Instead, companies rely on staffing services to help them cope with fluctuating demand.

● **Company policy changes:** Increasingly, companies want to achieve the following goals:

1. **Stay “lean and mean.”** Hiring temporary workers allows companies to save themselves the hidden costs of employment (e.g., taxes, insurance and benefits) that can add up to 25 to 40 percent of a worker’s salary.

The Temp Timeline

● **1890s:** This decade marks the first documented appearance of temporary workers in the United States on the shipping docks of Milwaukee, Wisconsin. Industrial temping begins.

● **1920s:** Temporary staff appear in Chicago offices. Another sector of the industry gets its start.

● **World War II:** Women leave their clerical jobs to take more lucrative factory jobs left vacant by men joining the armed forces. Temporary help firms recruit housewives to fill vacant clerical positions. This era marks the first appearance of services devoted to placing temporary employees.

● **Post-WWII:** Temporary workers are discovered to be very valuable for replacing absent employees and for pitching in during periods of high labor demand.

● **1970s:** The war in Vietnam, as well as a guns-for-butter economy, creates a huge demand for skilled manufacturing labor. Most temporary services still place primarily office and clerical or industrial workers.

● **1990s:** The United States economy is the strongest it has been in three decades, and the demand for labor is the greatest since the Vietnam era. A shortage of skilled labor for service- and knowledge-based industries puts unprecedented demands on the staffing services industry.

● **New millennium:** As the U.S. economy falters, demand plunges for temporary workers, staffing employment falls for 18 months, and sales drop 50 percent from their 2000 peak, before the industry starts to recover.

Staffing Service

As an added advantage, these companies incur no costs for absenteeism (because they pay only for the hours that the employee works).

2. Streamline operations. Companies increasingly look to staffing services to recruit and train full-time workers for them or to provide managed services for them (e.g., payroll, human resources, etc.). Outsourcing has become more and more common.

3. Keep up employee morale. Staff members view a company policy of hiring temporary workers during busy times much more positively than they do a company policy of hiring permanent workers and then firing them during hard times.

What's The Big Appeal?

It's easy to see why client companies like hiring temporary workers. But what's in it for the employees? At first glance, having a temporary job doesn't seem like much of a bargain. Yet for many people, joining a temporary staffing service offers the following advantages:

● **Flexibility:** Many people want control over when they work, where they work and what kind of work they do. More people want the flexibility that comes with interim assignments. Individuals are increasingly going through more jobs over the course of a lifetime.

● **Opportunity:** A temporary assignment with a desirable company can be a good way to get a foot in the door. "Temporary jobs offer a bridge to permanent



Stat Fact

The American Society for Human Resources Management finds that more than 75 percent of companies surveyed say that meeting business demands is the primary reason they use alternative and temporary staff.



Stat Fact

According to the Bureau of Labor Statistics, 45 percent of temporary employees prefer the alternative arrangement over traditional employment.

employment," says Richard Wahlquist, president and CEO of the ASA. "And more and more people are choosing employment with staffing firms as a career option."

● **Training:** Most staffing services provide training for their temporary employees. People who want to sharpen their skills or learn new ones often find this training an attractive perk.

GETTING INTO IT

In this section, we'll provide suggestions on finding your niche and tell you how some staffing service owners got into the business.

Finding Your Niche

Traditionally, staffing services have operated in all sectors of employment. Older companies, such as Patty DeDominic's Los Angeles-based PDQ Personnel Services, tend to continue that tradition. Increasingly, however, staffing services operate within a niche market. The many specializations that exist today make the staffing industry much more complex, as well as far more interesting, than it has ever been before.

As you think about niche possibilities, consider the following factors:

● **Local supply and demand:** Staffing services need both temporary employees and clients to survive. Before you choose your niche, make sure you know the types of jobs available in your area and the potential labor supply. For example, if there are 10 factories in your town, don't rule out industrial placements. And every owner we talked to does some business in the office

Chapter 1
Working It Out

and clerical sector. Because this sector accounts for more than 30 percent of the industry, chances are good that virtually every staffing service will place office personnel, even if the major placement emphasis is elsewhere. Be aware, too, that there may be niches within a sector. For example, if you decide to focus on office and clerical positions, you'll find it's possible to specialize even further. Some staffing firms focus on providing midlevel administrative support staff to Fortune 500 companies. Others provide clients with higher-end office and clerical help.

