Managing Full Service and Perm Businesses

BEFORE GETTING INTO THE STAFFING INDUSTRY, I WAS AN executive with several Fortune 500 Companies. These are basically mature companies, who grow at the GDP rate of 5 to 6 percent per year. They do not benefit from the kind of hyper-growth we have had in the staffing industry. More specifically the temp side, which is growing at a rate of 16 percent per year. Fortune 500 companies were forced to optimize their operations when high growth was not an option. They did this by becoming efficient and making business planning a routine part of their activities. The permanent placement staffing segment has only a 5 percent growth rate, an 8-year boom-bust cycle and a decline of 35 percent during recessions. When a recession hits, there is not much room for error. Those staffing companies not in full services, or in weaker specialties suffer a high attrition rate during downturns. Many of us do not remember the last recession and think today's good business climate will last forever. It never does. Although advances are being made in our industry, management practices have lagged—decreasing profit and increasing risk.

This is why I started my company—to provide optimal solutions to business problems for the staffing industry. That is, finding not just good solutions, but optimal ones. Our profitability software was developed by solving common staffing problems and then "packaging" the solution for general use. This process can be attacked by breaking it down into three time frames:

Day-to-Day Decision Making

Day-to-day decision making includes such things as making pricing decisions, dealing with problem employees, and balancing the sales and recruiting functions—using key industry ratios as a guide. Let's deal with pricing, which is always a concern. Anyone can give away a product or service, but it takes a business person to make money at it. The key to pricing is whether one is selling a commodity or a specialty item, or

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rather, if the client perceives one vendor's services to be different from the next. That is, is there a value-added component to justify a premium price? This might include in-depth reference checks, money-back guarantees, personal visits, etc. The next pricing component is the trade-off of price and volume. One will expect a discounted price when he does a significant amount of business with one vendor. The key is how much profit the account generates, not how high the fee or margin is. The degree of price reduction required to do business here is again dependent on the commodity vs. the specialty nature of the business. Executive search is not price sensitive; light industrial temporary placement is more price sensitive. Last is the power of negotiation and positioning. In today's market, one is not going to turn away the best perm candidate because the placement fee is a few thousand dollars more than the second best candidate. The key in a contingency search is not to drop the price before presenting the candidate, as the client will pay nothing if they do not hire your person. After the client is sold on the potential hire, price will no longer be a negotiable item—you are in the driver's seat.

Monthly Performance

This includes such items as developing equitable staff compensation plans, setting and monitoring productivity and efficiency targets for the staff, and establishing an effective marketing program. The area of compensation programs is always an important issue. I like to have a multiple-part program that addresses the following: A base salary to pay the rent; a commission based on a monthly contribution so that the company and the employee are on the same track; perks that add non-financial components of real value to the individual, such as flex time or recognition; and specific targets that come up from time to time that we need to use as an incentive, such as cracking a key new client.

My most profitable client is the one with the best comp plan. For the real superstar, who we cannot afford to have leave, we add "golden handcuffs." I favor the use of "phantom" stock for this purpose as it is not portable, does not have the legal encumbrances of real stock and may be custom-structured to the situation. We have successfully structured numerous such programs.

Long-Range, or Strategic Planning

This includes such elements as valuing your company and deciding when to sell, determining the economics of expansion and doing an acquisition. In today's market, everyone is concerned about how to increase the value of their company. We have developed a price/earnings curve as a function of company size to help in this regard. That is, how many times more than profit (earnings) is the company worth (price). It recognizes the fact that the smaller the company, the greater the risk due to a limited customer base, the risk of losing a key employee and having too concentrated a market. Furthermore, perm companies are valued lower then temp, due to the fact that replacing key employees is greater than in temp, its volatility is higher and its growth rate is lower (5 percent long term). IT companies are likewise valued higher given a 25 percent per year long-term growth rate. Growth rate is directly related to the P/E multiple, as a growth rate of 5 percent means doubling your size in 14 years, 15 percent means doubling in 5 years and a 25 percent growth rate means a doubling in 3 years. For those considering expansion, or getting into a new line of business, we often combine our market analysis (OPTIMARKET) with our financial model (OPTICASH). The output is then summarized in our management report.

Utilizing the management techniques of day-to-day decision making, monthly performance analysis and strategic planning for long-range expansion will help you to achieve the highest possible growth ratios in this segment of the staffing industry.