

ALTERNATIVE STAFFING ORGANIZATION FEASIBILITY STUDY

Desk Research Summary

SkillUp Washington and Seattle Goodwill are two organizations dedicated to supporting the development of employment opportunities for disadvantaged populations with barriers to employment.

An area of interest to both organization is the Alternative Staffing model where organizations identify labor market opportunities and help low-skilled, unemployed and disadvantaged job seekers access them by making temporary and temporary to permanent job placements on a competitive, fee-for-service basis.

The potential benefits of the market-based approach of successful Alternative Staffing Organizations (ASOs) include:

- Delivering value to customers, promoting workplace success for people with obstacles to employment and raising standards for sourcing entry-level workers
- Leveraging charitable support with fees charged to customers making it a highly cost effective and sustainable workforce development strategy

To explore the viability of an ASO in the Seattle market, the organizations are partnering on a feasibility study which will include:

- Business Model Options – including background on existing ASO models nationally
- Market Analysis – including potential market in the Seattle area, target “niche” markets, and potential competitors
- Organizational and Technical Considerations – including legal requirements, organizational capacity and technical requirements and potential roles for existing partners/clients
- Financial Forecast – including start-up and operating costs, revenue projections and potential sources of funding

This summary highlights key points from the preliminary desk research conducted to inform key informant interviews and focus group discussions with targeted stakeholders and includes:

- An overview of traditional staffing services
- General information on ASO models
- General market analysis of traditional and alternative staffing services in the Seattle market
- Very general information on organizational and technical considerations and financial forecasts as those are highly dependent on a number of factors including existing organizational capacity, types of services provided and populations served

Snapshot¹

- Temporary staffing is one of the fastest growing segments of the workforce with approximately three million temporary and contract employees working each day.
- Staffing industry is expected to grow faster and add more jobs over next decade than just about any other industry.
- Flexibility and access to talent are key factors driving business demand for staffing services.

“Employers that have flexibility in adjusting labor requirements to meet product and service demands have a competitive edge over those with less flexible human resources policies.”²

Department of Labor Report on American Workforce

Projected Changes in Workforce Show Growth in Sector³

In What Ways Will Your Company's Work Force Change Over the Next Five Years? (Select All That Apply)—Percentage Selected



Source: McKinsey Global Institute U.S. Jobs Survey

Types of Services

Temporary Assignments (Temp)

Staffing firm recruits, screens, hires and assigns its own employees to support or supplement a client's work force to:

- Staff special projects
- Fill temporary vacancies
- Staff up for peak times

Permanent Placement (Perm)

Staffing firm recruits and screens qualified job candidates for client's open permanent positions.

Temp to Perm (T to P)

Staffing firm recruits, screens, hires and assigns its own employees to a client for a trial period during which both employee and client consider a "permanent" employment relationship.

Long-Term Temporary (LT)

Staffing firm recruits, screens, hires and assigns its own employees to support or supplement a client's work force on longer-term assignments.

Managed Services (MS)

Staffing firm assumes full responsibility for operating a specific client function (e.g., call center) on an on-going basis as a sole source provider or through subcontractors.

Vendor on Premises (VOP)

Staffing firm assumes full responsibility for operating a specific client function (e.g., call center) on an on-going basis and places a dedicated staff member on the client's premises.

Occupational Categories

Office Clerical (OC)

Secretaries, clerks, receptionists, administrative assistants, word-processing and data entry operators, cashiers, etc.

Industrial (IN)

Manual laborers, food handlers, cleaners, assemblers, drivers, tradesmen, machine operators, maintenance workers, etc.

Technical (TC)

Engineers, scientists, laboratory technicians, architects, draftsmen, technical writers and illustrators, and other individuals with special skills or training in technical fields involving math or science (not including information technology)

Health Care (HC)

Physicians, dentists, nurses, hygienists, medical technicians, therapists, home health aides, custodial care workers, etc.

