



Seven Top Trends of 2005: How You Can Seize the Advantage

Jan/Feb 2005
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The new year is here and with it comes change and opportunity. *SI Review* has identified seven major trends that staffing companies must deal with in 2005 – some external, some within the industry – and, again, some that have been building for some time and others that are new. These are not the only trends out there, but our emphasis is on the major issues ahead and practical steps to take to help you succeed. In some cases, we have added a section that looks at the further effects or implications of these trends, which we categorize as “Crystal Ball Time.”

Trend #1: Uncertainty in the Outside World Drives Growth in Staffing

Although the economy is picking up, and the election is resolved, uncertainty abounds in the current business environment. For staffing firms, at least, it's a classic case of good news/bad news. The current environment may be a negative for the overall job market but it is a plus for contract work, as companies continue to look for a flexible workforce, and also increasingly use the 'temp to perm' method.

Suresh Annappindi is CEO of ScoreLogix, a company that, among other research, tracks unemployment and its effect on job stability. He keeps a close eye on staffing and thinks the industry is in the catbird seat. In terms of the tepidness of the overall job market, he says, “There are many reasons for this outlook ... including a weak dollar, enormous trade and budget deficits, and rising interest rates – despite good GDP growth numbers.”

He continues, “I do think that all this uncertainty – while not a plus for the overall job market – is actually a good thing for the staffing services industry and I would say that the outlook for the industry is much better in 2005 than what we have seen recently.”

Suresh also points out, “With long-term plans becoming sketchier for most companies, staffing companies can benefit enormously by being innovative and providing more flexible and better manpower resources to employers.”

But there is another positive trend for staffing firms as well. Companies are realizing the benefits of contingent workers, bringing them in not only in cases of high-demand work but also to add skills to the workplace. This can only be good news for staffing firms that want to sell themselves as strategic partners.

What to Do: Poise Yourself to Grow

In order to take advantage of the continuing boom, you need to invest in your people and your technology. Compensation plans need to be reviewed so that your top recruiters aren't scooped away by competition. And if you've felt that you have never had the time for strategic planning, now is a good time to institute such a program.

Annappindi says, "Staffing companies [should] be aware of the changing employment dynamics and develop strategies, systems and processes to ensure that they can offer the best possible candidate in the shortest time possible."

The good news is that staffing companies are taking heed and preparing themselves to take advantage of the opportunities ahead.

In a recent, proprietary survey, staffing firms told *SI Review* that they were ramping up both in staff and technology to take advantage of the upswing. For example, 63% of firms surveyed said that they were highly likely to increase the total number of internal staff in the next two years. Other staffing firms told us they are ready to invest in technology, which brings us to Trend #2.

Trend #2: Technology Adoption Accelerates

Staffing companies are looking to buy technology in 2005, and they are increasingly guided by efficiencies. A telephone survey of more than 400 staffing executives reveals a substantial pent-up demand for new hardware and software expenditures, with a majority of respondents (54%) planning purchases of hardware and other office equipment, and more than a third expecting to make new automation software selections.

Vendors we spoke with say that they are working toward providing more accurate data, ease of use, integration, and other upgrades.

The hot areas for 2005 should be Web-based programs, CRM automation, and – the holy grail for job boards, ATS and skills/assessment users – better matching technology.

What to Do: Buy Smart

Staffing firms aren't interested in bells and whistles, but rather, results. They realize that they need to upgrade from years-old programs, but they have an eye on operations, and not the latest thing. Indeed, vendors have told us that staffing firms have made software a strategic decision – Dave Buzzell of Sedona Staffing, for example, spent five years investigating software before deciding on a vendor.

Nevertheless, "business is good," says staffing software consultant Mary Lynn Seaby, a sentiment that is echoed by many automation vendors we've heard from, who said that each consecutive quarter of 2004 was better than the last.

"Many [staffing companies] have told me that the one thing they need to do to achieve their goals is to invest in technology," Seaby says. "But companies are now embracing the operational side of technology – they're not looking for magic."

