



# Staffing CFO Insights:

Labor, Technology, and the  
Future of the Staffing Industry

# Staffing industry CFOs prepare for uncertain times.

The economics of the staffing industry have become increasingly complex. Industry CFOs operate at the crossroads of major macroeconomic trends that impact strategy, growth, operations, and liquidity. As such, shifts in the financial environment can significantly impact business planning.

This happened in 2020 and 2021 with COVID. And it will likely continue through 2022, as businesses deal with the often bumpy road to a post-pandemic future.



For staffing industry CFOs, the challenge is to lead the business and financial strategies that will enable their organizations to overcome short-term disruptions to the talent supply chain and uncertain client demand while making the technology and other infrastructure investments necessary to compete over the long haul.

That can include maintaining a war chest for rough times – having enough liquidity to survive the depths of continued pandemic shutdowns. Or it can mean unlocking the financing necessary for a major acquisition, an internal expansion, or digital transformation.

# Identifying opportunities and challenges facing staffing CFOs.

We talked with top industry CFOs to learn what they are dealing with as they prepare for the post-COVID future. Here are a few core conclusions:

- + **M&A represents the biggest opportunity.**

With interest rates low for the time being, CFOs are taking advantage of cheap money to consolidate a fractured industry.

- + **Finding labor represents the biggest near-term threat.**

Post-COVID disruptions have put talent at a premium, adding new challenges to the recruiting and candidate retention process.

- + **Managing technological transformation represents the biggest long-term challenge.**

CFOs are at the vanguard of a tech revolution in the staffing industry, providing both leadership and the means to make necessary upgrades.

- + **Coordinating diverse financing options is necessary in a complicated economy.**

The uncertain dynamics of the post-COVID economy have led to longer payment terms from many employers. Staffing CFOs need a nimble, diverse set of funding options to keep cash flow steady and make expansion possible.





# Biggest opportunities for the staffing industry in 2022.

With the eventual passing of the pandemic, staffing CFOs can look out on an industry full of opportunities. Hopefully, the time for weathering emergencies has passed. Instead, leaders in the sector can concentrate on strong industry fundamentals and leveraging strategic advantages for long-term growth.

But where do CFOs see the greatest chance for success? Typically, high-level finance execs point to **M&A as the highest-value proposition**. However, there are other opportunities in areas like:

- + Geographic expansion
- + Organic growth
- + Automation of service delivery
- + Moving up value chain
- + Online staffing
- + Expanding skill disciplines served
- + International expansion



# M&A is seen as one of the greatest opportunities for growth in the industry.

The staffing industry remains highly fragmented. According to the American Staffing Association,<sup>[1]</sup> there are about 25,000 staffing and recruiting companies in the U.S. Together they operate around 49,000 offices. That's less than two offices per company – meaning a sizable chunk of the industry exists as single-location firms.

“ The industry is very fragmented and will be consolidating as smaller staffing agencies struggle to rebound or cannot invest in technologies at the level needed to keep up with the industry. ”

– Industry CFO

Meanwhile, many of the smaller companies may have trouble competing in the current volatile market. In fact, some didn't survive the COVID shutdowns, a time when more than a quarter of the industry lost more than 30% of its profits.<sup>[2]</sup> Firms focused on hospitality and travel were particularly hard hit.

As a result, many smaller players may look for a buyer as they struggle to rebuild after the COVID tsunami. For companies with access to the necessary funds, this can present an excellent opportunity to expand.



# Interest rates are low. But can everyone benefit?

In late 2021, interest rates hover at multi-decade lows.<sup>[3]</sup> This low cost of borrowing encourages M&A activity by making funding easier and cheaper to obtain. If possible, CFOs are taking advantage of this historic opportunity to finance their staffing firms' expansion plans.

But not every company can grab this potentially once-in-a-generation chance. Even with low rates, traditional bank loans take time and often include stringent requirements. Not every business qualifies. It's up to enterprising CFOs to find alternative methods to make sure their companies have the financing necessary to grasp the future.

## Alternative Financing at a Glance

- + Alternative financing offers bank-like capabilities, but non-regulated\*
- + Fewer covenants and more flexibility for borrowers
- + Fully customizable solutions for unique business needs
- + Facility sizes ranging from \$500K - \$250MM\*

*\*Specific to lenders such as White Oak Commercial Finance.*

*\*\*Facility range is specific to White Oak Commercial Finance.*



# Biggest challenges for the staffing industry in 2022.

Hopefully, the worst of the pandemic is behind us. Compared with the market conditions experienced into Q2 of 2021, the current environment presents a sea of opportunities. That said, the post-COVID reopening has not come without its share of challenges.

