Keys to Running a Successful Staffing Company by Michael Neidle - President, Optimal Management, Inc.

What is Success? Success can be measured in various ways, recognized as a leader in one's industry, enjoying what you are doing, having a sense of satisfaction, being ethical, contributing to society, etc. But as business people, success is measured strictly in financial terms. That is not only making money, but making more money each year and making more money then ones competitors. Coming out of the 3 year long recession, it was OK to just survive, but now heading into good times once again one has to make up for lost time and find a way to make a good profit. We see the staffing market continuing to grow over then next 7 years, thru 2010 when we should head back into our industry's cyclical recession. So look at this period to recoup your losses and build your company to that point where you can not only maximize your profits, but build your company into a business that someone will then buy, providing you with an exit strategy for your years of hard work.

After working with hundreds of staffing companies over the years we have extracted a "top 10 list" of the keys to financial success and then have applied this to several staffing companies to compare their performance. Interestingly, the keys to success are similar between companies regardless of their specialty or size, small office or a large corporation.

1. Leadership and Culture. There are basically two types of management styles, an open vs. a closed style. Although either style can work, an open style tends to work best in smaller staffing companies. An open style creates a team environment where management takes the input of the staff into consideration. Self-confident management is more willing to share information and involve others before making decisions. Employees, particularly younger ones, enjoy an open environment, but an open environment is no substitute for a strong and knowledgeable leader. Also, open management is not the same as a democracy and the majority vote does not rule. Management may accept input from others, but still has to make hard and unpopular decisions.

A closed style tends to work for larger companies where communications are more difficult. It works best for static businesses, which don't change much and whose staff do routine jobs that can be filled by others. These types of companies tend to attract employees who do not need to be involved and want a leader who provides them a sense of security. What all employees need is clarity and certainty. One can not shift back and forth between styles and run an effective business. Regardless of style, an ethical culture is essential in today's "Enron" atmosphere.

2. Controls. In order to know how the company is doing, well run companies benchmark themselves against their competition. This is done for financial and operating parameters. Include growth rates, margins, profitability, duration of assignment, and fill ratios, etc.

With regard to financial parameters, one has to balance investment in people and systems against short-term profits to make the right long term decisions. And it should be remembered that anyone can cut costs, but it takes a businessperson to spend money wisely. Operating parameters should measure productivity (how hard one is working) and efficiency (how smart one is working). Meg Whitman, the CEO of e-bay says that "If it moves measure it" good stats tell you where to spend money, add staff and which activities are working. Good stats provide early warning signals, but it is surprising how few staffing companies use them properly.

3. Management and Financial Performance. In addition to having controls, one has to both make a profit and have sufficient cash flow to survive and grow. This requires getting orders at decent prices and volume, having a recruiting staff able to fill orders and management that keeps everyone motivated and making a profit. Management has the difficult task of balancing the interests of its customers, employees, shareholders and even society today.

4. Vitality and Growth. Healthy companies tend to be growing companies. Unless you are in a niche market that has little competition, you should be growing and keeping up with the competition to retain your market share. Size provides the resources to compete. Larger companies have more money to advertise, hire quality staff, compete on price, etc. In addition, the larger you are the more your company will be worth down the road.

5. Market Leadership. Not everyone can be a market leader. Smaller staffing companies are not market leaders, but should at least be quick enough to pick up on trends and implement them. Small companies are able to make changes rapidly to retain their client base and penetrate new accounts. This may take the form of providing value-added services, moving into new market niches, testing and certification of candidates, etc.

6. Customer Service and Quality Operations. Everyone likes to think of themselves as providing good customer service, but quality can only be defined from the standpoint of the customer. Good staffing companies use client satisfaction surveys and verify that the client believes he is getting value for his dollar. Advertising can create a quality image and get ones message out, but the company has to deliver on ad's promises. Although it is desirable to increase margins, it can only be done when you can demonstrate that you are worth the extra cost and that higher prices result in an increase in your client's bottom line.

7. Staff Quality, Teamwork and Retention. Finding people that fit your mold is not always easy. The key to running any successful staffing company is good people and working effectively as a team. All too often one high biller dominates a small office and is treated differently which creates difficulty on many levels. It is better to have several solid people sharing the load rather then one superstar. Once you have assembled a good team the challenge is to retain them as the market improves. Retention requires the creation of a win-win compensation plan for the staff as well as the company.

8. Innovation and Adapting to Change. It is axiomatic that the only constant is change. All that one can expect is a lead-time once they have created a better mouse trap as others will always copy good ideas. Good companies keep ahead of the curve and create new concepts to replace the old. One of the things that small staffing companies do well is to avoid competing on price alone and work to set themselves apart from competition and develop a niche strategy. This includes creating their own intellectual property (such as providing consulting services as part of staffing) or providing value added services. After the creation of these services the next step is to market them effectively. Trademarked and copyrighted these concepts have proved to be two methods that build a brand identity and provide some measure of protection.

9. Setting Objectives, Strategic and Tactical Planning. Good managers have a vision as to where they want to take their company and have clearly defined objectives. An objective needs to be fairly specific or it has little meaning. An objective might be to grow the company 3 fold over the next 5 years and then sell. A strategy defines a game plan on how to get there. A strategy might be to enter the hospitality market in 3 cities over this time frame and become one of the three dominant suppliers. Tactics involve the details of that strategy and include specific steps that will be needed. A tactic might be to concentrate on convention business and hire only sales reps with proven relationships in this market and set demanding goals and reward these producers appropriately. Those who are good at strategic thinking are not necessarily the same people who are good at implementing the tactics. A good program requires constant review and adapting to circumstances and change.

