

## **Introductory Guide to Alternative Staffing**

### **I. Sector Profile**

### **II. Operating Basics**

### **III. Keys to Success**

### **IV. Organizational Structures**

### **V. Recommended First Steps**

**July 2008**

### **Alternative Staffing Alliance**

The Alternative Staffing Alliance is a member-based nonprofit organization dedicated to supporting Alternative Staffing Organizations (ASOs). It is our mission to promote and expand the alternative staffing sector and to raise awareness of, and support for, alternative staffing as a sustainable workforce development strategy.  
For additional information, please contact us at 617-232-5380 or visit us at [www.altstaffing.org](http://www.altstaffing.org).

## I. Sector Profile

Alternative staffing organizations (ASOs) place and support job-ready, disadvantaged workers in competitive temporary and temp-to-hire jobs to help them enter and succeed in the mainstream labor market. By combining the worker focus and supports of a job developer with the market orientation of a conventional staffing firm, alternative staffing is an effective strategy to help individuals with barriers to employment achieve their job goals, while satisfying employer needs and generating fee income that leverages charitable support. Approximately 50 ASOs operate in the US and Canada. The following profile of the sector is based on national surveys of practitioners completed in 2005 and 2007.<sup>1</sup>

<b>Location</b>	Alternative Staffing Organizations (ASOs) are located throughout the US, mainly in urban centers, and provide staffing services within their greater metro area markets.
<b>Legal Structure</b>	Most ASOs are organized as in-house programs or subsidiaries of nonprofit parent organizations, including a few that are incorporated as for-profit subsidiaries. A couple ASOs operate independently.
<b>Business Services</b>	Fee-for-service temporary and temp-to-hire staffing are core business services offered by ASOs. ASOs may also make direct placements, but these are less frequent. Some ASOs deliver more intensive worker support services via on-site job coaching, supervision of small work crews or access to a case manager.
<b>Worker Supports</b>	The provision of intensive pre- and post-placement supports to workers is a key factor that distinguishes ASOs from conventional staffing suppliers. Job coaching, referrals (often related to child care, housing, and health insurance), case management, transportation and job-related equipment such as tools, clothing and boots are the most prevalent types of services. Supportive services may be delivered directly by the staffing organization, or accessed through the parent nonprofit or an external agency.
<b>Employment Sectors and Skill Level</b>	Most ASOs make entry-level placements, mainly in office/clerical and warehouse/manufacturing settings. Property maintenance positions, including landscaping and janitorial services, are also common. Some ASOs make higher-skilled placements. In particular, ASOs serving people with disabilities are often able to fulfill a wide range of state government

---

<sup>1</sup> In fall 2005, The ICA Group conducted a national survey of 21 alternative staffing organizations to build a profile of the sector and gauge the level of interest in forming a national "trade association." In 2007, the resulting Alternative Staffing Alliance distributed a performance survey to 45 ASOs in North America to document their operating and employment results, and 10 supplied annual performance data.

and other public sector jobs through their servicing of “set-aside” contracts.

<b>Populations Served</b>	ASOs tend to serve a broad base of job seekers with varying skills and experience and, often, multiple employment barriers. Low income is the most common characteristic of individuals served. People with disabilities, ex-offenders and homeless (or “near homeless”) individuals comprise other disadvantaged jobseekers typically served by ASOs. Some programs focus on serving a single, specific population, such as recovering substance abusers or mature workers.
<b>Annual Placements</b>	In terms of scale, individual ASOs place some 35 to over 2,000 persons annually. 300 to 500 persons placed per year is a commonly reported range.
<b>Fee Revenues</b>	Annual fee revenues in established ASOs typically exceed \$500,000. <sup>2</sup> While revenues generally tend to grow over time, fluctuating sales volume from year to year is a typical pattern for many ASOs due to shifts in customer mix, special project-based contracts, and changes in the larger economy.
<b>Expense Coverage</b>	Established ASOs report covering at least 75% of their program expenses with fee revenues, and some generate an operating surplus. In addition to earned revenues, ASOs raise funds from both private (foundation) and public (government) sources. Grants may be dedicated to specific purposes, e.g., job readiness training or individual development account contributions, or used to provide operating capital.
<b>Tenure</b>	The first ASOs began operating in the 1970s and 80s and now post annual billings in the millions of dollars, demonstrating the model’s growth potential, staying power and ability to adapt to changing market conditions. A second generation of ASOs launched in the 1990s following welfare reform during a time when the nation’s booming economy and low unemployment made market entry relatively easy. A decade later, most have survived the subsequent ups and downs in business demand, gradually achieving financial stability and building market recognition as quality staffing suppliers. New entrants continue to join the field as workforce development professionals across the country recognize alternative staffing as an effective transitional jobs strategy.