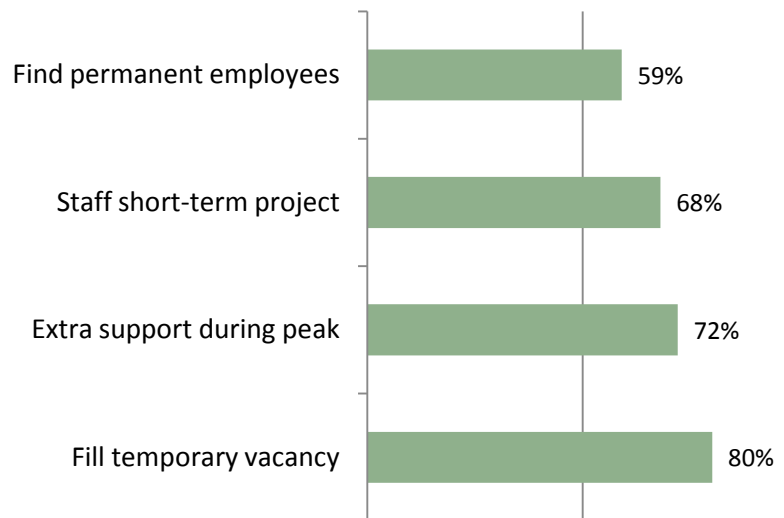
Information Technology (IT)

Consultants, analysts, programmers, designers, installers, and other occupations involving computer sciences (hardware or software) or communications technology (Internet, telephone) etc.

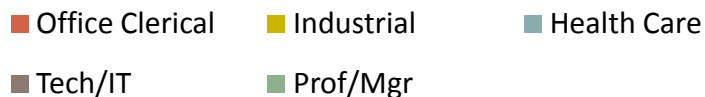
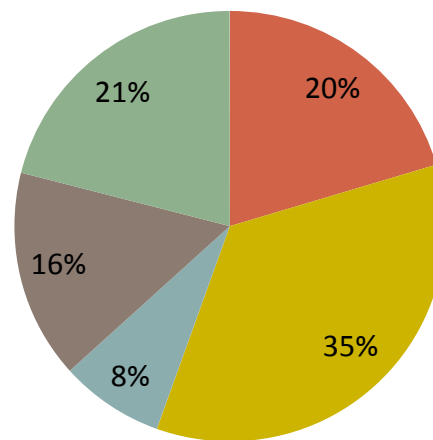
Professional-Managerial (PR)

Accountants, bookkeepers, attorneys, paralegals, middle and senior managers, advertising and marketing executives, and other nontechnical occupations that require higher skill or education levels

Main Reason Employers Cite Using Staffing Firms⁴



Percentage of Temp/Contract Staff Per Occupational Category⁵



Snapshot⁶

- First ASO launched in Chicago in 1970's in response to growing reliance on staffing firms to fill jobs, and barriers disadvantaged workers faced applying for jobs through traditional firms.
- Between 50-90 ASOs have been identified as launching since then - Alternative Staffing Alliance, the sector's trade association, currently lists 26 ASO's as members .
- Most ASOs are run as in-house programs or subsidiaries of non-profit parent organizations, including several that are incorporated as for-profit subsidiaries – a few ASO are independent operations.
- Most ASOs offer temporary and temp to perm staffing services primarily for entry-level office clerical or industrial positions.
- ASOs are characterized by high levels of supportive services provided to job seekers which can range from employment-related support such as job coaching or job-related tools to more intensive case management services and referrals.
- Populations served by ASOs range from displaced job seekers, such as mature workers to harder to place job seekers such as ex-offenders.
- Revenues generated by ASO's vary greatly depending on their services; however ASA reports that most ASO's recover 75% of their operating costs through revenue generated by placements with balance of costs covered by grants, in-kind donations and other business services.
- A very general recommendation for a new ASOs is \$250,000 minimum investment for first year and two full-time equivalent staff (one handling sales & marketing and one handling recruitment & placements).

Distribution of Alternative Staffing Alliance (ASA) Members⁷



Goodwill Already an ASO Leader

Goodwill has an established track record providing alternative staffing services and has appointed a National Coordinator to explore how to link Goodwill ASO's and establish a Goodwill Temporary Services brand.

