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Sowing the Seeds of Growth:
The 2010 Staffing Industry Survey



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Introduction

When Citrin Cooperman conducted its survey of staffing company owners and senior executives in 2007, the results were poignant. After a period in which annual growth rates reached 20 percent or more, those surveyed predicted that the boom period would soon come to an end. And so was the beginning of the Great Recession.

Three years later, with the effects of that recession still unfolding, the Staffing Services practice of Citrin Cooperman has again taken the pulse of the industry, surveying nearly 100 owners and senior executives of staffing companies throughout the Northeast United States.

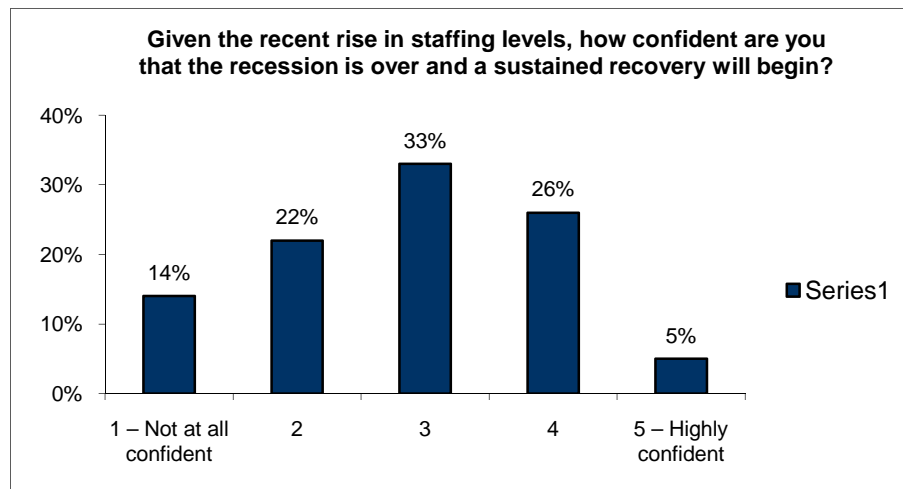
Executive Summary

- ❑ **There is no consensus among staffing company owners and senior executives regarding the direction of the economy** despite the industry's traditional status as an economic bellwether. Slightly less than a third of those surveyed were confident that the recession was over, slightly more than a third weren't confident, and a third were in the middle.
- ❑ **A sizable percentage of firms are taking proactive steps to strengthen their business** and prepare for a recovery. About one third of those surveyed are diversifying into new markets—with many of those taking an opportunistic, entrepreneurial approach and moving into non-core areas such as engineering, government, retail and nonprofit. Similarly, more than a third of respondents have expanded their sales force in the past year, a third have changed their sales commission structure, and close to a third are considering an acquisition in the next five years.
- ❑ **In the face of the recession, long-term planning has become less of a priority.** Fewer owners were interested today in selling their business (16 percent of those surveyed) compared with 2007 (24 percent). More significantly, only about a quarter of those surveyed reported having a succession plan in place, compared with 40 percent in 2007. And only slightly more than a third have conducted a business valuation within the last five years.
- ❑ **Achieving growth is the number-one challenge** facing firms today, with finding the right employees and profitability also frequently mentioned. At the same time, many see the upheaval in the industry as presenting opportunities to hire key people and diversify into new markets.

Detailed Findings

FROM PESSIMISM TO UNCERTAINTY

If the mood captured in the 2007 survey was pessimism, in 2010 it is uncertainty. Consider that in the summer of 2010, the American Staffing Association reported a significant jump in staffing activity and hiring; this year's respondents were asked if they thought those findings signaled that the industry had finally turned a corner and that a sustained recovery would begin. Tellingly, there was no consensus, with similar numbers agreeing, disagreeing or somewhere in the middle. One respondent spoke for many in saying, "We made it through the worst of times and hopefully things are beginning to look up."