Rita Zoller found that specializing in light industrial work was a natural choice for her Indianapolis-based First Call Temporary Service. "This is a heavy distribution center area," she says. She does some placements in the clerical, professional and technical sectors, but most of her business is industry-related.

In Seattle, Dyana Veigele's Law Dawgs places a lot of high-demand legal secretaries, paralegals and lawyers. Her business does legal office support, from messengers and receptionists to law partners and associates. It also covers everything in between, including secretaries, paralegals, word processors and clerks.

● **Experience:** If you have a background in a particular field, this can be an advantage in several different ways. Not only will you be able to better assess applicants for jobs in that field, but your experience can also lend credibility to your staffing service. And you may feel more comfortable serving an industry with which you are familiar. For example, because Veigele is a lawyer, the legal staffing sector was a natural niche for her to pursue. Of course, familiarity and a high comfort level won't help if you can't find enough clients and employees, so you still need to do your market research.

● **Economic feasibility:** Sometimes a market niche that might be a natural choice

given an entrepreneur's background isn't possible for financial reasons. For example, in spite of her medical background, one former owner chose not to open a medical staffing service due to its steep start-up costs. It can also be difficult to get doctors, hospitals, nursing homes and other medical institutions to pay in a timely manner. So that owner went into higher-end clerical instead.

Loving It

Staffing service owners seem to love what they do. They enjoy tackling new challenges and tasks every day. Besides liking the variety, owners enjoy the people-oriented nature of the industry. Most of the owners we interviewed had industry experience before they started their own staffing service. We'll now take a quick look at their backgrounds.

In Chicago, Tallulah Noel started her career as a nurse, worked for a temporary staffing franchise called Nursefinders and then helped build a home-care organization from the ground up before being laid off after a lengthy recuperation from a car accident. "I saw there was no safety net anywhere, so I realized I'd better take care of myself," she says. She launched Staffing Team International in 1994, placing mostly clerical personnel. The firm doubled in size each of its first few years and has long been debt-free. George Sotos bought Noel's business in 2002 and merged it with two other staffing firms.

Patricia Troy-Brooks put in 15 years at the executive level of two national staffing services before starting a service in 1995. Legal problems forced her to close her service mere days after opening it, but she was undaunted and started Advanced Staffing in downtown Philadelphia in February 1996. "We had two desks and a telephone," she says. Almost immediately, her service won a multimillion-dollar contract with a Philadel-

Staffing Service

phia-based insurance company. She moved her company to New Castle, Delaware, in the late 1990s as business grew.

Dyana Veigele started her legal staffing service in San Diego while she was still in law school. "I had a tax class and I came up with the idea and brought a friend in on it," she says. "It was a little thing we thought we would do during law school to place ourselves." Initially, they used only themselves and other law students as temporary workers. Before long, however, they were placing attorneys and legal secretaries as well, and their "little thing" had mushroomed into something big. "I actually took a leave of absence from law school to run the company," Veigele says, laughing. "We never placed ourselves. We placed everybody else." After she finished law school, she moved to Seattle, married, and opened her business there. She and her MBA husband are co-owners of Law Dawgs. Now in its eighth year, their company continues to grow.

Rita Zoller had substantial experience in staffing services before she started her Indianapolis business, First Call Temporary Services, with her daughter, who had just graduated from college. "My daughter and I decided to do this while we were shopping," she says. "I'd thought about it and I asked her if she wanted to go in with me." Zoller says having a family business has been fun. Their company is now in its 12th year, with five offices and 25 permanent staff members.

Patty DeDominic also had industry experience before starting PDQ Personnel Services in Los Angeles. Her company is now 24 years old and has California offices in Los Angeles and Irvine, as well as an East Coast office in Bridgewater, New Jersey. DeDominic has approximately 34 permanent staff members.

Now you know how some owners got into the business. Rest assured, however, that a lack of industry experience does not

mean you can't have a successful staffing service. It just means you'll need to do more research before you start your business. First, gather all the information you can about the industry. This is what the next section is all about.

SCOPING IT OUT

In this section, we'll show you how to conduct market research, discuss the challenges you'll face and examine changes that have recently taken place in the industry.