---

<sup>2</sup> In both the 2005 and 2007 surveys, at least 75% of ASOs reported annual earned revenues of \$500,000 or higher. At least half of ASOs reported annual earned revenues of \$1 million or greater.

## **II. Operating Basics**

### ***Sales and Business Management***

As competitive staffing suppliers, ASOs require an entrepreneurial manager who is motivated to grow sales and deliver superior customer service. Developing business leads, cultivating employer relationships and closing sales are critical skills needed to successfully market the ASO's services. Understanding customer needs, making quality job matches and responding promptly to customer concerns are likewise integral to building and sustaining market share.

Parent organizations often provide an ASO with critical sales and marketing support to connect with target employers and build the entity's image as a qualified business service supplier. Board members and executive staff use key contacts to develop business referrals. Parent organizations may also allocate public relations and technical staff resources to help develop sales materials (including a dynamic web site) and coordinate media outreach for the ASO.

As part of their sales responsibility, managers negotiate pricing, develop budgets and monitor the ASO's cash flow. Thus, managers also need basic financial management skills. Parent organizations may provide accounting services and financial reporting to support these business management needs.

### ***Worker Recruitment and Intake***

ASOs recruit work-ready individuals through their parent organization, outreach to local training programs, referrals from social service agencies and job postings. Prospective employees are interviewed and screened to verify their level of competency and gain insights into each candidate's motivation, skills and challenges. The ASO may also conduct formal background checks depending on the types of jobs filled and individual employer requests. Key information regarding individuals' technical skills, areas of interest and experience and general availability are entered into a database for use in making appropriate job matches.

### ***Job Matching***

The success of an ASO is largely determined by its ability to match suitable workers to customers' requests for temporary labor and temp-to-hire placements. This involves fully understanding the customer's needs and being able to recruit qualified workers for an assignment. ASOs, like their conventional counterparts, use computer-matching software developed for the staffing industry to achieve high quality matches. Customers often expect to receive several resumes from which to select temporary staff. When there are insufficient candidates in the database, ASOs may also contact local training organizations to identify additional candidates for a position.

### ***Post-placement Support***

After placement, ASOs work with employees to help them resolve problems they may encounter while on assignment and manage professional and personal challenges they may face. By addressing their needs in important areas including child care and

transportation, the staffing entity enables workers to be effective, dependable employees. Post-placement support can also entail connecting workers with local training opportunities to help them upgrade their skills in order to qualify for higher-wage assignments.

### ***Billing and Payroll***

ASOs typically pay workers and bill customers on a weekly basis, based on the workers' submission of signed time sheets. Timely customer billings enable ASOs to minimize their operating capital needs and quickly identify slow-paying clients. Payment terms range from "due on receipt" to Net 30 days, and the average accounts receivable collection period will vary depending on an agency's customer base and its efficiency in managing its receivables. A reasonable target collection period for a well-managed ASO is 30 to 45 days.

As employers of record, ASOs are responsible for workers' statutory benefits including FICA withholding, unemployment taxes and workers compensation insurance. ASOs may process payroll on their own, using a web-based product such as Intuit, or utilize a third party payroll service. Some ASOs process payroll through their parent organization's accounting department.

### ***Site Requirements***

A staffing agency's office is used mainly for interaction with employees. Accordingly, ASOs should locate in sites convenient to the jobseekers they intend to serve. Very often, ASOs are co-located with their nonprofit parent organization which enables them to share administrative overhead expenses and provides easy access to the training, case management and other worker support resources available from the sponsor. Most in-person contacts with employer customers take place at the customer's place of business.