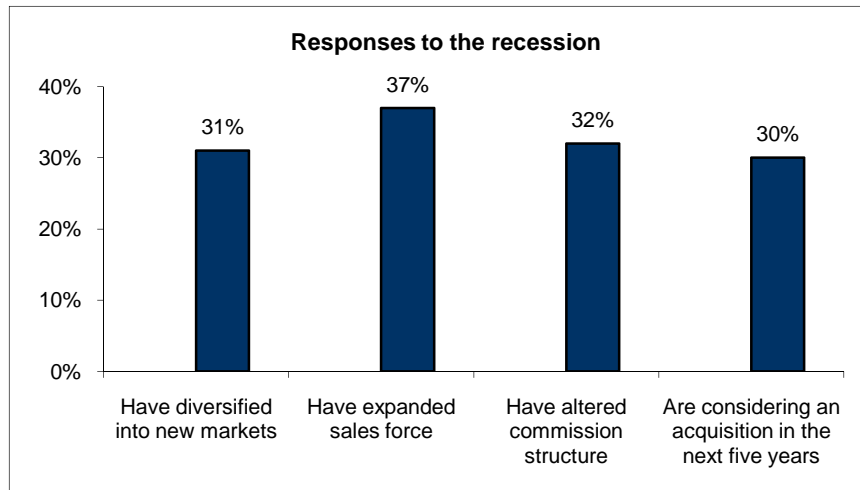
There is good reason for this uncertainty: The US economy is in uncharted waters. The end of the 2001 recession, for example, was signaled by a strong push in the recruiting and direct hire sectors that led growth in other areas. In 2010, however, that connection appears to be broken; the uptick in staffing activity has not yet translated into growth elsewhere.

There are many ways for staffing company owners to respond to this uncertainty. Perhaps the most common initial response is to batten down the hatches and wait for the storm to blow over. The differentiation comes later, as some companies start planning ahead for recovery while others continue to have a "wait and see" attitude.

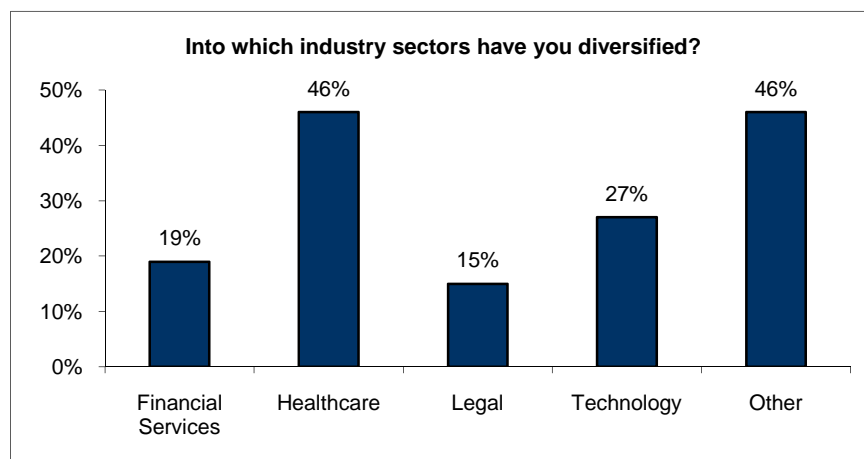
THE REBUILDING BEGINS—FOR SOME

Our survey findings indicate that such a division of opinion is now underway within the staffing industry. Approximately one third of those surveyed have responded to the recession not by streamlining the industries they serve, but instead by diversifying into new markets. Similarly, more than a third of those responding have expanded their sales force within the last year—often in response to growth in their business—and a third have changed their sales commission structure in some way. Some firms are increasing their commissions; some are decreasing them. There seems to be no consensus in *how* those commissions have changed, but what is most important is the fact that forward-looking staffing firms are

now working to improve how they motivate their staff in response to changing economic conditions. Finally, 30 percent are considering an acquisition within the next five years—a significant vote of confidence in the future of the industry.



