

## Can't Make A Buck In Staffing? One Michigan Company Is Finding A Way.

Gervase R. Bushe

It's tough to make a buck in the staffing industry these days. The big players like Manpower and Kelly have pushed costs and prices down to the point where almost no one in the light industrial market can survive for long. The cost structure keeps margins so tight that even with over five and a half billion in revenues in 2006, Kelly made less than 64 million dollars - a one percent profit margin. With numbers like that it's hard to see how smaller staffing companies can compete and be profitable.

But at least one staffing company, Trillium, based out of Kalamazoo is bucking the trend. For the past three years it has been implementing a strategy that has seen its gross profits reach 20%, its net profit margins increase 60%, and they continue to go higher. What is that strategy? In the words of owner and CEO René Poch, it's moving up the food chain.

Like most smart managers in the staffing industry, Poch understood that the higher paid staffing positions translated into a higher bottom line. "We were a pretty conventional light industrial staffing business - you know secretaries and part time help. It became obvious that was not going to be sustainable in the long run. Increasingly we were being seen as a commodity with the big customers squeezing our margins. Big staffing companies don't make any money in North America and how do we compete with that?" says Poch. "We looked at the day-labor shops and they are making money but they do it by hiring the most desperate people, paying them minimum wage and then placing them in the kinds of positions we were placing for the same price - it didn't look like the way I wanted to take the business. If we can't go down, let's go up to the mid-level market, the \$10 - \$20 an hour placements. As it turns out, there really isn't anyone working that

segment of the market. It looked like it could be very attractive as it promised lower turn over and higher margins on each placement".

To get their 200 employees to focus on "moving up the food chain", managers at Trillium devised a system called "the petal". It was a word play based on the idea that Trilliums are flowers. Whenever someone made a placement worth more than \$10/hour with a 50% profit margin it was called a petal. They got to tell their story on a company webpage so that everyone in the company would know it happened.

While there was an increase in the number of petals over that first year, Poch was getting a lot of resistance from his workforce, who were used to the usual but unprofitable light industrial business. It turns out what he was asking his employees to do is really quite difficult because every body has to sell a different product; a higher priced person. There is less demand for higher priced talent than for the general unskilled or semi-skilled temp so the quantity of sales are less. You have to change how you find your placements and how you sell them. You have to find a higher skilled person and in a tight labor market there aren't that many of them looking for temporary work. And you also have to change how customers perceive your capability. Telling your workforce you want them to change their attitudes and behavior is easy to say but difficult to do. "Our recruiters, who were used to interviewing day labor, were intimidated talking to people in suits with resumes. Our sales people were afraid if they talked to the CFO or CTO about their personnel needs they would be embarrassed by their lack of knowledge. It's changing those attitudes and assumptions that is the hardest part", says Poch.

In the first year they made less money. As they chased less low margin work and increased the costs of hiring better people their revenues went down and costs went up. But in the second year the turnaround came and in the third it really started to take off. "We see this as a 3-5 year process", says Poch. "I'm sure we'll get this to a 7% business in the near future – I mean, we already have 7-8 branches that are consistently making net profits of 7% or better every month".

After that first year Poch realized that he needed to transform everything about how his staffing company did business. To achieve that transformation Poch employed the Big Rapids Group's profit amplification process. BRG combines knowledge about the psychology of motivation, leadership and change with bottom line business acumen to build companies whose profitability is best in class. Past clients have been as diverse as Herman Miller furniture manufacturers and Wesco convenience stores.

According to BRG's Tom Pitman, when they first started to look at Trillium they concluded that Poch had the right strategy but didn't have the right structures and processes in place to make that strategy come alive. "René needed to change how he focused his attention and used his authority. We believe that you have to focus your entire organization on uncovering, understanding and then amplifying the best of what you already do" says Pitman. "The wisdom is already there in your staff, what you have to do is put the light on instances of high performance and spread that knowledge and in the process, that in itself will put heat on people who are not making the change to your new performance standards". In Trillium's case, they began tracking their petals on a daily basis and ensuring that information was spread throughout the company. They implemented a conference call system where once a month, in half a day, René and his vice-presidents could interact with every branch in their organization, ensuring strategies were clear, tactics were evolving, and amplifying instances of success. After one year of using the performance

amplification process the number of petals increased 10 fold.