Industry CFOs will have to deal with market disruptions associated with reopening the economy following the pandemic. At the same time, dynamics within the staffing sector continue to drive innovation. Financial leaders will also need to raise the resources necessary to keep pace in a fast-changing world.

**Asked about the biggest challenges facing the market in the next few years, CFOs listed:**

**Talent Retention**



**Changes in Technology**



**Competition From Online Staffing Platforms**







# Talent retention: The biggest near-term challenge for the staffing industry.

The reopening of the economy after COVID led to massive supply/demand imbalances in the labor market. This has made it difficult to fill open positions. As a result, finding and keeping talent represents the key near-term challenge faced by staffing CFOs.

Companies are clamoring for workers. This should be an ideal environment for staffing firms. However, quality candidates have been scarce in the uneven COVID reopening. According to BLS, the Civilian Labor Force Participation rate has fallen from 63.3% pre-pandemic to 61.7% as of Q3 2021 with job openings outstripping available workers by seven-figure totals.<sup>[4]</sup>

Internally, this presents a double crisis. The strong labor market has more than 40% of the workforce<sup>[5]</sup> thinking about pursuing new opportunities. As a result, staffing firms have had trouble retaining their own employees, creating bottlenecks within the organization due to lack of capacity.

# Beyond talent – inflation and regulation are top concerns.

While the difficulty obtaining talent marks the biggest post-pandemic hurdle for the staffing industry, it is far from the only obstacle. The reopening of the economy has also led inflation fears with higher prices for nearly all major expenses.



In the current economy, top executives have to contend with:

- + Increasing wages for temporary workers and internal staff
- + Rising benefits expenses
- + Inflation and rising operating costs

The impact of 2020 and 2021 economic stimulus is also a concern for CFOs with the increasing taxes, risk and regulation as local, State and the Federal agencies attempt to increase protection for workers.





## Top CFO strategies for addressing talent shortages and higher costs.

CFOs provide a linchpin for efforts to combat the significant challenges facing the staffing industry in 2022 and beyond. That requires a strategic approach to problems, a multi-pronged response and the ability to deploy capital in targeted ways.

As an example, look at the staffing issues that have followed the post-COVID reopening. The problem includes two components: the hiring of internal staff and the maintenance of an appropriate level of qualified candidates to provide to clients. Meanwhile, higher costs are also creeping into the business from other areas beyond elevated labor expenses.





Here are a few steps CFOs can take to address these situations:

### Filling Internal Job Openings

- + Increase compensation (base wages, incentive pay)
- + AI and automation to expand the capacity of current team members
- + Process improvements leading to higher productivity
- + Upgraded working conditions, including flexible schedules and hybrid options
- + Remote support for sourcing, lead generation, and operations

### Finding Workers for Clients

- + More aggressively manage job advertising spend using programmatic technology
- + Develop alternative sourcing methods such as SEO, PPC advertising, social media, & referral programs
- + Automation and process improvement to increase talent retention and redeployment
- + Improve employment branding and strengthen recruitment marketing

### Battling Inflation

- + Raise bill rates to offset cost increases (where possible)
  - o Use market data to show clients the need for higher pay rates, which will in turn lead to higher bill rates
  - o Increase mark-up percentages to compensation for rising costs
  - o Create temporary surcharges to offset short-term cost increases
- + Develop new pricing/service delivery models that yield higher gross margins, such as project solutions
- + Reduce service delivery cost via AI and automation
- + Improve sales, recruiting, and operations productivity via training and performance management
- + Incorporate offshore resources to reduce the cost of service delivery



# The staffing industry charts a new path with digital transformation.

Along with disrupting the labor market, the pandemic also accelerated the economy's transition towards digital platforms. Depending on the type of digitization, between two-thirds and three-quarters<sup>[6]</sup> of firms brought forward their technical upgrades as a result of the pandemic.

That means technological upgrades are necessary to keep staffing firms competitive. CFOs should find funding for an improved tech backbone, upgrading systems for communication (both internal and external), data management, applicant tracking, onboarding, and vendor relationships.

