

# How You Can Capitalize On CHANGE

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Michael Neidle

## OVERVIEW

Thomas Friedman and his co-author are back on the *New York Times* Best Seller List once again, after writing books like *The World is*

*Flat*. His newest book, *That Used to Be US (and How America Fell Behind in the World it invented and How We Can Come Back)*, is not only a great read, but holds many important insights for staffing which we have incorporated along with other authors in this article. We are optimistic about the U.S. because we remain the best country in spite of our problems, due to social mobility, innovation, openness, higher educational system, collaboration, etc. The Kaufmann Institute estimated we added 40 million new high tech jobs in the last three decades; with companies like Facebook that have only 5,000 employees but has leveraged this into 200,000 jobs elsewhere. But we have now many more challenges and competitors and must correct recent missteps (please see related cover stories on our website).

## That Used To Be Us

Friedman and Mandelbaum documented how we used to lead the world in most everything and became the envy of most every other nation, but we seemed to have lost our way during the last couple of decades. A combination of events has set us back markedly and it will

take a concerted effort to regain our leadership in the world. Yet they think we can recover with a focused effort, nevertheless our fate is in our hands, but only if we work very hard to regain our initiatives. We are still the center for VC funding, top management, marketing, analytical thinking and innovation but must reverse course soon or lose our edge as where products are made do matter and we have lost some 50,000 plants over the last 25 years. We are in a new normal economy where maximizing profit rules and only the strong survive.

The BRIC nations (Brazil, Russia, India and China) have taken the lead and we are being replaced as the world's economic growth engine. We have fallen well behind in the two core fields that lead to innovation and jobs (staffing) math and science. We are 51st in these fields and next to last of 44 countries in improving competitiveness over the last decade behind even Europe's economic basket cases, the "PIIGS" (Portugal, Ireland, Italy, Greece and Spain) and amazingly China's bubble appears ready to burst with \$0.5 trillion in bad bank loans, endemic corruption, very low consumer spending and 180,000 documented incidents of social unrest. Yet we need China as much as they need us, with almost \$100 billion in exports that has grown 468% over the last decade. We are living in a very uncertain world. And we now have two billion more people competing with us due to the Internet, low wages with comparable or higher skill levels.

Nevertheless, large staffing companies can move to where the action is but most of us are dependent on restarting the U.S. economy. The world is flatter than ever and to com-

pete we must deal with the hole we dug for ourselves. While farsighted foreign governments are investing in hi-tech, education and infrastructure, we are talking about cutting back further. To compound the problem is our productivity as it only takes one U.S. plant worker to do the job of 8.6 Chinese. But instead of working to finding common ground to solving our problems, our politicians are capitalizing on the situation for their own advantage; with 20 lobbyists/congressman priorities have become skewed.

Our historic formula for success has been innovation and investing in R&D, the sciences, our infrastructure, having the best educated workforce and hi-tech entrepreneurial risk takers, including immigrants. 40% of MIT's faculty are foreign born, 80% of India's prestigious IIT University graduates in the 70's came to the U.S. and started 52% of Silicon Valley's companies. But we are now turning back the very same hi-tech graduates we educated only to see them start companies and hire abroad. The late Steve Job's said he has 700K Chinese factory workers because he can't find the 30K engineers in the U.S. he needed to supervise them.

This is compounded by uncertainty about taxes, healthcare, reluctance of banks to loan, civil unrest, a \$14 trillion budget deficit (and headed to \$50 trillion), entitlements and interest (E&I) eating up 81% of the budget and politicians not wanting to tell their voters there is no quick fix, but dilute the economic imperative with social issues. Monies that were richly invested by DOD, NSF and NIH which led to the computer industry, the Internet and biotech



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have been much reduced, with alternative energy, electric cars and other hi-tech areas starved for funds and curtailing job growth. We must compromise to cut E&I and raise taxes to have the money needed to invest in our future. After three decades of spending beyond our means we must make sacrifices if we are to turn things around. It's no wonder why industry is sitting on two trillion dollars of cash and not hiring when they see growth coming mainly from customers and opportunities abroad.

