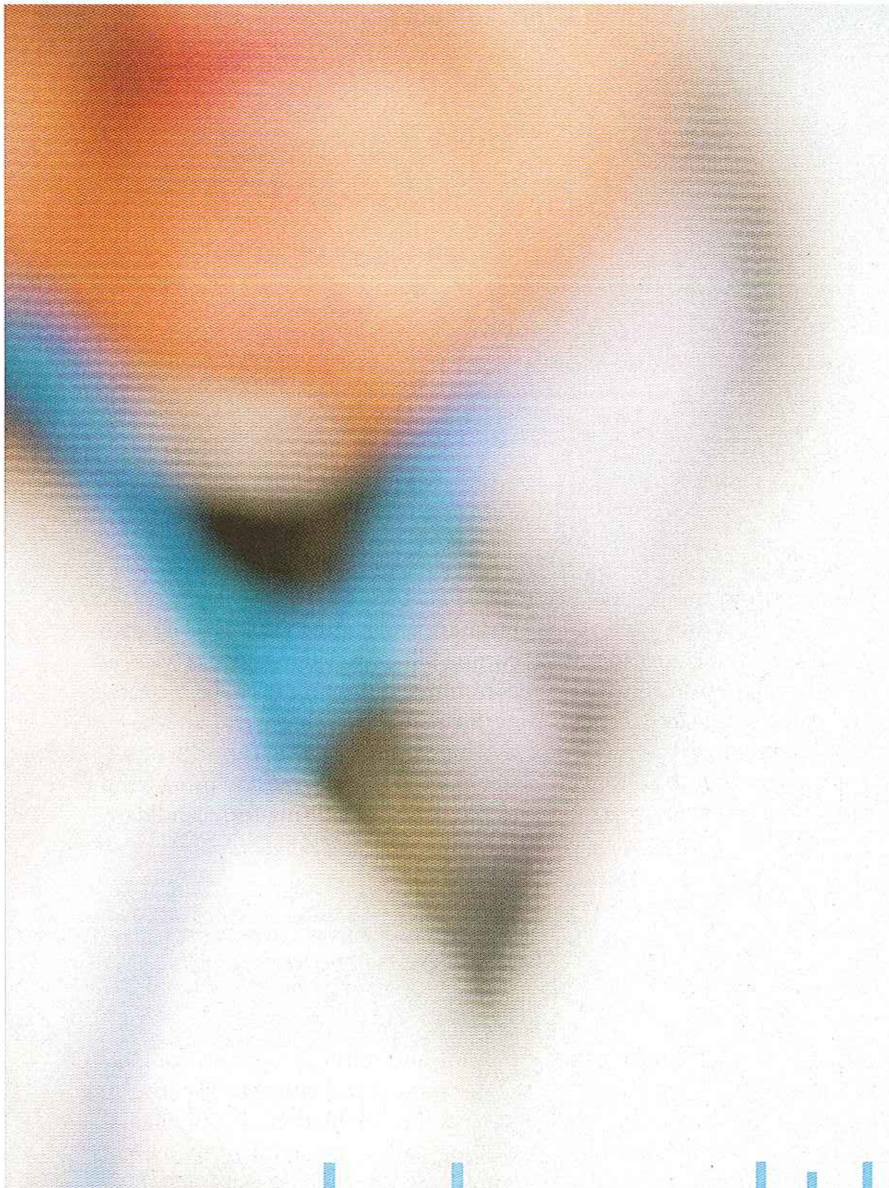
By Michael Neidle



Healthcare

The Only Staffing Game in Town

As the economy worsens it almost seems that the only real game in town for staffing companies is in healthcare, other than some nice little niches with limited staffing potential, such as environmental, teaching, natural resources, etc. Healthcare now represents some 14% of the temp market vs. 11% four years ago, and it is the only area expecting growth this year. even though overall healthcare employment is up only 2.5% through the first quarter of 2009, while temp is down 25% (BLS national data). It is like the proverbial man without feet who marvels at the person who only lacks shoes.

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Not all healthcare staffing firms will do well, but it is easier to make a living in a growing market than a falling one. And in a down economy, where a healthcare spouse loses his or her job, the number of healthcare people going back to work tends to increase. But staffing companies are now facing a new set of conditions: 1) slower healthcare growth rates due to client budgetary constraints and the economy, 2) added competition from staffing firms in other sectors trying to enter this market, and 3) for those planning to sell – now having to wait as the number of deals have dwindled – buyers are no longer paying premiums here, and only those firms with decent fundamentals and good prospects for the future can count on a pot of gold at the end of the rainbow. But companies must proactively help themselves and can't wait for the economy to rescue them which "may" start to flower in a year. The WSJ puts the latest odds at: 15% for an optimistic "V' shaped recovery, 10% for the next best "U" type turnaround, 55% for a long slog "L" shaped recovery and still an uncomfortable 20% for the dreaded depression.

The Market

Nursing is the 800-pound gorilla dominating some two-thirds of the temp/per diem national healthcare market, with RNs at 45%, licensed and practical nurses at 16 % and nursing aides and attendants at 6.5%. Pharmacists and related techs are 4% of the market, with about the same value for home health aides. All therapy specialties including aids and assistants are at 6%, social services and related areas are at 3%, and dental is at 1.5% of the market. The remaining 18% is highly fragmented between physicians, dieticians, medical records, lab techs and various support workers. This distribution varies across the country from metro to rural areas. Temp healthcare sales grew at a 5.8% compounded rate over the last decade, while overall temp staffing rose at just 2.2%. The temp market has matured and is now growing at a slower rate, whereas during the previous decade both sectors were galloping ahead at 10% per year.