10. Avoiding Fatal Flaws. A company need not be great at everything to be successful, but it must avoid fatal flaws. Fatal flaws are not always easy to predict, but one usually knows them when they spot them. Here are a few real life ones that have killed or seriously impeded small staffing companies:

- Having a charismatic leader who gets the company into unethical or illegal situations
- Not paying attention to ones numbers until its too late
- Obligating the company to agreements it can not meet
- Putting people on assignment without insuring against major risk
- Entrusting critical functions to others, without checks and balances
- Incurring costs that could not be met
- Not having contingency plans if things go wrong
- Having too much of ones business with a single customer or two
- Not having policies, procedures, contracts and security systems in place
- Not separating personal and business relations
- Having a conflict of interests

Staffing Company Case Studies. Here is a summary of 5 staffing companies and how they ranked on our top 10 list. We included some extreme ends in the quality spectrum to demonstrate a few key points.

Company 1 was in business 15 years doing full service **accounting** staffing. It had expanded several years ago into an ill-advised sideline where the competition was strong, they had limited knowledge of the sector and did not have metrics to manage properly. To their credit they recognized their mistake quickly and exited the market without too much financial impact. The owner wanted to sell in 5 years and decided to refocus his efforts, including developing and then branding an underutilized asset, the intellectual property (IP) that they had created, but which was languishing. Their full game plan with the following elements:

1. Creating results driven job descriptions
2. Integrate their IP into their business plan
3. Hire better quality staff to market their IP
4. Providing a highly incentified comp plan
5. Setting productivity and efficiency metrics
6. Having weekly performance meetings
7. Obtained a higher credit line for growth

The company is now growing at almost 30% a year, with a 10% profit and is well on their way to achieving their objectives. **Grade of A**.

Company 2 was a small **office services** operation. It had been in business for 10 years and built a good reputation. During the late 1990's when good recruiters were hard to find it wound up settling for second best people. At the same time the owner had personal problems, which distracted her from the business and started to blur the lines between employees and friends. During the last 2 years the market slipped badly. This was the time they needed to have high caliber employees. The owner failed to upgrade the staff and did not terminate marginal producers due to the friendships that developed. She cut costs as best she could but it was too late. She had to close one office and ate the remainder of the lease and released the staff of the other office from their employment agreement for picking up the leasehold obligation for her other office. Her fatal flaw was not separating personal and business relationships. **Grade of F**.

Company 3 was a **light industrial** temp company. It grew rapidly from a start-up to 6 locations in 9 years. It was in a very competitive market but averaged a 6% profit level. The driving force was one of its owners, who was dynamic and developed strong relationships with her clients, drove up volume, had a loyal employee base and a good business sense. They sold the company just before the last recession hit at a good P/E multiple and stayed on to manage for 2 years. Their only real problem was having too high a customer concentration, with one client being responsible for a quarter of their volume. This resulted in an earn out and cost them a 20% discount on their selling price, when they lost this client 6 months into the deal. **Grade of B**.

Company 4 was doing **IT** contract and perm staffing. It was12 years old, had good financial and operating controls and had solid profits. It had expanded during the IT boom but the owner tired of the daily grind and decided to relocate to a remote office. She hired a new President who brought in his own CPA firm and stopped providing her with results. A year and a half later, the company was going bankrupt. The owner fired the President but the damage was already done, as their equity went from $1.5 million to zero. The President took the company's clients, contractors and staff to start his own company, with the collusion of the CPA firm. There was not even enough money left for an attorney, as the company went under. The bottom line here was a fatal flaw: entrusting critical functions to others, without proper checks and balances **Grade of F**.

Company 5 was an upper end **office services** operation, with 1 location and its business equally divided between temp and perm. It had been in business 20 years and had an elite image. It moved from a franchise to an independent with a13% profit during their peak years. Its staff had an average tenure of 11 years, provided personalized service, operated as a team, and had exceptional perks and were very highly compensated. The owner provided senior business and social contacts that the staff converted into placements. During the recession their highly leveraged compensation enabled them to survive a severe downturn. They slowly shifted their emphasis from direct hire and computer services to temp, security and surveillance, and other growth sectors. **Grade of A**.

Summary. Good companies tend to be well balanced and do well in a variety of areas and under different economic conditions. Good management makes it their business to know what is going on and sets a good example. There is no single factor that is required to be successful. Our two "A" companies had almost all 1's and 2's and most importantly no fatal flaws. Our lone "B" actually did extremely well, if we did not measure it against our "A" companies. Our two "F" companies did poorly in all areas, so it was not surprising that they both had fatal flaws. However it does not necessarily follow that a good company can't have a fatal flaw, or that poorly run companies must have a fatal flaw. Enron and Worldcom fooled everyone until their fatal flaws did them in.

		Ranking				
Relative Characteristics		1	2	3	4	5
Leadership, culture		2	4	3	5	1
Operating, financial controls		1	4	3	5	2
Management, financial results		1	4	3	5	2
Vitality and growth		1	4	3	5	2
Market leadership		1	4	2	5	3
Customer service, quality operations		2	5	3	4	1
Staff quality, teamwork , retention		3	4	2	5	1
Innovation, adapting to change		2	4	3	5	1
Setting objectives, strategic/tactical		1	4	3	5	2
Avoiding fatal flaws		1	4	3	5	2
Composite average	1, 3, 5	1.5		2.8		1.7
	2, 4		4.1		4.9	
Ranking	1, 3, 5	**A**		**B**		**A**
	2, 4		**F**		**F**	

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