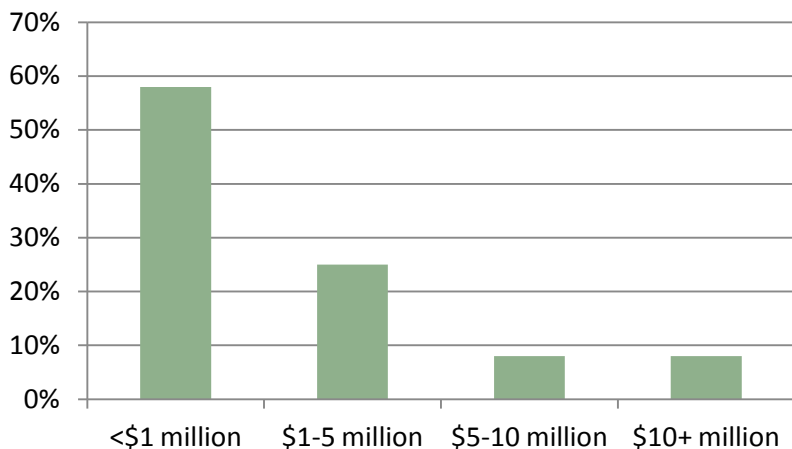
Goodwill operations that have an existing alternative staffing arm include:

- **Goodwill Industries of Northern New England**
Portland, Maine
- **Goodwill Staffing**
Colorado Springs, Colorado
- **Goodwill Staffing Services**
Austin, Texas
- **Goodwill Staffing Services**
Macon, Georgia
- **Goodwill Staffing Services**
Boise, Idaho
- **Goodwill Temporary Staffing**
St. Petersburg, Florida

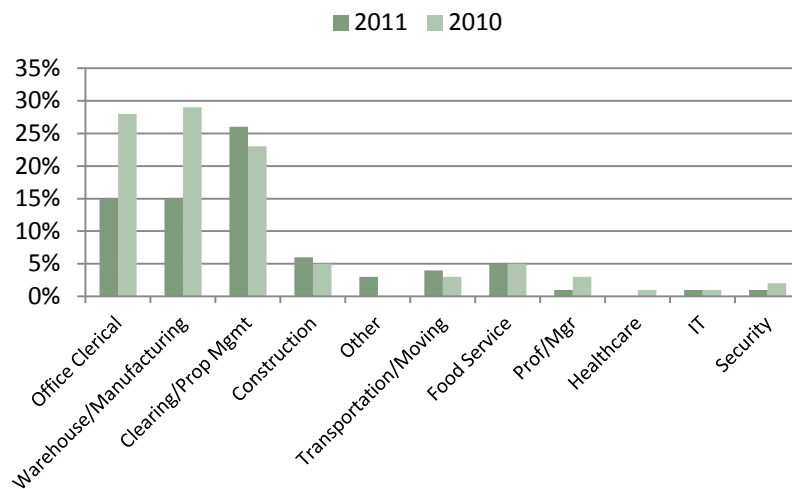
Key Findings: ASA 2011 Annual Performance Survey⁸

- Temporary staffing accounted for 84% of ASO revenues, direct placements for 6%, grants for 8% and other business services for 2%.
- Seventy five percent of ASOs covered at least 85% of total operating costs with staffing revenue.
- ASOs reported lower gross margins compared to traditional staffing industry (22% for ASOs versus 24-27% for traditional staffing firms).
- ASO staffing revenues were concentrated among a few large customers with 33% of respondents receiving 75% or more of their revenues from their top five customers.
- Sixteen percent of people served by ASOs lacked a high school diploma and 31% continued their education past high school.
- ASOs reported placing 10,041 individuals into competitive employment and 1,842 individuals secured permanent employment while working for a participating ASO.
- Fifteen percent of employees in the average ASO secured permanent employment.
- Median wage rate was \$9.70 (a 9% decrease from previous year) and median bill rate was \$14.25 (a 1% decrease from previous year).
- Ex-offenders, low-income individuals, recovering drug users, people with disabilities and people who are homeless or at risk of homelessness were key populations served by participating ASOs.