Looking more closely at those respondents that have diversified, while many of them indicated that they have diversified into core areas such as health care and IT, almost half (46 percent) have moved into a wide range of other areas, including engineering, government, retail, nonprofit, scientific, and creative/graphics, just to name a few. This suggests that those expanding are thinking broadly about possibilities and taking an opportunistic, entrepreneurial approach to rebuilding their companies.

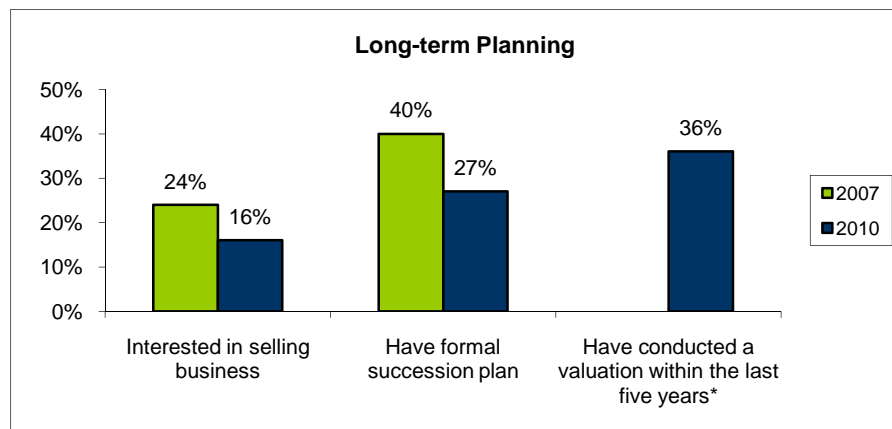


Taken together, these findings suggest that a sizable number of firms have moved past a “wait and see” mode to begin preparing for the recovery so that when it does take hold, they will have already made the changes necessary to compete aggressively and re-grow their businesses. Because of this, they are likely to have an important head start over firms that were less forward-looking or proactive. Some analysts are predicting that after hitting bottom in 2010, the staffing industry can expect at least 4 percent annual growth through 2015.¹ While much of this growth will merely make up the ground lost in the recession, if correct, it provides further support for those firms aggressively preparing for the future.

LONG-TERM PLANNING ON THE BACK BURNER

For most staffing company owners, their firm is far and away their most valuable asset. Because of this, selling the business often figures into many owners’ plans as part of their overall lifestyle strategy.

This is another area in which the recession has taken its toll. Compared with the 2007 survey, there is significantly less enthusiasm now for selling a business, given the depressed valuations that come from lower revenue and earnings.



*2007 data not available

While this shift is understandable, additional survey results underscore two problematic issues. The first is the number of respondents—64 percent—that have not conducted a business valuation within the past five years. (And of that group, many have *never* done so.) While it may make perfect sense for an owner to keep a sale off the table because of an unfavorable economic environment, that does not mean that the value of the business can be ignored. Even in bad times, the business valuation process acts as an important component of the “owner’s dashboard,” allowing overall performance to be objectively benchmarked. In addition, the internal review process—which typically involves the measurement of revenue trends, gross profit margins and EBITDA—can highlight areas for improvement that can bring immediate benefits. A regular, intensive review also means that when it *is* time to sell, there will be fewer issues to overcome to make the business as attractive as possible to potential buyers. These same tools

¹ See, for example, IBISWorld’s November 2010 report, “Office Staffing and Temp Agencies in the US,” p. 7.

can be used by staffing company owners who are embracing an acquisition strategy as part of their future growth. Knowing your own yardstick makes it much easier to have an informed opinion about the performance of potential targets.