If you are looking at buying systems, keep in mind that the market is still in flux but that there are many suites of programs that are scaleable and able to meet the needs of any staffing agency. Network among your peers and colleagues and see if they recommend software that can help you grow and not contribute to a "fast mess."

Vendor Management Systems

Vendor management systems are of course still a trend in the industry. And staffing companies are realizing that this is a client-driven phenomenon. Frustration is certainly there. We've heard from staffing firms frustrated with handling the multitudes of vendor management systems, and the aggravation of re-keying data and all the other processes involved. Still, as a client-driven system, VMS is not going away, and if anything is getting more traction among companies. A fair share of staffing firms have come to terms with this.

In fact, many staffing companies have already developed a VMS plan, and 24% of staffing firms surveyed say they will be increasing spending on VMS programs during the next two years. However, the VMS market is volatile, driven not only by the corporate need to organize contingency spending but also by finding the right people and whether the systems are in fact efficient. Add a skills shortage to the mix and all bets are off.

“I think that most companies, and specifically people, buy goods and services from people they know,” says eImpact’s John Long, a staffing automation veteran who has studied the VMS market intently. “The concept of having staffing resources be a commodity service has limits. The tendency, especially in non-Global 1000 companies, will be to continue buying from established relationships. Secondly, the true differences between candidates from different agencies will grow again during the impending economic growth period. Thus, a commodity approach has some tough repercussions.”

Crystal Ball Time

Information, integration, and speed are essential, and these look to be the long-term trends. “I think 2005 and following years will keep showing the push for more information,” Long says. “Basically, it is true that information is power. The industry will drag the vendors to help make software and infrastructure that supports the sharing of data between the systems. I’m not sure the answer is necessarily SIDES, HR-XML or other standardized systems, but this, I think, is definitely the trend.”

Trend #3: Mergers and Acquisitions Pick Up

According to *SI Review*’s survey and interviews with brokers and consultants, the mergers and acquisitions market should be a strong one in 2005. This builds on an already robust finish in 2004.

Indeed, 29% of staffing companies surveyed said that they were “highly likely” to acquire another staffing firm in the next two years, and 15% said they were looking to become acquired.

M&A veteran Sam Sacco sees blue skies ahead. He relates, “The staffing industry should have a very good year in 2005. We are already seeing advance signs of this and can also say that 2004 was a good recovery year.”

Rick Wilson of De Bellas and Co. agrees. Speaking at the end of the year, he said, “2004 is on pace to exceed 2003 by over 30%. I expect 2005 to exceed 2004, and I wouldn’t be surprised by a 20% increase in transactions.”

What is likely to drive this trend? As Wilson and others suggest, there are several factors: the improving results of the staffing companies but not only that, the capital available to be deployed, especially among private equity groups (PEGs). As Wilson points out, “Many PEGs have held their investments for more than five years, and will be considering their exit strategies. And, valuations are better now than they were a year ago. There is renewed confidence in the marketplace.”

In addition, “Many owners who missed the window of the late 90s are calling to talk about current opportunities for selling. Most are posting improved results,” Wilson says.

What to Do: Be Aware and Seize the Day if Necessary

If you are looking to expand your company by acquisition, a consultant might be a useful partner. He or she can help you determine the culture fit, the financial details, and the succession planning – if involved.

For sellers, Wilson advises companies to “look at their reasons for selling, and if they wish to exit in the next couple of years due to internal factors, to consider a near-term exit if they’ve experienced good growth in revenues and earnings.”

Trend #4: Workers Comp Costs Remain High

The last few years have been brutal in terms of workers comp charges to staffing companies. There is some good news, however: Captives are on the rise, more options are out there, and long-term staffing insurance companies are developing programs as well. But you can do more than shop around – you can help yourself.

What to Do: Develop a Safety Program

It doesn’t matter if you are a healthcare staffing firm or a light industrial specialist: You can develop a customized safety program for your off-site employees. It takes effort and communication, but it will pay off. Staffing firms ATC Healthcare, MAU Inc. and On Assignment have all instituted plans and reaped the results.