ASO Staffing Revenues⁹



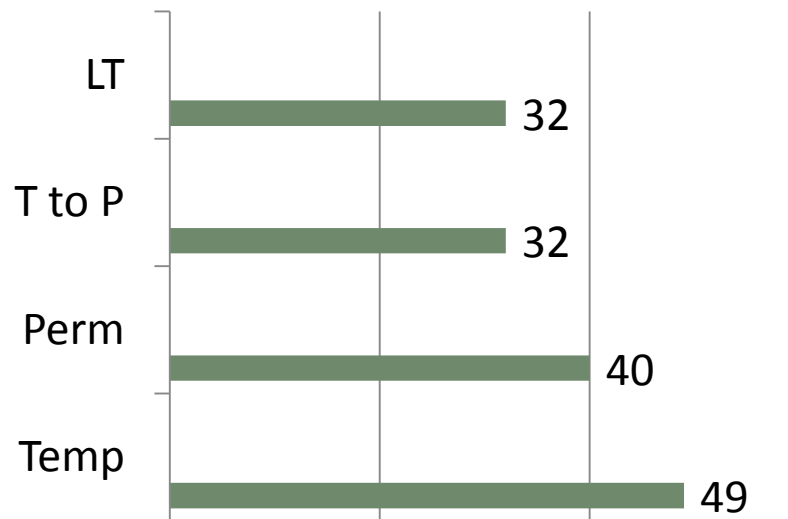
Average Percentage of Placements by Occupational Category¹⁰



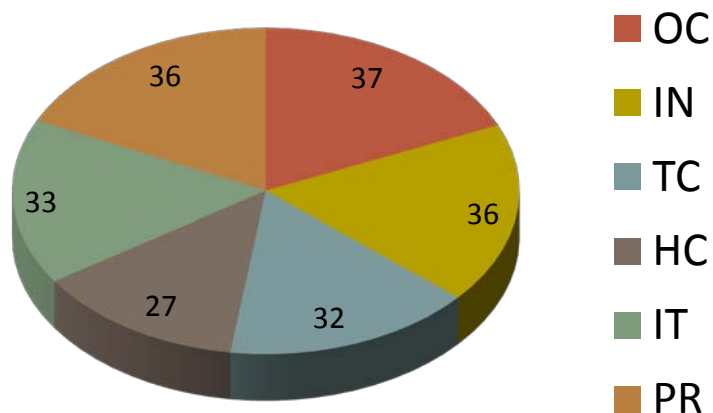
Snapshot¹¹

- The American Staffing Association directory lists 52 staffing firms providing services out of 119 offices within 30 miles of Seattle city center.
- Most staffing firms are highly diversified offering multiple types of services in multiple occupational categories with the exception of several firms that specialize primarily in industrial, health care or information technology.

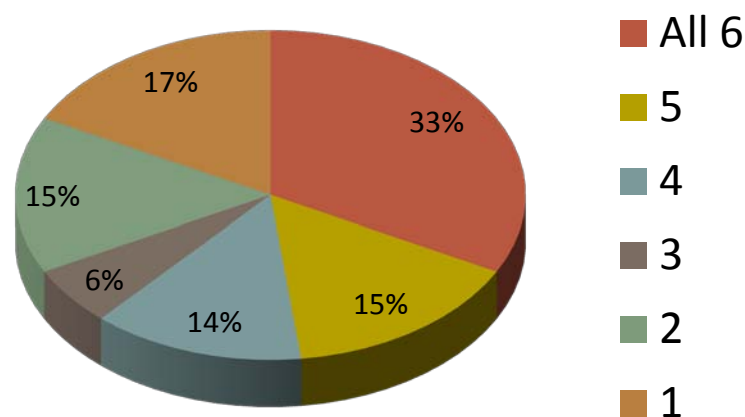
Number of Firms Providing Type of Service¹²



Number of Firms Providing Staff By Occupational Category¹³



Percentage of Firms Staffing Multiple Occupational Categories¹⁴



Snapshot

- The Alternative Staffing Alliance does not list any ASOs in the Seattle area and further searches did not uncover any organizations identified as ASOs in Seattle
- Closest organizations self-identifying as ASOs in the US are:
 - DePaul Industries staffing operation branch in Bremerton, WA
 - Galt Foundation staffing operation branches in Portland, Salem and Eugene, OR
- While not identifying itself as an ASO, Bremerton-based Skookum is operating a similar model that bears examining

Galt Foundation¹⁶

Galt Foundation is a 501(c)(3) non-profit organization that provides quality temporary staff across a broad spectrum of employment skills, from general clerical support to information technology services, through offices in Portland, Salem and Eugene, Oregon, and Oklahoma City, Oklahoma.