### ***Administrative Staffing Requirements***

A start-up alternative staffing venture generally requires two full-time equivalent (FTE) staff, a management person who focuses on sales and marketing, and an account coordinator who manages worker intake, job order fulfillment and post-placement support. Both persons play an important role in customer service. Other essential business functions such as financial management and payroll processing may be performed by these two individuals or administrative staff of the parent organization, depending on the structure and sponsorship of the alternative staffing entity. As a general rule, two full-time staff can handle up to 20-25 FTE workers.

## **III. Keys to Success**

ASOs operate in highly competitive environments and typically require significant capital investment to finance their startup and growth. Profit margins for suppliers of entry-level temporary help are low, and costs to provide support services to disadvantaged job

seekers can be considerable. Within this business context, four traits characterize ASOs that achieve long-term success:

**1. Successful ASOs are led by versatile, highly-motivated managers.**

The manager has a dual responsibility to build sales and ensure the smooth operation of the business, and thus needs strong selling and general business skills as well as financial management ability. Entrepreneurial drive and sensitivity to the challenges of the workforce being placed are also extremely important. While previous staffing industry experience is highly desirable, it is not essential.

Finding and attracting manager candidates that combine all of these qualities is often difficult. Ongoing management development and support from a mentor or Advisory Board in addition to more formal learning opportunities can be very effective in helping managers strengthen particular skill sets. Hiring administrative staff with complementary skills can help create a well-rounded team.

**2. Successful ASOs are backed by strong, committed organizational sponsors that bring local business contacts and/or fundraising ability to the venture.**

A few ASOs are the product of social entrepreneurs with individual vision, passion and perseverance to succeed. Most, though, are incubated by not-for-profit organizations that feel a staffing service will add value to their other programs, and are willing to invest significant resources to help the initiative succeed. Leveraging employer connections and dedicating fundraising capacity are the most critical ways sponsor organizations support an ASO's success.

Existing good relationships with local employers can be very useful in stimulating demand for staffing services. In particular, the ability to partner with government or large corporate employers has played a vital role in helping many ASOs achieve scale. Board members and local donors can often be valuable sources for employer contacts.

Roughly speaking, \$250,000 is the minimum investment needed to finance a startup staffing operation for one year. As ASOs work to expand their customer portfolio and grow their fee revenues, they require significant capital to cover worker support costs and finance accounts receivable. Securing grants to meet these requirements can be challenging. The sponsor's ongoing organizational commitment to fundraising is essential.

**3. Successful ASOs deliver a wide range of pre- and post-placement jobseeker support services.**

Providing workers with intensive pre- and post-placement supports is integral to ASOs' dual success as competitive staffing agencies and workforce developers. ASOs deliver support services to workers directly through their parent or sponsor organization and/or through partnerships with other community agencies. ASOs may also refer workers to in-house or local training opportunities to enhance their job skills, pursue a GED, or improve their English proficiency.

#### **4. Successful ASOs are flexible in responding to market changes and opportunities.**

ASOs operate in dynamic markets subject to industry growth or decline, seasonal demand fluctuations, entry and exit of major customers and competitors, and a host of other external economic factors. Staying attuned to these changes and being responsive to them is a key factor for long-term success. Establishing a Business Advisory Board is one strategy ASOs have found to be effective in monitoring and leveraging changing market conditions to create new business opportunities.

#### **IV. Organizational Structures**

An ASO's capitalization, governance and business identity, plus the sponsor organization's support services role and potential exposure to liability and risk are all factors in determining how ASOs are structured. Most ASOs are formed as programs or subsidiaries within a sponsoring not-for-profit. A fewer number are structured as independent not-for-profits or cooperative entities. Each of these structures is briefly described below:

##### ***Program or subsidiary of not-for-profit organization***

Most ASOs are organized as in-house programs or subsidiaries of a parent not-for-profit organization. In either form, the ASO complements other programs and services of the parent organization thereby helping fulfill the overall mission. Primavera Works, for example, is operated as a program of its parent organization, the Primavera Foundation, which helps homeless and near homeless individuals in the Tucson, Arizona area move from poverty to greater well-being and economic security. By providing a bridge to employment, the staffing program plays an important role in improving people's economic prospects and independence. Nearly two dozen Goodwill-run staffing programs are structured as programs or subsidiaries of local, independent Goodwill Industries affiliates.

