

Introductory Guide to Alternative Staffing

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Alternative Staffing
Alliance

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"You need to have a strong value proposition and be prepared to compete on the same level as other for-profit staffing companies. Lead with the business case and use the mission as value added."

Karen Caldwell, Primavera Works
Tucson, Arizona

Sector Profile

Alternative staffing organizations (ASOs) place marginalized job seekers in competitive temporary and temp-to-hire jobs and support them to succeed and advance in the mainstream labor market. As social enterprises, these businesses combine the market orientation of a staffing firm with the worker focus and supports of a job developer to satisfy employer demand for qualified, reliable workers and help individuals achieve their employment goals. Staffing service fees cover the administrative costs of the business, while charitable support is often used to finance worker supports.



Photo Credit: Blue Jacket Staffing

About 70 ASOs operate in the US and Canada. In 2018, the sector generated \$311 million in fee revenues and employed an estimated 44,000 job seekers. The following sector profile is based on data from national surveys conducted by the Alternative Staffing Alliance.¹

- Location** Alternative Staffing Organizations (ASOs) are located throughout the US, mainly in urban centers, and provide staffing services within their greater metro area markets. Several operate in multiple states.
- Legal Structure** The majority of ASOs, including some 30 staffing businesses of Goodwill Industries affiliates, are organized as in-house programs or subsidiaries of nonprofit parent organizations, with some incorporated as for-profit entities. Other ASOs are organized as independent nonprofits or as for-profit businesses led by socially motivated entrepreneurs.
- Business Services** Fee-for-service temporary and temp-to-hire staffing are core business services offered by ASOs. ASOs may also make direct placements or provide work crews on a contract basis. Additional fee-based services include on-site HR management and new hire retention services.

¹ The Alternative Staffing Alliance regularly surveys all known ASOs in North America to document their operating and employment results.

Worker Supports

Providing workers with pre- and post-placement supports is a key factor distinguishing ASOs from conventional staffing suppliers and a compelling part of their value proposition to employers. Job coaching, case management, transportation and job-related equipment such as tools, clothing and boots are the most common types of post-placement services. Over half of ASOs also provide skills training and financial literacy training. Supportive services may be delivered directly by the staffing business or provided through a nonprofit parent or external partner organization.

| Percent of ASOs that Offer Supportive Services | |
|--|-----|
| Job coaching | 82% |
| Case management (including assistance to obtain housing, childcare, medical treatment) | 77% |
| Work clothing, tools or boots | 73% |
| Job-related skills training | 68% |
| Transportation assistance | 64% |
| Financial literacy training | 59% |
| Emergency loans | 18% |

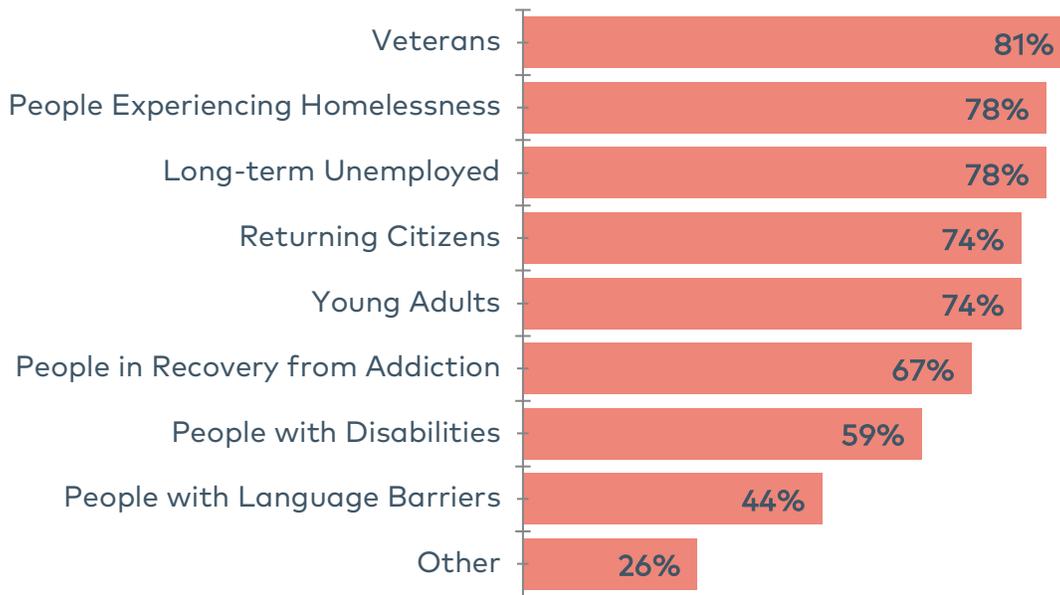
Sectors and Skill Level

ASO placements are concentrated in the industrial and office/clerical segments of the staffing industry, mainly in production and materials handling, cleaning and property maintenance, and customer service and data entry positions. ASOs serve clients in diverse industries – manufacturing, warehouse/logistics, building services, retail, hospitality, health care and construction – and at varying levels of skill and experience. YUPRO, for example, focuses on IT and financial services placements, and Diversified Personnel Services also operates DPSPRO, which recruits professional and executive talent.