The mission of the Galt Foundation is to provide, promote, and expand employment opportunities for individuals with disabilities and other vocational barriers.

Through its government contracts and other customers, more than 75% of its labor hours are generated by individuals with disabilities.

DePaul Industries¹⁵

DePaul Industries model evolved from a traditional sheltered workshop into a business-focused, forward-looking social entrepreneurial enterprise that serves people with a wide range of disabilities.

In fiscal year 2011, 99% of DePaul's \$25.7 million total revenue was earned from its business divisions which includes staffing, security and contract packaging and manufacturing services. DePaul has a five year strategic plan in place to expand the scope and scale of its model to achieve projected revenues of \$86 million in 2016.

"Don't go out and set up a staffing business or a call center or whatever and then say, okay, let's go sell something . . . you've got to be nimble enough to create the demand first and then produce the supply."

Roy Souds, Former DePaul CEO

Skookum Contract Services¹⁷

Skookum is a non-profit with the mission of creating job opportunities for people with disabilities by delivering critical services to a wide variety of military and commercial customers.

Skookum employs 560 people — 75 percent of them "disabled" — through nine divisions in multiple sites across Washington state. Ninety-eight percent of Skookum's income is derived from its products and services including:

- Logistics Support
- Fleet Management
- Warehousing & Distribution
- Facilities Maintenance
- Hospital Housekeeping
- Janitorial
- Grounds Maintenance
- Sanitation Services
- Food Services
- Recycling Services

ASO Strengths/Advantages

Ability to provide employees with comprehensive pre and post-placement services that promote worker retention and individual development

Revenues generated generally cover majority of ASO's operating costs which efficiently leverages other investments

Revenues generated lowers average cost per job seeker served compared with other transitional employment models

ASOs can help raise standards of staffing industry by encouraging fair treatment of vulnerable or disenfranchised workers

Expertise in accessing tax credits for hiring targeted populations and a wide range of support services that may be extended to existing employees

May lack staff with requisite business knowledge and skills needed to run a 'profitable' business

May lack of knowledge about marketplace

Managing cash flow to meet weekly payroll while waiting to collect customer fees

Undercapitalization and access to capital funding

Covering cost of intensive supportive services

Meeting customer needs may require serving populations outside mandate

ASO Challenges/Disadvantages

Demand Driven Approach

- What staffing services do employers need?
 - What are their staffing 'pain points'?
 - How can our current services meet their needs?
 - If our current services don't meet needs how could they be adapted?
 - What value added services can we offer that traditional staffing firms can't?
- ↑ Broader market opportunities
 ↑↑ Flexible model that can respond to market changes
 ↓↓ May require significant changes to current operational model



OPPORTUNITIES

Supply Driven Approach

- What employers have jobs the populations we serve can fill?
- ↑ May not require significant change to current operational model
 ↓ Likely to be a limited market
 ↓↓ Model will be highly vulnerable to market changes



End Notes

- ¹http://www.americanstaffing.net/statistics/download_figures2012.cfm
- ²Department of Labor. (1999). *Report on American Workforce*. Washington: Department of Labor.
- ³⁻⁵Berchem, S. (2012, August). *Structural Shift?* Retrieved November 3, 2012, from American Staffing Association Web Site: http://www.americanstaffing.net/statistics/pdf/AmericanStaffingAnnualAnalysis_2012.pdf
- ⁶Alternative Staffing Alliance. (n.d.). *Advantages of Alternative Staffing*. Retrieved November 5, 2012, from Alternative Staffing Alliance: <http://www.altstaffing.org/advantages.pdf>
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- ¹¹⁻¹⁴*Finding a Staffing Company*. (n.d.). Retrieved November 5, 2012, from American Staffing Association: <http://www.americanstaffing.net/staffingsmarts/find.html>
- ¹⁵DePaul Industries. (2011). *Believing and Achieving: Strategic Plan 2011-2016*. Retrieved November 5, 2012, from DePaul Industries: http://www.depaulindustries.com/downloads/DePaulIndustries_StrategicPlan_2011-2016.pdf
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