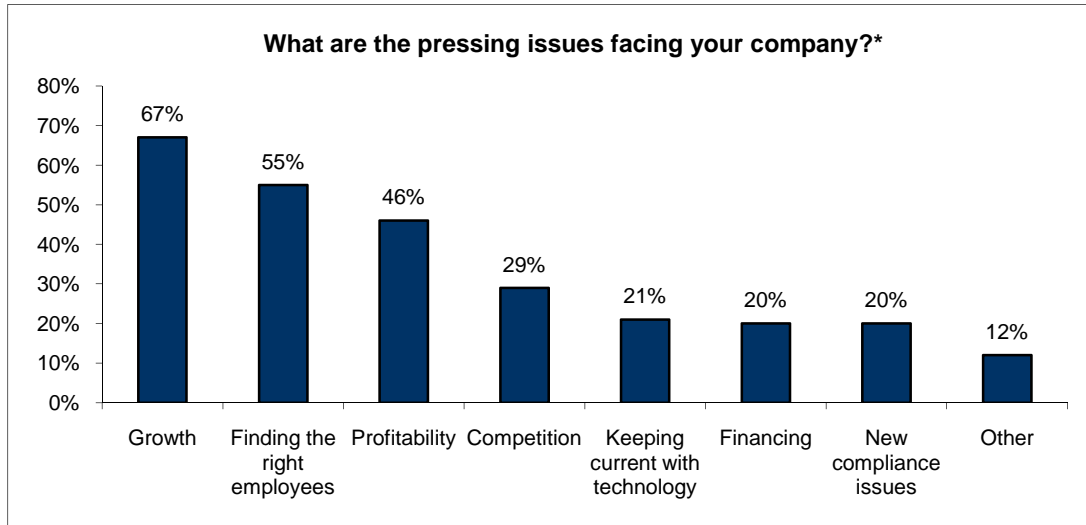
The second issue of concern is succession planning. The survey results show that few staffing firms have succession plans in place. Like valuations, owners often mistakenly view succession planning as transaction driven, that is, unnecessary as long as they have no immediate plans to retire. But this, too, is short-term thinking. Good succession planning—the identification and grooming of potential successors within a business, as well as the establishment of the financial mechanisms by which ownership is transferred—is a process that unfolds over several years. Like other types of retirement planning, waiting until it is time to retire is far too late.

Perhaps more importantly, however, succession planning brings with it a number of important benefits. Succession planning increases the leadership strength of the firm, “deepening the bench” and broadening its capabilities. This is why succession planning is one hallmark of a well-run company, regardless of how long the current CEO plans on staying at the helm.

CHALLENGES AND OPPORTUNITIES

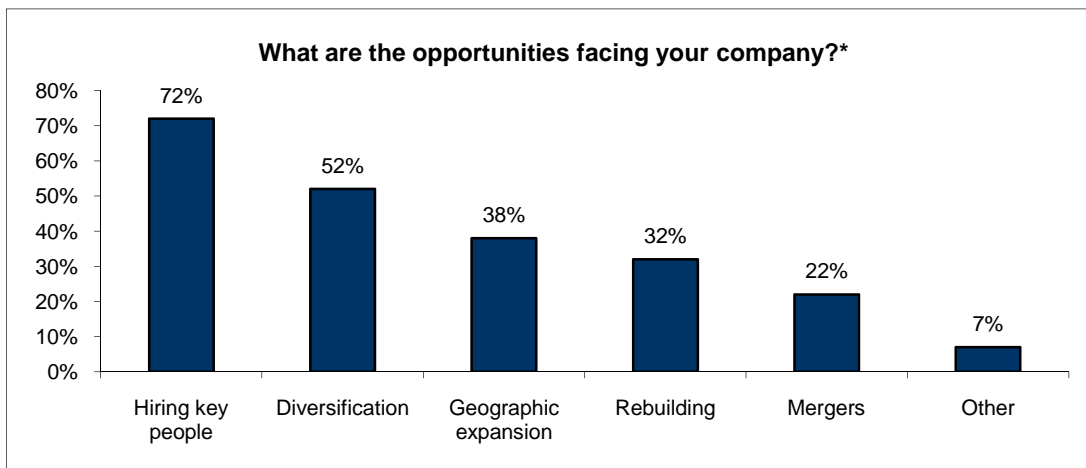
The past two years have been tumultuous ones for the staffing industry, and for the U.S. economy as a whole. We asked respondents to name their most pressing issues; growth (either managing or achieving), finding the right people, and profitability topped the list. Interestingly, competition, financing and keeping current with technology were mentioned relatively infrequently. These findings suggest that the battle today is not determined by such external factors as the availability of capital or the moves of industry peers, but rather by strategy and execution in uncertain times.