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The direct hire market has fallen off a cliff this year, with an expected 35% reduction vs. 2008, and it enjoyed a significant annual double-digit growth rate during the prior two decades. The perm healthcare portion of the market is not as well defined as temp but can nevertheless be expected to be off dramatically this year.

Short-Term Strategies

Healthcare staffing firms, recognizing the challenge noted above, will need to sharpen their game to continue to prosper. There are several things to do now to succeed, as in a more competitive marketplace you can't get by just being competent and recruiting people to fill an assignment. Here are a few specific things you should be considering.

The first is setting yourself apart from the competition to justify your bill rates to both retain your clients and to penetrate new accounts in hospitals, nursing facilities, home healthcare, etc., by creating value-added services. These services can be bundled into your traditional staffing services to provide your key clients and prospects with something extra for their staffing dollar. This is particularly important during these economic times where people expect more to win their business, and adding value is better than cutting bill rates. Value-added services are customized but typically include: creative performance guarantees and alternative billing methods (volume discounts, stretching out payments and using temp to hire to avoid a hiring fee), candidate training and testing programs, compensation surveys and customized consulting services (i.e., evaluation of your clients' existing staff, outsourcing of their excess employees, assessment of future staffing needs, etc.).

Maintaining margins has become more difficult as the industry becomes more commodity-like with the advent of VMS and MSP intermediates that justify their fee by beating down prices. It's an unfortunate fact of life that VMS and MSP have gotten between many healthcare staffing companies and their customers, but if you have to go through them you should try to make up for reduced margins with higher volume. An alternative strategy is to circumvent these entities by dealing directly with those with profit responsibility including hospital administrators, CNOs, CNEs and other departmental managers whose needs are not being adequately met by these third parties due, in part, to the pricing constraints imposed by their contracts. Managers will often work directly with staffing companies when those firms can demonstrate that going outside of channels is critical to maintain a high level of professional care and will increase profits, especially when that manager's bonus is tied to his department's bottom line.

One of the more successful programs we have instituted for our healthcare clients is creating customized profit improvement programs where they can demonstrate how they can, in fact, become a profit center for their clients and prospects. You can show the dollar savings that temps can affect vs. permanent employees, as well as how staffing companies can do direct hiring less expensively than via your own HR department. The savings can be demonstrated for any healthcare position, and the specifics of any given prospective customer. An ancillary tool that can be used here is to find the best way to bid a simple job to a complex RFP utilizing several variables to find the best alternative for a win-win solution for both the client and yourself. Typical solutions include: how much to reduce prices for a greater slice of one business, how long does the duration of an assignment need to be to extinguish conversion fees, how do you deal with increasing pay rate demands to maintain profits, how can you creatively use overtime to increase profits, how can you structure commissions to improve your bottom line, etc.

Longer-Term Strategies

Given that the number of acquisitions is down, companies need to consider how to make their company an attractive candidate, which is more complicated than just being profitable. Growth is a key factor, and you can do this organically or by buying a competitor. Either way, you need to be in a strong cash-and-borrowing position to finance growth and have a management team and infrastructure to handle a larger enterprise, at a minimum. Here are some other concepts that should help. Everything starts with creating a realistic strategic vision and plan to accomplish it, so enhancing your strengths and dealing with your shortcomings are critical. This includes designing an optimal mix of healthcare specialties for your target market; achieving a critical mass in terms of both sales and EBITDA; creating a strong balance sheet to enhance your borrowing capacity; diversifying your customer base; creating value-added services, intellectual property and brand identification; as well as retention of your key employees. Increasing your size usually has costs, but this can be leveraged by economies of scale, diversification, value-added services, etc. You can grow by opening more offices or adding complementary lines of business and becoming full service. For example a local nursing registry can add travelers, direct hire, payrolling or another specialty. Payrolling is an often-overlooked but hidden gem, particularly in today's climate where the CEOs may mandate a reduced headcount. When you payroll their employees you solve this problem as well as save them money in the process.

Here is an example of how the above concepts work. A $5 million healthcare staffing firm with a 5% EBITDA at a P/E of 3 might be worth $750K. It grows to $10 million in four years with a 10% ROS and a 4 P/E. It is valued at approximately $4 million. So, doubling sales can increase valuation by over 5-fold. When you count the increase in annual profits and receivables during this period, this would add another $2 million, for an 8-fold gain. Internal cash flow should be sufficient to handle this growth including higher receivables, more staff and infrastructure costs. But if you want to grow via acquisition, you need to have a higher cash reserve and line of credit. To help ensure growth and a sale down the road for those wanting to sell, you should consider the following: 1) reduce customer concentration so any single client represents less than 10% of total sales by growing other clients to dilute the impact of any single customer, 2) consider a golden handcuffs plan to retain key staff via a conditional bonus program, 3) consider a management buyout (MBO), which offers an exit strategy even if the M&A market does not improve, whereby a buyout comes from internal cash flow and the staff and is independent of a third party or external financing. As can be expected, the details of these plans are somewhat involved.

Summary

Healthcare is the only major staffing sector still growing, offering both an opportunity for those who can capitalize on it as well as a threat to those who are not proactive and may watch as others take market share away from them. We have offered a few suggestions for both the short and long term although many more options are available, based on your specific circumstances. As always, one size never fits all. SI

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