As the mid-level business has grown Trillium has been able to dramatically expand their permanent placement business as well. "A natural outcome of moving up the food chain is making higher level management placements and those people want full employment rather than contract work", says Poch. "The perm business is very profitable for us, yields high commissions for our people, and those high level people are in position to refer much more business to us."

After the first year Poch decided to apply BRG's process to the actual profitability of his company. Not only did he engage the whole company in moving up the food chain, he engaged them in increasing margins and profits. According to Pitman, this is where BRG's profit amplification process takes off. BRG revised Trillium's financial reports to make them far more user friendly and then organized the monthly conference calls around them. "I really like the graphics we get for 13 month trailing averages", says Poch, "they just make your trends so clear". The conference call structure "gets me more information, very quickly. It's condensed, it's one morning and, boom, I get a snap shot of the whole company all at once". René emphasizes this did not take the attention away from moving up the food chain, it just added a whole other set of considerations and taught branch managers how to make money. "Most people don't really understand profit", says Pitman. "If I say I want to double your profit they think that means they have to double their revenue, but that's not it at all. Every business has a break even point and once you get over that point a much larger percentage of every new dollar you make gets added to your profit. Depending on the cost structure of the business, doubling your profit might not require much increase in revenue at all". Poch and his VPs began teaching their employees how the finances worked in the company and amplifying people's efforts to increase their profit margins.

Through continuous attention to the details, new ideas for how individuals could improve all aspects of the business got spread throughout the company. Now a petal is a \$12/hour placement with a 50% profit margin.

By studying what led to small wins in the various Trillium branches, their strategy evolved. "It wasn't like any one event where the light went on", says Poch. "BRG's system helps us to continuously learn from the best of what our people do and keep searching for new ways to get better". They realized that a major hurdle was getting their customers to see them differently so they re-branded their mid-level business as Trillium ProSource. They realized that they could not simply rely on active candidates to meet their goals. They would have to get much more aggressive in recruiting passive candidates. If you consider that 60-80% of the entire workforce is willing to switch jobs if they get the right offer, there is a huge almost untapped potential out there. Recruiters got much more effective at finding potential candidates and sales people could use those lists to convince customers to bring more mid-level work to Trillium. "We are exploring ways to automate finding and matching placements using the databases that already exist on the web, says Poch. "Some of our people have come up with some really extraordinary ideas. I don't know if it's going to work but if it does it will revolutionize the staffing business".

"To make any business into a money making machine you have to line up the incentives so that everyone gains, and gains visibly, from the growth and profitability of the company" says Pitman. But so many small business owners have found little return from incentive plans. Colin Genge, CEO of Bellingham, Washington based Retrotec probably speaks for many when he says "We tried profit sharing and it just created more problems. There was always a big fight about what the profits actually were". Pitman agrees that incentive plans need to be well thought through, and need to be tied to an overall profit amplification process, to be

successful. "At Trillium they had dozens of incentive plans but each one in itself resulted in such small payoffs and in some cases pulled people in the wrong direction. We needed to totally revise it so it really did align people's attention and efforts with the kinds of performance Poch wanted from his employees".

And, says Pitman, just providing incentives is not enough. You also have to ensure people have the skills and resources to execute your new strategy. Trillium did a fair bit of training to support the change. They taught their recruiters how to recruit more effectively and how to interview more effectively. They gave their sales people sales training and training in negotiation. "It's been a huge shift and we've lost some people as a result. We had people who didn't like the pressure, didn't like the change", says Poch. "We had one manager who'd been with us for 10 years, who spent a year telling us why our strategy couldn't work in his market but when he finally left, we hired someone who understood our expectations and that market is now on fire". According to Pitman, changing assumptions and expectations about what is possible is what makes leaps in improvement possible. "You don't change people's assumptions by telling, selling or arguing with them", says Pitman. "They have to make that change themselves and the way we see it happen is when they see their peers do things they didn't think were possible. In this case, selling up the food chain, getting customers to pay more for services, finding people for placements that others thought weren't possible. We make sure those are highly visible and that people talk about what happened and how that happened. Then it dawns on people, well if so-and-so can do it, so can I".

And if Trillium can do it, you probably can too.

*Gervase R. Bushe Ph.D. is Associate Professor of Management and Organization Studies at the Segal Graduate School of Business, Simon Fraser University in Vancouver, Canada. bushe@sfu.ca*