What To Expect In Staffing For 2008

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OVERVIEW

We are entering the last quarter of the economic cycle which typically lasts 10 years or so, providing there are no major shocks to the system, such as terrorism, a huge spike in oil price, a wide major impact due to sub-prime mortgages, etc. Traditionally, staffing is pretty much in phase with the economy at large, with temp declining about 20-30% and temp about half that, with the exception of the last recession when the combined impact of Y2K and the dot.com crash increased those numbers markedly. Excluding any major shocks, staffing should grow more slowly in 2008, but we should still be up. Those companies who are looking to sell within the next five years should think about doing that by the end of 2009; while those in it for the longer haul need to be able to stick out the next downturn and then continue to grow, but do so with a well defined plan of action.

We expect growth rates to vary widely within staffing, with the high end sectors (healthcare, legal, accounting, engineering, IT and direct hire to do relatively well), while commercial staffing (office services and industrial) should be flat at best. Within this general framework there are sub sectors, niches and geographical markets that will do quite well and even if your sector is not doing well, if you are a strong competitor, you can take marketshare away from your competitors and grow even in a declining market.

Threats and Opportunities

So let's look at the hot sub sectors and niches first. Although by definition these are not large, you can create your paradise island by establishing your competency and staking your claim to a new area. A sampling of these oasis's include: environmental and green engineering, biotech and life sciences, nanotechnology, geriatrics, specialty defense and intelligence gathering, interdisciplinary specialists, career transition counselors, natural resource management, renewable and new energy sources, disaster recovery and risk assessment, infrastructure repair, etc.

The biggest threat to a premature shortening of the current business cycle is the sub prime mortgage situation noted above, with the interest rate cut as of September 18 by 0.5 points. This will hopefully reduce the chances of a major problem, but the Fed would not have cut rates so dramatically unless there was great concern and the cut alone will not guarantee an end to the problem. The major opportunity believe it or not, is in the area of global warming where thousands of companies have created green initiatives that they are capitalizing on. Although space limitations do not allow us to fully explore these here, we are designing programs for staffing companies to do the same.

Managing During Uncertainty

OPTIMIZE

Stay in the market you are already in and optimize your results by improving your staff's performance. Do a cost/benefit analysis of your expenses, stay abreast of what your competition is doing, determine what your clients needs and make the necessary changes. To do this right, you will need to institute metrics to manage your business from both an operations and financial standpoint. We have designed temp and perm profitability algorithms that convert productivity and efficiency measures into a staffing company's bottom line for both sales and recruiters. But no matter what else one does, you should optimize your operations or you will either be leaving money on the table or reducing your chances of survival if conditions turn south.

GROW

You can either grow internally, open a new office or enter new lines of business, or you can buy your way in externally through acquisition. But growth takes money, so first determine how much cash you need, then decide if that investment will be worth the returns that you expect to get, then either use your retained earnings or get the financing that you require. Just make sure that you have considered not only the rewards of growth, but the risks as well so that you can figure out how you can either minimize their impact or decide that they may not be worth the risk to your core business.

CONSOLIDATE

One often overlooked strategy is to shrink back to your most profitable lines of business and reduce your investment to those areas that you can make a decent profit from.

When market or competitive conditions are such that you can't compete, know when to quit. For example, consolidation may be an alternative when you can't establish a direct relationship with the client and are forced to do business thru a VMS or VOP with paper thin margins and low fill ratios. Alternatively, you tried everything in a given market and are still unsuccessful; retreat to your core competency before you wind up bankrupting yourself.

SELL

If you don't want to go through another downturn even if it is three years or so away, you might want to cash in your chips before the market declines and prices fall. We are advising our clients to have two years of growth and beef up their bottom line before they sell to maximize their price and increase their likelihood of a deal.

How Well Run Companies Operate

Our files include clients who have worked hard and listened to our advice as well as those who have not and struggled. The common thread to the former is to do their homework, evaluate their options, select those that best match their skills and resources, develop a sound game plan, institute metrics, make changes as conditions warrant and if unforeseen events happen to cut their losses quickly and move on. ■

Mike Neidle started Optimal Management, Inc, in 1994 (www.optimal-mgt.com) mentoring staffing owners in sales, finance, comp plans and acquisitions to maximize sales, profits and company value. He was Senior Vice President of Snelling and Executive Vice President for Hall Kinion (now part of Kforce) and was CEO, CFO and Director of Marketing from start-up to Fortune 500 companies. He has an MBA and an engineering degree.