Populations Served

ASOs focus on recruiting job seekers who are marginalized or tend to be overlooked by many employers. Candidates' most common obstacles to employment are criminal records, disability, homelessness, substance use disorder, lack of experience, or long-term unemployment. Some ASOs focus on serving a specific population, such as youth, ex-offenders, people with disabilities or individuals experiencing homelessness. Others focus more generally on disadvantaged job seekers in their geographic service area.

Percent of ASOs that Recruit Disadvantaged Job Seekers



Annual Placements

In 2018, the number of people placed by an individual ASO ranged from 20 to nearly 7,900. The median number of individuals employed by an individual enterprise was 335.

Earned Revenues

Many ASOs are able to exceed \$1 million in annual billings within their first three years of operation² A combination of factors affect ASOs' capacity and appetite for revenue growth, including their enterprise goals, investment in sales and management systems, customer concentration and economic conditions. Some operators grow slowly by choice and/or remain small, in some cases limiting their candidate pool to individuals who successfully complete in-house training or receive other services.

² Among a sample of six ASOs launched between 2012 and 2016, median earned revenue in year three was \$1.5 million and the average was \$1.7 million.

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 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. 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 often provide critical sales and marketing support. Board members and executive staff may help an ASO connect with target employers, through referrals to key contacts. Parent organizations may also contribute staff resources and expertise to develop sales and marketing materials and coordinate media outreach. In addition, some parent organizations provide accounting services and financial reporting that support 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. Candidates are interviewed and screened to verify their level of competency and gain insights into their individual 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 customer job orders. This involves fully understanding the customer's needs and being able to recruit qualified workers for an assignment. ASOs, like their conventional counterparts, use staffing industry software to achieve high quality matches.

ASOs report a median job order fill rate of 88% and average time-to-fill of 2.5 days, both in line with industry performance.

Post-placement Support

After placement, ASOs support employees to help them resolve problems they may encounter while on assignment and manage professional and personal challenges that arise. Through coaching and help to address individual needs in important areas such as transportation and childcare, ASOs enable workers to be effective, dependable employees. Increasingly, short-term skills training is offered as a pre or post-placement support for greater access to higher wage, career path jobs.

Billing and Payroll

ASOs typically pay workers and bill customers on a weekly basis, based on the workers' submission of signed timesheets. Timely customer billings enable ASOs to minimize their operating capital needs and quickly identify slow-

paying clients. For new accounts, credit applications and credit checks are a standard practice. 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.³

As employers of record, ASOs are responsible for workers' statutory benefits including FICA withholding, unemployment taxes and workers compensation insurance. Most ASOs utilize a third-party payroll service, or may process payroll on their own, using a web-based product such as Intuit. Another option is to outsource a comprehensive set of back office functions, including billing, payroll, A/R financing and workers comp insurance. For startups in particular, this offers a way to minimize initial capital and administrative staff requirements.

Many ASOs use payroll debit cards as a way to give unbanked employees the benefit of direct

³ Some ASOs require credit cards and automatically charge invoices 7 days after an invoice is sent, allowing customers to request adjustments within that 7-day window. Declined credit cards result in a hold on future job orders.

deposit and other financial services. Paycards enable workers to charge purchases, pay bills online and access ATMs, while streamlining ASOs' payroll administration, reducing the risk of fraud, and eliminating the inconvenience and cost of reissuing lost or stolen checks. The use of pay cards is often accompanied by financial literacy training or counseling.

ASOs also have documentation and reporting requirements for compliance with the Affordable Care Act. Industry software helps staffing companies manage the data needed to track eligibility and coverage dates for full-time and "variable-hour" workers, document employee communications, and generate reports.

Office and Website Requirements

A staffing agency's physical office is used mainly for interaction with employees. Accordingly, ASOs should locate in sites convenient to the job seekers they intend to serve. Very often, ASOs are co-located with their nonprofit parent organization which enables them to share administrative overhead

costs and provide easy access to the training, case management and other worker support resources available from the parent. For prospective and existing customers, the ASO's website is its "storefront" and a central part of its business identity. Thus, an ASO's website needs to make a positive impression, clearly articulate the ASO's industry focus and value proposition, and promote ease of communications. Most in-person contacts with employer customers take place at the customer's place of business.

