



WHERE IS THE STAFFING INDUSTRY HEADED?

Bob Cohen, Partner, R.A. Cohen Consulting

Many industry analysts and observers believe that there are too many staffing firms offering similar services in the same skill disciplines. By tripping over each other in the same geographical territories they inevitably create margin pressure justified by increasing or sustaining market share. Ultimately this commoditizes staffing services thereby lowering profitability and shareholder value.

In other words, the industry is over-serviced and like an overgrown shrub needs to be trimmed back to allow for healthy new growth to appear in the form of new service packages. The mechanism to achieve this trimming will in part undoubtedly lead to further secondary consolidations (consolidating the consolidators) leaving fewer players to divide the pie.

Below is a business model that has served the industry reasonably well over the past 60 years or so. During this period most staffing firms offered their customers two primary benefits to address their uneven staffing needs.

1. The ability to recruit one, two or a team of qualified workers to assist their customers' in maintaining or enhancing productivity; and
2. The ability to match and deploy these skilled workers to the customer's needs in their timeframes.

We became experts in locating and assessing talent and in the provision of needed personnel. We were creative in developing new applications of our services to address evolving customer needs. We expanded the skill disciplines that we offer our customers to include every conceivable type of worker they may need from a clerk to a CEO. When workers with skills in new technologies were not readily available, we trained them, adding new candidates to the skilled workforce.

The staffing industry after almost a century of growth and considerable socio-economic contributions to our communities is still primarily involved in recruiting and matching workers to tasks. This is in no way intended to minimize the

substantial contributions our industry makes to society. We keep business running around the globe and we do it quite well.

Where do we go when cost-saving technologies are readily available to all sizes of staffing operations? Is there an alternative to cannibalizing our own market through margin compression?

Where the smart money is going!

Today's investors are looking for higher margin returns and services that can readily be distinguished from one another. Several staffing firms have tried with varying degrees of success to offer their customers higher margin "consulting services and deliverable solutions" to directly solve customers' challenges; rather than just providing the people to perform those services.

Today millions of dollars of investment are being attracted to firms offering Business Process Outsourcing (BPO's) and Human Resource Outsourcing (HRO's). These organizations operating with considerably higher profit margins, offering distinguishable deliverables may be the future for progressive staffing firms of all sizes.

Some staffing industry players that have tried to move their service offerings up the food chain in this manner have found that they were the victims of their own success. Having built such a strong "brand" identity as an excellent staffing service, they had somewhat of a credibility challenge in convincing customers that they could indeed morph up to address their business solutions needs.

For the most part, customers have continued to utilize our services (in record numbers for many years) for staffing needs and continued to look to the Management Consulting arms of the (now) Big Four multi-national accounting firms and their regional brethren that dominate this market.

Part of the challenge for staffing firms upward mobility was that most staffing services are sold to middle and lower management whereas most "consulting services" are sold to Senior Managers.

Staffing firms, to succeed in this higher stratosphere need to make substantial investments in training to improve their skill knowledge to serve the needs of Senior Management more effectively and thoroughly.

The smart investment money will be drawn to those staffing firms with healthy balance sheets that use their resources to acquire or build the delivery systems needed to truly partner with their customers by taking responsibility for handling specific functions more efficiently.

Perhaps some progressive staffing firms ought to hire 20 former Arthur Andersen consultants who have a proven track record of selling and delivering services to senior management.

Staffing firms that can offer their customers a "suite of employer services" will capture significant market share in this multi-billion dollar arena.

With the millions of investment dollars pouring into the BPO's and HRO's how long will it be before they add staffing to the mix. As an industry we have to decide if we want to be the dog or the tail wagging it.