In fact, MAU, a full-service provider of human resource, staffing, recruiting and outsourcing services recently accepted the 2003-2004 Award of Merit for safety performance from Raffles Insurance Ltd. Perhaps more impressive, MAU is, according to President James Duffy, the only staffing firm in the captive. “MAU maintains safety standards and excellence through committed partnerships with our clients,” Duffy states, although he admits that some clients understand the benefits of an on-site program more than others.

The benefit of a safety program is not only readily apparent to contract workers, but if presented correctly, it can help a staffing firm develop a more valuable relationship with a client. For example, On Assignment, which places many scientific contractors, has developed its own plan and it has served as a common concern – read relationship – with clients. Eric Radke of On Assignment says, “We have developed a unique program to deal with health and safety issues with employees and clients. It is fully regulatory-compliant, very structured and has had a very positive impact on our workers compensation program. ... It has been very positively received by our clients.”

Trend #5: Job Boards Evolve

Recruiters are big believers in job boards, and that’s going to continue through 2005. What trends are happening and how should they affect staffing firms?

It looks like 2005 will bring further fragmentation to the job board space, not necessarily a bad thing for smart, value-driven staffing firms. Beyond that, boards themselves will evolve.

Internet/job board guru Peter Weddle has three major predictions:

First, he says, “There will be more interest in and aggressive selling to employers seeking to fill hourly positions, including those in light industrial, clerical, and retail sales.” This continues the trend where technology helps hourly workers.

Second, he says there will be an evolution from the simple job board (i.e., an electronic version of classified advertising) to career portals (i.e., a site that surrounds its job postings with content that is interesting to those who are not looking for a job). “Ironically,” Weddle notes, “more and more recruitment sites will look like newspapers with news, interactive features and information that will appeal to the entire population of their target demographic, not just active job seekers.” Again, the top goal of any job board is to capture the passive job seeker – someone who is employed but is out surfing.

Weddle's third prediction for job boards speaks to fragmentation: "More new recruitment sites will launch as more frustrated job seekers think they can do it better, especially among the senior members of the workforce," he predicts.

What to Do: Develop a Strategy With 41% of the more than 400 staffing executives we surveyed planning to purchase or partner with job boards in the next twelve months, they are clearly aware that job boards have become a value differentiator.

The perfect usage mix, say many of the executives we have spoken with, includes one or two big boards and then some special niche boards that cover your segment.

Crystal Ball Time

There is one movement afoot that could shake up this whole space, and experts aren't sure when it may come to pass. This is the possible assignation of a 'jobs' domain to the Internet space.

Internet job board analyst and expert Gerry Crispin explains: "We're due for a major power shift. Imagine what would happen if a new domain, i.e., 'jobs,' was awarded, and the job boards could not obtain URLs because the domain is reserved only for company pages where the company's jobs are searched, listed or described. So, www.microsoft.jobs is where Microsoft's jobs [would be] and www.monster.jobs is where Monster's own jobs [would be]." This would of course bring about the rule of corporate job sites, a trend that has been building for some time, and one that understandably worries job boards, and should cause some concern among staffing firms as well.

As Weddle points out, "The main problem with corporate sites is they offer content that's interesting only to active job seekers. According to the [Bureau of Labor Statistics], that's about 16% of the population, even during a recession. Moreover, many of the best candidates – rare performers and rare skill holders – aren't looking for a job and thus aren't job seekers at all. Until corporate sites attract these so-called passive job seekers, even better directions won't improve the yield or the ROI of corporate career sites."

Trend #6: Assessment Becomes a Must-Have for Staffing

Assessment is another trend that has been surging for some time. It almost belongs under technology because assessment is so automated these days, but it is of such importance that we believe it deserves its own listing.

The trends here are online assessment, and the fact that more and more clients are looking at assessment as a basic service – that is, what was once a value-add for staffing firms is turning into a given.

Staffing firms have taken notice. Of those surveyed, 59% plan to increase spending on background checks/drug screening, 51% plan to do the same with skills testing, and 32% plan to increase spending on psychological and personality testing.