Administrative Staffing Requirements

A startup 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. Commercial staffing companies (which focus on making light industrial, office/clerical and general labor placements) report a median of 24 temporary workers per each internal staff person. This ratio tends to be lower for ASOs depending on the depth of coaching and other supportive services delivered to workers in-house.



Photo Credit: Taller San Jose Hope Builders

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. (See [Legal Structures for ASOs](#) for a more detailed discussion.) Most ASOs are formed as programs or subsidiaries within a sponsoring nonprofit. A fewer number are structured as independent nonprofits or for-profit companies. Each of these structures is briefly described below:

Program or subsidiary of nonprofit organization

Most ASOs are organized as in-house programs or subsidiaries of a parent nonprofit organization. In either form, the ASO complements other programs and services of the parent organization to help 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 Tucson, Arizona move from poverty to greater well-being and economic

security. By providing a bridge to employment, the staffing business plays an important role in improving people's economic prospects and independence. Some 30 Goodwill-run ASOs are likewise structured as programs or subsidiaries of local, independent Goodwill Industries affiliates.

Most ASOs that are incorporated as subsidiaries of a nonprofit parent are also structured as nonprofit entities. ASOs often rely on grant support to provide startup capital and finance supportive services, and as nonprofits they can apply directly for charitable support and government grants to support these funding needs.

A few subsidiaries are structured as for-profits. One example is YUPRO, a Public Benefit Corporation formed by nonprofit YearUp to place its graduates and alumni into contract IT and financial services jobs across the US. Another is UpStaff Personnel, an enterprise of Green Opportunities in Asheville, North Carolina, which restructured as a C Corporation to avoid adversely affecting its parent organization's nonprofit tax-exempt status.

Independent nonprofit organization

Other ASOs are organized as independent nonprofit organizations with a charitable purpose. Examples include First Step Staffing, the Galt Foundation, and Juma Ventures.

For-profit company

During the last decade, several social entrepreneurs have formed alternative staffing companies as for-profit businesses. These entities rely on community-based partners for worker referrals and delivery of pre- and post-placement supports

such as case management, substance abuse treatment and financial literacy training. WorkSquare in Miami, Florida, and MaineWorks in Portland, Maine are examples of independent for-profit ASOs, and both are Certified B Corps. To better address the critical needs of job seekers in recovery, MaineWorks subsequently created the nonprofit Maine Recovery Fund. MaineWorks offers access to competitive jobs, and the Maine Recovery Fund provides transportation, work clothing, skills training, crisis intervention and other services that promote workers' success and resilience.



Photo Credit: Juma Ventures

Keys to Success

ASOs operate in highly competitive environments and typically require significant capital investment to finance their startup and growth. Gross profit margins for suppliers of entry-level temporary help are low (median 20%), 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 nonprofit 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 may 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 fee revenues, they require significant capital to cover worker support costs and finance accounts receivable. While external A/R financing is an option, the sponsor's ongoing commitment to fundraising for support services and to cover potential operating losses 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 support is integral to ASOs' dual success as competitive staffing agencies and workforce developers. ASOs deliver support services to workers directly and/or through external community partners. ASOs may also connect workers with 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 useful in monitoring and leveraging changing market conditions to create new business opportunities. Involvement in local industry associations is also an effective way to deepen relationships and anticipate and respond to market opportunities.

"As the employer of record, we're better able to manage our participants' needs on an individualized basis while maintaining their employment, and we can protect our participants' employment when pulled from work due to personal challenges. This allows for healing which is critical during their first year out of prison."

Tom Grant, Concordance Employment Agency
St. Louis, Missouri

Recommended First Steps

Alternative staffing is an effective enterprise strategy for workforce development 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 enterprise 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. Conduct a market feasibility study

A feasibility study will help your organization identify market opportunities, understand the cost structure of the business and determine capital requirements.

