Getting Through the Staffing Downturn

By Mike Neidle

Certainly we would like the market to be the way it was 3 years ago, but we are where we are nevertheless. The outlook is not good for the short to medium term for staffing. But those who are resourceful usually find a way to survive. For the long term however, those who are able to get through the next couple of years should be able to take advantage of a relatively attractive staffing environment.

The description of the economic situation is all over the board, but the term of "new normal", seems to be appropriate, describing a world not just in the U.S. but everywhere with lower employment, lowered expectations, a higher rate of savings, reduced consumption and production. The realization is that the precipitous economic decline during the fourth quarter of last year was not your normal business cycle which we have recovered from relatively quickly, but a new reality that was setting in of a radical and permanent shift in ones standard of living that we were unprepared for. But it is one thing to recognize that you have moved into a new phase and yet it is another thing to come up with a new game plan to make the best of things, particularly before others can.

So here are some truly shocking staffing numbers. Last July it was predicted that temp would grow this year by 5.4% by the widely respected Staffing Industry Analysts. As of this January the forecast was for a 6.6% decline, just 3 months later this was revised to -8.7% and as of June they are projecting a 22.0% decline, for a 27.4 point swing. And this was mild compared to perm (direct hire) during this same time period that went from +6.8% to -49.0% for twice the magnitude of the temp change, or a 55.8 point reversal.

The economy is treating temp better then perm, as it always does during a recession, but better is a relative term as both areas have tanked. When one is this far down, there is only one way to go and that is up, but the recovery will probably be anemic for the next couple of years from an employment standpoint. To make matters worse some of those areas that we thought were somewhat recession resistant or even recession proof are no longer. During the last downturn, it took temp healthcare two years to fall 12% before it recovered, while it is now expected to fall twice that rate in just 1 year. Temp legal as well as temp finance and accounting's growth rate never turned negative during the last recession but are now each projected to be off 25%. The problem in healthcare is due to the fact that full time nurses are not taking time off to open up room for temps as well as the lack of hospital funding. As a result, the percent of LVN's that worked as temps has fallen from its historical rate of 4.6% while RN's has dropped from it 2.4% rate. IT contracting is expected to be off 20% this year, which although less then during the last downturn (which it was off 35% due to the combined impact of the Y2K spike followed by the dot.com bust), is aided by the fact that 9% of IT professionals work as more cost effective contractors. Industrial and clerical temp are expected to suffer twice their normal decline which last time was off about 12%.

So how does one get through the downturn, when in addition to declining demand we are seeing a wide scale level of predatory pricing led by national vendors, abetted by a VMS biding system that sacrifices prices for higher volume when there is no increase in volume to be had?

Firstly, everyone should be more selective in the business they go after, focusing on small to medium sized accounts where pricing is not as critical. They will need to both vigorously go after new accounts while defending their existing client base. Developing a well thought out sales and marketing game plan will be essential here.

Secondly, they should do a zero base budget on everything from renegotiating lower operating costs and doing a cost / benefit analysis on every dollar they spend, to implementing economies of scale to obtain the lowest cost, getting rid of dead wood, restructuring comp plans (with a lower base salary with higher incentives), etc. To verify that what they projected is working, they then need to maintain a strong set of metrics and set standards which will be critical during this period to track ones performance and identify who is meeting their targets and who are not. And finally making the hard decisions early enough to preserve capital.

Thirdly, they should "up sell", by creating and branding a family of well designed value added services that will save their clients money and document those savings in an air tight argument that can withstand any ones scrutiny. Many firms will not be able to accomplish these tasks all on their own, but will need help in this transformation.

The good news we referred to at the beginning of the article is that after this period of adjustment, there will be more temps, although there will be slightly regular employees may represent a lower portion of the permanent workforce. In the U.S. we will go from a regular work force of 98% to 96%, as companies will need to have a more flexible mix of employment. Although this is a modest regular employment decline, it means that temp will go from 2% to 4% of the workforce over time, for a 50% increase. This is the so called European model which has already reached this level. There staffing companies have a 4% of the employment market with another 6% being provided by independent contractors. In Spain 1/3rd of their work force is already contingent. Thus those staffing firms that are able to restructure themselves and survive in the interim should have an attractive long term outlook, but this will take time and a good deal of thought. Those staffing firms meeting the challenge will prosper as weak competitors will face a harsh climate to operate in.

Editor's note: Mike Neidle started Optimal Management in 1994 (www.optimal-mgt.com), 650-655-2190 mentoring staffing owners and managers to maximize sales, profits and co. value. He was Sr. & Exec VP for Snelling and other staffing firms; CEO, CFO, Marketing Director, and economist from start ups to Fortune 500 Corps. He has an MBA and an engineering undergraduate.