Assessment is so key because not only are there more people looking for work, but there is simultaneously a shortage of certain jobs and skill sets. Thus, we are looking not at a war for talent, says Wayne Nemeroff of assessment firm PsyMax Solutions, but "the war for the right talent."

He concludes that assessment is a growing phenomenon. “[Hiring managers and executives] are coming out of business schools, and are more aware of the costs of human resources, and they’re more aware of the expense of hiring the wrong person,” Nemeroff notes. “They’re more aware of the importance of assessment.”

Annappindi of ScoreLogix says that staffing’s clients value assessment second only to flexibility. “Assessment and screening capabilities of staffing companies in finding not only the right candidate but the right candidate fast ... is a big deciding factor by employers.”

What to Do: Implement a Program – and Make Sure It’s Valid

If you don’t have assessment as part of your service offering, now is the time to start. Make sure that these tests are of the highest quality, and that they follow EEOC guidelines. “Don’t look for someone who just has a test,” Nemeroff cautions. And while many online testing vendors are legal and a great way to do business, “look who’s behind these tests,” Nemeroff says. “Look for a licensed organizational psychologist.”

Also, always ask for a technical guide, so that you can be sure that the assessment is valid. One more tip: consider using this assessment on your internal hires and existing workforce. Many times, a proper assessment can tell you who needs coaching or help on certain skill sets, and can also determine who is a good fit for promotion.

Crystal Ball Time

Is the perfect match – the perfectly assessed candidate – in staffing’s future? Imagine assigning a qualitative number to both a candidate and a job, and then matching the candidate and the job with the closest fit.

That’s what Annappindi recommends. “Staffing companies should develop quantifiable screening techniques to match people with jobs. Simply having a resume bank categorized by industries or job types will not suffice, and staffing companies need to adopt some uniform scoring system that would rank jobs and candidates by a score so that when a temp position opens, a staffing company could offer those candidates that best match the job position’s score. This would take a lot of the inefficiency out of the system.”

Trend #7: Staff Turnover Picks Up

“Turnover will be the issue of 2005,” predicts Scott Melland, CEO of online job board DICE, and while he speaks more to the tech world, that advice should spur staffing firms to action. Internal turnover at staffing firms can be intense, and according to data from our proprietary Staffing Industry Benchmarking Consortium, the industry had median internal staff turnover of 42% during Q3 of 2004. How can you sustain your programs and your customer relations with that sort of turnover? And the bad news is, it may get worse. With the economy turning around and business picking up for staffing firms, your staff may feel more comfortable jumping to a new opportunity. And the last thing you want to be faced with, as you try to seize a growth opportunity, is the loss of a valued staff member. “There’s a lot of angry people in the workforce right now,” says Neil Lebovits, president and chief operating officer of the staffing firm Ajilon.

What to Do: Treat Your People Right

Everything goes into the retention process, from recruiting to business operations to management style – it’s ongoing. But there are ways you can ensure that you’ve got a steady team. One way is to find the right person in the first place, through a proper assessment. Also, you need to make investments that balance workloads, and bring compensation to acceptable levels.

Perhaps the best method to show you value your staff is to train them. Training programs not only help your staff but will help your firm present a professional, focused image.

There's good news here, too: staffing firms are hearing this message. Fifty-nine percent of those surveyed plan to increase spending on training products and services for internal staff in the next two years, higher than any other category (and tied with an increase in background checks/drug screening).

Says consultant Jay Finkelman, "[Training] has the greatest potential to make a measurable difference in the performance of staffing companies."

These seven trends, some positive for staffing and some negative, are likely to affect your business in the near term, but the good news is that they can all be met with positive, practical processes. Developing good hiring and training programs, working on the perfect match for your client, and picking the perfect job board mix are all good ideas. Implementing a strong safety program is just good business sense as well. Being aware of the economy and what your clients want is part of the value you bring them. And preparing yourself for the right time to buy, or sell, should be part of any business plan. With the economy improving, staffing agencies that keep an eye on the important issues and deliver excellent service should have a banner year in 2005.