Market Research

A successful staffing company needs clients and workers. Therefore, the two major questions you must research are the following: 1) Does your area have enough companies of the type you'd like to have as clients? 2) Are there enough qualified workers in your area?

The "Conducting Market Research" chapter in *Start-Up Basics* provides a thorough discussion of ways to research the market. Many of the staffing service owners interviewed had backgrounds either in the staffing industry or in the industry their staffing company supports. These are both good ways to get a feel for local demand. Other good ways include the following:

● *Interview potential client companies.* Find out how many temporary em-

Bright Idea



Consider joining the American Staffing Association (ASA), the recognized voice of the staffing industry. The ASA's 1,300 members operate 15,000 offices throughout the United States. The ASA offers industry statistics, seminars, journals, an annual convention and other advantages to its members. For contact information, see the Appendix.

Chapter 1

Working It Out

employees key companies use and how well their needs are currently being met. Ask if they would be interested in using an additional temporary help service. It is also important to find out patterns of usage, because some businesses are seasonal in nature.

● **Check out existing services.** Consider signing on with one or more temporary services for a short period of time. This strategy will provide you with valuable insight into what it's like to be a temporary worker (assuming you don't already have experience). It will also give you a sense of how busy these services are, how satisfied their workers are, etc. (No, we are not suggesting that you spy. Merely test the water. Furthermore, be aware that you usually cannot work for another temporary service as a permanent employee without signing a noncompete agreement. For more on this topic, see the glossary.)

● **Consult existing data.** Organizations like your local chamber of commerce and the Census Bureau offer information about the local population and business in your area.

Challenges

Every industry has special challenges. Although some of the problems we list below plague anyone who operates a business to some degree, they are particularly difficult problems for the staffing services industry.

Here are some of the major challenges you will face:

● **Cash flow:** The necessity of paying temporary employees before clients pay you is a particularly thorny problem in this industry. In Chapters 4 and 9, we provide suggestions for dealing with this problem.

● **Competition:** There has always been competition in the staffing services industry, but recently it has shifted in emphasis. Staffing firms now vie for both clients and applicants, making for a very competitive environment, particularly in a sluggish economy. In Chapters 5 through 8, you'll find

ideas for setting your business apart from the rest of the competition.

● **Recruitment:** Surveys by the ASA show that recruitment is still a problem for today's staffing companies, even with relatively high unemployment rates. As we mentioned earlier in this chapter, there are three major reasons for the recruitment problem: 1) Despite higher unemployment, the cream of the crop is still tough to find, 2) client companies are pickier than ever about who they will take, and 3) today's workers need more skills than ever before.

Staffing companies have had to work harder at recruiting. Many have also gotten more original. In Chapter 5, we give you ideas on how to beat the recruiting problem.

● **Retention:** Retaining employees once you've recruited them can also be a problem. Staffing companies have responded in several ways, including offering increased training opportunities. For more ideas on how to retain employees, check out Chapter 6.

Changing All The Time

Partly in response to the challenges we just discussed, the staffing services industry has seen several trends emerge over the last decade or so. These include the following:

● **Consolidation:** The ASA has witnessed a great deal of industry consolidation. New firms have been set up to do nothing but roll up groups of independents to make larger companies, to capitalize on economies of scale. Meanwhile, thousands of smaller firms have gone out of business since 2000, and franchisors have been buying out their franchisees.

● **Expansion of services:** More and more staffing companies have begun to offer additional services like payroll, management services, permanent placement and the training of clients' employees.

● **Roller-coaster growth:** The double-digit

Staffing Service

growth of the 1990s has been followed by large losses in the early part of this decade.

● **Specialization:** Staffing companies used to be generalists, serving all industry sectors. This is no longer true. Niche marketing is now the key, from the medical and legal sectors to the industrial and automotive industries.

“A lot of staffing firms are specializing,” says one owner. “It wasn’t that way 10 years ago.” She is amazed at the number of doctors and lawyers now placed as temporary

employees. In addition, she finds that staffing companies have become much more professional and formal in the way they do business.

After reading this chapter, you should have a general idea of what the staffing services business is like. If we haven’t sent you screaming in the opposite direction yet, read Chapter 2, which should do the trick.

Just kidding. Chapter 2 gets you closer to experiencing a day in the life of a staffing company. So read on.