Friedman's solution is that the two parties are the problem and our best chance is a third party President. Whether this is possible is highly questionable. A more realistic option is for Congress to act responsibly after being forced by a groundswell of public outrage.

### The Staffing Solution

Friedman and Mandelbaum segment the job market into four categories which resulted in what they have called "employment polarization." This includes non-routine high skilled jobs (NRHS) which is on the rise as well as non-routine low skilled jobs (NRLS). Routine high and low skilled jobs (RHS and RLS) are expected to continue to decline as they can be eliminated or done more effectively elsewhere.

The reason for optimism about the NRHS jobs is that they involve critical thinking and reasoning, abstract analytical skills, imagination, mathematical skills etc, and will have to be performed by humans for the foreseeable future and will demand premium wages, be this for contract or direct hire staff. The question is will they be performed here in the U.S. or not? This all depends on remaining competitive in our educational system and communications infrastructure. If we do, globalization will help staffing grow and the world will be our market.

NRHS growth will positively impact staffing firms that can recruit and market in the professional sectors

of: IT, engineering, skilled healthcare workers, professional accounting, finance and legal and creative marketing for all staffing be it direct-hire, temp-to-hire, temp and contract or project solutions. These are the so called "creator jobs." But in all cases it will require staffing firms to first **identify and then partner with successful clients**. That is, finding the key decision-makers at the Apple's and JP Morgan's of the world and not with the Netscape's and Lehman Brother's of the world.

NRLS are those positions that will also survive as they must be done here. They include everything from nurses and dental assistants to truck drivers, waiters, plumbers and maids. They will grow but more slowly and in relationship to population growth and be paid more moderate wages on average. Staffing firms in the commercial and healthcare sectors will participate in this growth but may be under pricing/margin pressure. These are the so called "server jobs."

RHS jobs are the middle management, clerical and assembly line positions that we have lost due to repetitive tasks that can be programmed, automated or performed by cheaper offshore labor and this has accounted for the bulk of our lost mid level jobs. This includes everything from low end IT call center jobs, to A/P and low routine accounting positions to radiology jobs where x-rays can be transmitted out for diagnosis and sent back to ones doctor in the U.S. Even the check out clerks at the supermarkets and tellers at the banks have been replaced by bar code scanners and ATM's.

The RLS jobs were some of the first to go. This included the assembly line worker that was automated by robotics in Detroit for example, where 90% of those jobs have been lost over several decades. The fact that unions artificially propped up labor costs and management allowed inferior products to be produced only expedited the inevitable loss to Japan. Only massive restructuring of work rules and labor cost, aided by the bailout salvaged what was left of the U.S. auto industry.

***We are very fortunate to be in one of the few industries that has benefited from these problems.*** This is particularly true of temporary and contract labor. But direct-hire although it has recovered from



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its dramatic lows will continue to follow the economy and job trends. While private employment has fallen seven million from 117 million to less than 110 million jobs during the last four years, not close to the 225,000 needed to keep up with the influx of new job seekers, let alone reduce the unemployment rate. At the start of the 2nd quarter of 2009, 1.6 % of the labor pools were T&C and contractors. It is now almost 2.2 % and at this rate it will be 3.0% in four years. That will be almost double where we had been over an eight year period of time. We are up 10% YTD compared to last year, which was up some 14% vs. 2009. T&C in Europe is already at 4% of the workforce and 1/3rd of the workers are temps in Spain. This is due to two major factors. The first is the intrinsic economies of **using temps which save employers about 13%** vs. internal staff and using T&E personnel provides a flexible workforce. And in times of uncertainty using contingent workers is less disruptive to ones business than hiring and firing full-time staff.