“Technology is a key tool and a large investment for any organization. The CFO should guide the company on how to best allocate resources to technologies that will drive the most value and stability.”

– Industry CFO



### CFOs Generally See Themselves as Leading the Digital Transformation

As the staffing industry gears up for an unprecedented digital push, it falls to CFOs to take the lead. Finance executives must gather the resources necessary to lead the tech revolution in the industry.

Speaking to CFOs, here are the ways they see themselves as contributing to the tech advance:

- + Set the tone for their organizations with aggressive thought leadership
- + Take advantage of their pivotal role at the crossroads of money and technology
- + Find ways to bridge skill gaps in IT, either by targeted hiring or through training/education programs
- + Provide crucial functions in tech development through evaluation of ROI & implementation strategies

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“ We must advise on how to invest in the future while still being able to complete on other key initiatives and **protect the financial stability of the bottom line.** ”

– Industry CFO





# Top priorities for achieving digital transformation.

New technologies offer an opportunity. However, switching to a fresh platform or introducing unfamiliar software also presents potential stumbling blocks. It's important to integrate tech upgrades thoughtfully, to minimize disruptions during the transition phase.

At the same time, it's crucial to consider any investments carefully. A tech upgrade can be expensive and is difficult to reverse once put in place. Here are some strategies to get the most out of any digital transformation.

## Take the Long View



Choose a technology platform you can build on over time. This will save you money over the long run and set you up for ongoing compounding productivity gains.

## Shop Around



Learn everything you can about the competing tech options. Then, make a decision based on your staffing firm's individual needs.

## Give Feedback



The more voices heard from, the better. Solicit expert advice, involve other members of the C-suite and ask for feedback from frontline employees. This way, you have the best chance to find the tech that supports everyone's needs.



# Finding diverse funding options.

How can CFOs help their staffing companies manage their working capital in the most efficient way possible? The current environment makes this tricky.

Staffing firms are faced with longer payment terms from employers. Many businesses halted completely during COVID and had to restart a cold engine. Even with the massive pent-up demand hitting the market, these employers may continue to need longer payment terms.

It is reported staffing clients have consistently asked for an additional 30 days, or even up to a total 150 days, for payment. CFOs need flexible financing options to protect cash flows, while still keeping powder dry for expansion and upgrades.

## Receivables Financing

The frequently-used financing tool by the staffing industry represents a common type of lending solution that can address extended payment terms. These include the use of such options as receivables financing and factoring, where the lender buys a firm's accounts receivable and pays out its "future income" up front in exchange for a fee.

These funding options offer a smart way for staffing firms to leverage the orders, invoices, or service contracts they've already secured, while streamlining their back-office and mitigating potential risk.

# Get the flexible funding you need.

In the non-traditional economy of the post-COVID world, traditional forms of financing may not fit your unique situation. You need flexibility and creativity so that you can overcome the staffing industry's near-term challenges and capture once-in-a-generation opportunities that arise.

At White Oak Commercial Finance, you'll get:

- + Asset-based lines of credit
- + Accounts receivable financing
- + Customizable term loans
- + M&A financing
- + Ledgered lines of credit
- + Participations

With deep industry expertise, a range of financing solutions, and ready capital, White Oak Commercial Finance represents the perfect alternative financing partner to help you rethink how your assets can work for you and to fuel your staffing operations through the 2022 and beyond.

## Let's start today.



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#### Footnotes

1. [https://americanstaffing.net/research/fact-sheets-analysis-staffing-industry-trends/staffing-industry-statistics/#tab:tbs\\_nav\\_item\\_1](https://americanstaffing.net/research/fact-sheets-analysis-staffing-industry-trends/staffing-industry-statistics/#tab:tbs_nav_item_1)
2. <https://huntscanlon.com/recruiting-sector-is-weathering-the-pandemic-storm/>
3. <https://fred.stlouisfed.org/series/PRIME>
4. <https://www.cnbc.com/2021/08/07/there-are-about-1-million-more-job-openings-than-people-looking-for-work.html>
5. <https://www.forbes.com/sites/forbeshumanresourcescouncil/2021/08/20/three-indisputable-truths-about-the-great-resignation/?sh=5e83a0f778c9>
6. <https://home.kpmg/us/en/home/insights/2020/09/digital-acceleration.html>