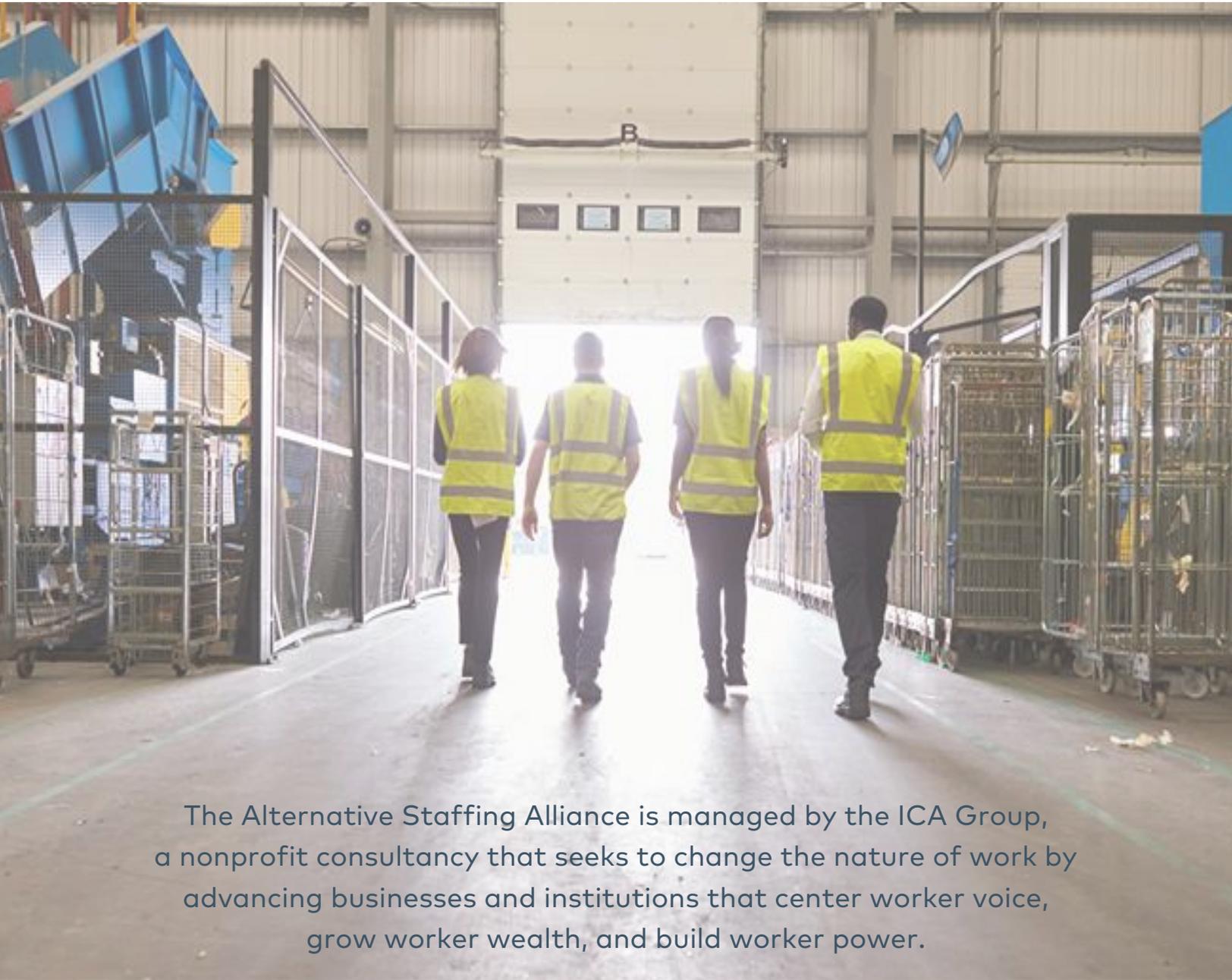
Research your local market to identify business opportunities and assess demand for staffing services. ASOs mainly serve employers in the manufacturing, warehouse/ logistics, property management, retail, hospitality and construction industries. Determine the industry and occupational mix in your market, explore how these industries use staffing services and compare potential business opportunities with the skills, education and other characteristics of your job seeker population.

On the labor supply side, determine how you will recruit and support job seekers, whether in-house or through community-based partners. Common workforce recruiting partners include workforce training programs, transitional housing organizations, corrections programs and workforce system career centers. These organizations may also be sources of support services including job readiness and soft skills training, case management and financial counseling, for example.

Estimate your overhead cost structure in order to understand your break-even sales volume. On average, it takes a startup ASO three years to achieve at least \$1 million in annual sales. Using this benchmark and other sector performance data will help you estimate your startup and ongoing capital requirements. With this information in hand, your Board can make an informed decision about whether to proceed. Resources are available from the Alliance to guide you in undertaking a feasibility analysis.

3. Interview other ASOs that serve similar industries.

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



The Alternative Staffing Alliance is managed by the ICA Group, a nonprofit consultancy that seeks to change the nature of work by advancing businesses and institutions that center worker voice, grow worker wealth, and build worker power.