ASOs that are incorporated as subsidiaries of their parent not-for-profit may be structured as nonprofit or for-profit entities. Since ASOs often rely on grant support to provide start-up capital and augment fee revenues, parent organizations need to consider how grant funds will be raised and invested in the staffing entity. Nonprofit staffing entities can apply directly for charitable support and government grants, and most agencies opt for this structure. In contrast, for-profit staffing entities need a nonprofit fiscal sponsor that is eligible to apply for grant funds. The fiscal sponsor can then contract with the for-profit staffing entity to deliver particular services to its constituents or may invest funds in the for-profit staffing venture by purchasing stock in the entity. FirstSource Staffing in Brooklyn is an example of a for-profit subsidiary developed by Fifth Avenue Committee, its nonprofit parent organization.

### ***Independent not-for-profit organization***

The two oldest alternative staffing organizations – Harborquest in Chicago and DePaul Industries in Portland, Oregon – are organized as independent not-for-profit organizations. Each took unique paths to achieving their current position as competitive staffing service suppliers, and both provide good examples of the market-driven facet of alternative staffing.

Harborquest was launched in 1970 as Just Jobs, which sought to bring justice to the temporary employment of inner city residents. Two decades later, after most of Chicago's light industrial manufacturers had moved to the suburbs, the organization changed its name to Suburban Job-Link and focused on bridging the transportation gap between inner city workers and high wage industrial job opportunities that were inaccessible via public transit routes. In 2003, Suburban Job-Link merged with STRIVE Chicago Employment Service, Inc., adding this intensive job readiness training program as an in-house support for people with employment barriers. In 2005, the organization changed its name to Harborquest, Inc. to reflect its identity as a "port in the storm" for disadvantaged job seekers.

DePaul Industries evolved quite differently, beginning in 1971 as a traditional sheltered workshop financed with seed money from the Society of St. Vincent de Paul, a Catholic lay organization. In 1985, responding to Reagan administration spending cuts, the grant-dependent sheltered workshop was converted to a business model providing competitive manufacturing, assembly and packaging services. Temporary staffing services were added in 1989, as a way to offset the seasonality of the other business lines and expand the availability of part-time employment to people with disabilities. Today, DePaul Industries provides temporary staffing services out of five offices in Oregon and Washington; its other core businesses are security services and food and consumer goods packaging.

### ***Cooperative organization***

One alternative staffing organization, Milwaukee Careers Cooperative, is member-owned by over 40 local congregations and community service organizations. Member owners, which encompass a range of ethnic and ecumenical communities in Milwaukee's central city, have joined in a common mission to assist economically disadvantaged jobseekers in their service area. Each member organization pays in \$2,500 and designates a representative (and alternate) who participate in semi-annual meetings and exercise the member organization's voting rights. A 10-member Board is elected annually by the current membership.

## **V. Recommended First Steps**

Alternative staffing is an effective community-based workforce development strategy that can produce positive employment outcomes for disadvantaged workers while generating income to help offset administrative and worker support costs. Launching and operating an ASO is a significant undertaking and may not be right for everyone (or in every market). Following are some initial steps to help you decide if alternative staffing makes sense for you to pursue.

### **1. Assess organizational commitment and capacity.**

Is alternative staffing a good fit with your organization? Ask yourself ...

- How will an alternative staffing venture contribute toward fulfilling our organization's mission and complement other priority programs?
- Does our organization have sufficient funding/fundraising capacity?
- How entrepreneurial are we? What level of energy are we willing to commit to this endeavor? How comfortable are we with taking business risks?
- How well will a competitive business operation fit within our organization's culture?
- What is our organization's ability to deliver or access employment and training supports for workers?
- What is our organization's image and reputation in the local business sector?
- What relationships do we have with local employers or others who can help us pursue them?
- What other assets can we leverage to succeed as a staffing service supplier?

### **2. Interview other ASOs that serve a similar target population.**

Talk to two or three existing practitioners for insights about their experience serving similar populations. If possible, arrange a site visit. Most practitioners are very willing to support new entrants in this way, and the Alternative Staffing Alliance can help identify and introduce you to practitioners who have experience relevant to your target population.

### **3. Conduct a market feasibility study**

A feasibility study will help your organization identify market opportunities, assess local competition, understand the cost structure of the venture and determine capital requirements. Based on the results, your Board can make an informed decision about whether to proceed. A positive feasibility study provides the basis for a formal business plan which can serve as a tool to both raise capital and guide program implementation.