We should be looking at a staffing industry of some \$110 billion this year, with about 87% of that in T&C and 13% in direct-hire and temp-to-hire. Light industrial is still the largest segment within T&C, representing 29% of this market, followed by IT at 23% and administrative/clerical at 20%. These three account for 72% of T&C, followed by healthcare, engineering and accounting/finance which add another 23%. L/I temps can save employers about 10%. But its growth rate is expected to slow substantially this year and beyond, due to the factors above. IT contracting should continue to grow over 10% per year due to its even higher cost savings factor and the growth in computer, mobile devices, Internet and related areas, in spite of everything. Administrative/clerical temps continues to be more cost effective than direct hire, but it too is expected to grow more slowly this year. Healthcare is expected to grow much more rapidly this year; engineering should grow much more slowly while accounting should be flat.

To succeed in this environment, **staffing companies will require a value proposition to demonstrate how they will save their clients money.** There are two principle strategies that one can employ. The first is by providing **Value Added Services (VAS)** which quantifies how much money the staffing company can save their client. This is part of a consultative selling approach to someone with P&L responsibility such as the CEO, VP, CFO or department manager, as opposed to procurement or HR whose only three concerns are price, price, and price. Succeeding under these conditions is illustrated below under MSP/VMS.

A VAS program starts with the result, how can we save ones client (or prospect) money by providing a set of services that increase their bottom line while not at the detriment of ours. This is done by finding out what their pain points are and providing a solution for them as part of the staffing service. Some of those pain points are not currently known to them and need to be uncovered and then resolved. This is the method used successfully by many Fortune 500 corporations (this was used years ago by IBM to sell its computers at a premium price, by documenting how much money their clients would save by having a better handle on their operations to cut costs and increase efficiency).

To be successful in the VAS area, one needs to institute a consultative selling effort with a top tier sales representative instead of an order taker who can engage and win the respect of the client. This is a process not an event and takes time to take root. A consultative sales effort will uncover a clients pain points which is augmented with suggestions of what other clients have expressed. The staffing company then creates an inventory of its current capabilities which it adds to new tools to address these issues. This can then be packaged and copyrighted as the staffing company's intellectual property. The amount of free VAS provided is a function of the client's sales volume and potential.

Some VAS examples are: outplacement and executive rescue programs, profit improvement programs,

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salary and comp surveys, HR and legal services, alternative billing methods and volume discounts, training and certification programs, team building, payroll services, strategic staffing assessment, etc. Based on our experience it is not unusual to be able to save a client several hundred thousand dollars a year at the same time increasing ones own bottom line by at least that amount.

The other end of the spectrum is the commoditization of the market represented by the ever growing MSP/VMS area. If one is limited to the VMS supplier role it not only reduces their margins but eliminates the ability to interface directly with the customer. If the staffing company instead becomes the MSP provider, they can drive the system and offset lower margin rates with substantially higher volume and profits. They can then farm out the VMS business and offset the attendant management and systems cost for a profit neutral effect. One of our clients had a customer with \$8 million

in contingent labor and \$500K in direct hire. Half of that in their contingent labor was in their area of core competency, where they were doing \$1 million at 20% margin. They increased their MSP margin dollars by \$520K at an 18% margin, traded dollars on the VMS outsourced and picked up \$400K of direct hire for \$900K in higher net margins.

To drive innovation, firms must now focus on strategic and tactical planning, thinking out of the box and appropriating ideas from other successful industries. With Fortune 500's not hiring, we must find talent that would never previously consider a career in staffing and challenge them. Change creates opportunity for the nimble and creative staffing company willing to take risks. ■

**Mike Neidle** is president of Optimal Management Inc., started in 1994 ([www.optimal-mgt.com](http://www.optimal-mgt.com)), (650) 655-2190, mentoring staffing owners and managers to maximize sales, profits and company value. He was senior, executive VP for two national staffing firms; CEO, CFO, director of planning/M&A and marketing director from start-ups to Fortune 500 corporations. He has an MBA and a chemical engineering undergraduate.