This was reflected in many of the responses given when respondents were asked to describe their challenges in their own words: “How to organically grow and prepare a structure and organization to handle that growth,” and “Balancing growth and fear/apprehension.”



*Multiple responses allowed.

As the survey findings indicate, however, upheaval also brings opportunity. When asked to identify the opportunities they saw for their companies, survey respondents most frequently named hiring key people and diversification. When respondents were asked to elaborate, “Becoming more aggressive in our market,” “Specialized growth in a niche,” and “Broadening out across a wider section of the industry we serve” were some of the typical responses. These responses also suggest that diversification is still at the forefront of many operators’ minds, and will dominate near-term strategic planning.



*Multiple responses allowed.

Recommendations

The survey findings show that even if there is no consensus regarding the pace of economic recovery, the staffing industry has entered a very dynamic period. Company owners and senior executives are coming out of the foxhole—although at different speeds and in different ways. As a result, every staffing executive needs to make a critical assessment of their business, as actions being taken now will determine which firms will emerge as market leaders in the future. Recommendations that can be drawn from our survey findings can be grouped into two broad categories:

- ❑ **Strategy and execution are paramount.** The current economic downturn is more than an endurance contest—it is a test of the ability of business owners and senior executives to develop and execute a clear strategy to differentiate themselves in the minds of clients and employees alike. This will require, perhaps as never before, staffing industry leaders to invest time and energy in developing a vision for their businesses and ensuring that this vision is supported in their firms' operations. In particular, ask the following:

 - Are there markets into which we can expand with our current resources?
 - Are we properly incentivizing our recruiters and salespeople?
 - Are we setting appropriate sales goals?
 - Are we making the proper investments in business development and marketing?
 - Are there mergers, acquisitions or strategic alliances we should be considering?

- ❑ **Don't stop thinking long term.** Long-term planning can seem like a luxury when most of one's energy is focused on day-to-day survival. But issues such as succession planning and knowing the value of your business are like insurance—they don't become less important simply because times are tough.

 - Do we have a succession plan in place that is regularly reviewed and updated? Are we using that plan to drive the professional development and hiring of the firm's senior executives?
 - Are we conducting a valuation of the business at least once every two years? Are we using the results to drive improvements in operations and profitability?
 - Is our technology up to speed, and do we have the necessary information at hand to make key business decisions?

The past two years have left an indelible mark on the staffing industry. Like their clients, firms went through rounds of layoffs and budget cutbacks. As traumatic as this experience may have been, it has also refocused firms on revenue and the importance of tracking the bottom line, and many are aggressively moving into new markets and adjusting their operations and procedures for a post-recession future. Those proactive firms will find themselves with the upper hand when the recovery does occur.

Methodology and Acknowledgement

In September and October 2010, Citrin Cooperman sent invitations to participate in an online survey to owners and senior executives at staffing companies serving a range of industries in New York, New Jersey, Connecticut, and Pennsylvania. Eighty-eight completed responses were received. Citrin Cooperman extends its appreciation to all those who participated and shared their perspectives for this study.

About Citrin Cooperman

Citrin Cooperman (www.citrincooperman.com), a Top-100 full-service accounting firm, provides tax, accounting and consulting advice to a variety of clients in New York, New Jersey, Pennsylvania, and Connecticut, with a special emphasis on professional services firms, restaurants, real estate, entertainment, staffing and executive search, litigation support, and Sarbanes-Oxley. The firm, founded in 1979, has offices in midtown Manhattan, White Plains, N.Y., Springfield, N.J., Philadelphia, P.A., and Norwalk, C.T.

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