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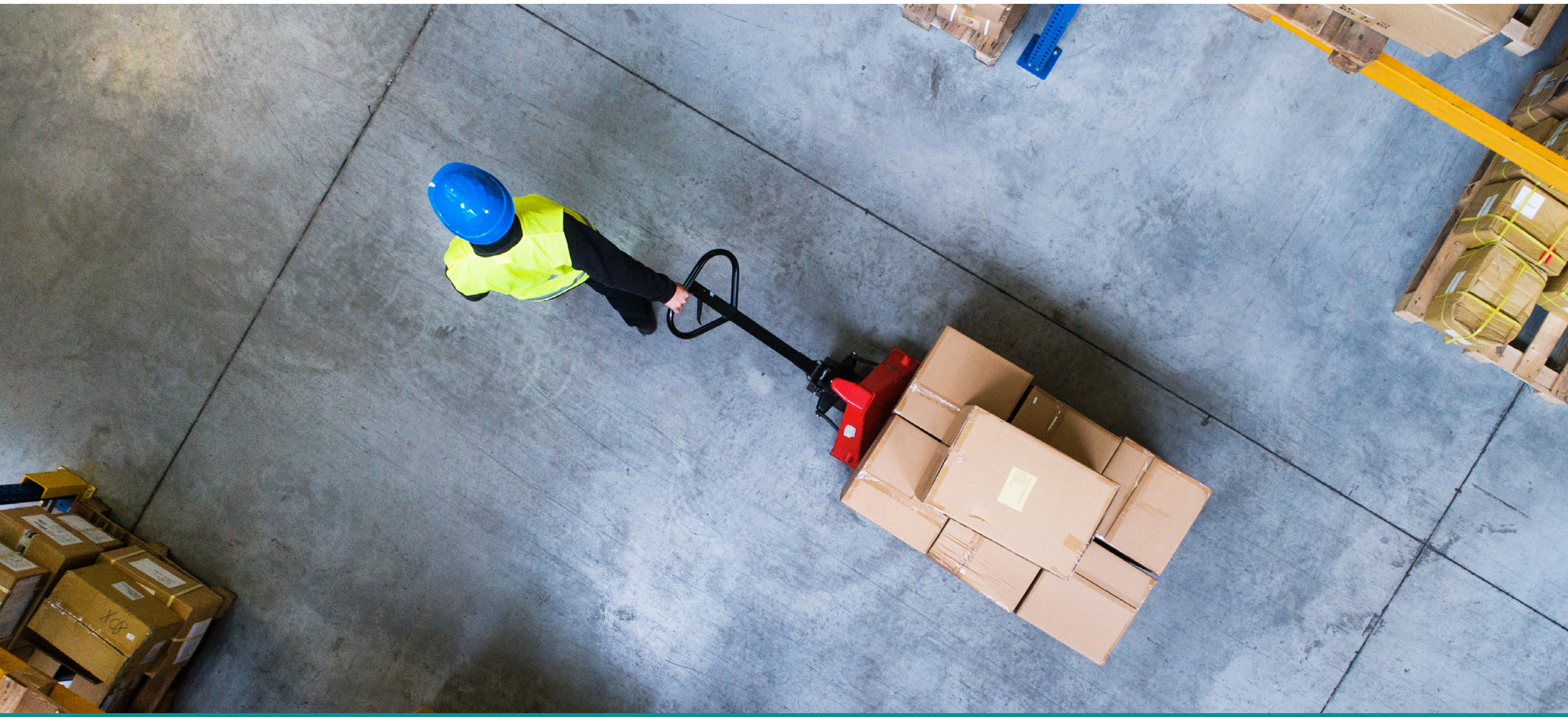

2019-20 Performance Survey Report

The Alternative Staffing Alliance is a national network of staffing social enterprises with a mission to connect motivated, diverse talent to employers and support their success. Managed by the ICA Group, the Alternative Staffing Alliance fosters B2B learning, provides tools and resources to strengthen operators' effectiveness, measures the sector's performance and impact, and supports the exploration and launch of new businesses.

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Introduction

The Alternative Staffing Alliance regularly conducts a performance survey to collect data about business and employment outcomes of alternative staffing organizations (ASOs). The following analysis reflects results reported for fiscal years ending September 30, 2019 through June 30, 2020.

During the summer of 2020, an electronic survey link was mailed to 35 ASOs operating for at least one year. Of these, 23 ASOs (66%) supplied data, and the data collection and analysis were augmented with follow-up interviews to clarify responses.

Key performance metrics are presented in the dashboard summary. The narrative section that follows provides additional details and compares selected alternative staffing outcomes with conventional staffing industry results reported by Staffing Industry Analysts.

Nearly a quarter of the participating ASOs have June 30 fiscal dates and were impacted by widespread shutdowns due to COVID-19 beginning in March 2020. Anecdotally, we know this event affected ASOs' business revenues very unevenly, and revenue trends data for the overall industry is provided as context. We also highlight examples of the alternative staffing sector's response to the pandemic and practitioners' resourcefulness in sustaining their businesses and meeting the needs of job seekers and employer clients during this precarious time.

We extend our sincere 'thank you' to all ASOs who participated in the survey and make it possible for us to benchmark operating results, identify trends, and demonstrate the scale and impacts of the alternative staffing sector to policy makers and funders.

For questions, please contact Janet Van Liere or Jonathan Ward as follows:

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Key Findings

All figures presented below are median values within the data set.

Total Earned Revenues (N=21):	$2,366,000
# Active Accounts (N=21) 26	% Revenue from Top 5 Customers (N=20) 70%
Average Bill Rate (N=21) $19.55	Markup (N=20) 49%
Gross Margin (N=19) 23%	Operating Cost Coverage (N=17) 100%
# Job Seekers Employed (N=23) 535	% Workers Converting to Hire with Employer Customers (N=20) 26.5%
Average Wage Rate (N=22) $13.27	% of Living Wage for a Single Adult (N=17) 101.4%

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Temporary Staffing and Total Revenues

Median revenue earned from temporary staffing services in 2019 was $2,000,000, up slightly from our 2017 survey result of $1,925,000.

Median total earned revenue was $2,366,000, which includes fees earned from direct placements, payrolling and other earned revenue in addition to temporary staffing service revenue.

Earned Revenue (N=21)	25th Percentile	Median	75th Percentile
Temporary Staffing Revenue	$900,000	$2,000,000	$11,600,000
Total Earned Revenue	$1,139,000	$2,366,000	$11,600,000

To gain insights into year-over-year-results, and recognizing that COVID-19 shutdowns in March 2020 impacted ASOs with June 30 fiscal dates, we compared each respondent's staffing revenue data with previous year results reported for our 2018 census of the alternative staffing sector. Revenue changes varied widely by individual practitioner, even when we isolated ASOs with June 30, 2020 fiscal dates. Median revenue growth of .7% within our sample tracks similarly to 2019 data from Staffing Industry Analysts, which reports the following year-over-year revenue trends for selected segments of the U.S. temporary staffing industry in which ASOs compete:

Revenue Growth, U.S. Staffing Market

*Projected

Staffing Market Segment	**2017**	**2018**	**2019**	**2020***	**2021***
Industrial	3%	4%	0%	-20%	15%
Office/Clerical	-5%	-2%	-2%	-20%	15%
IT	4%	4%	4%	-9%	7%

In response to the pandemic, we saw many ASOs effectively pivot to address the market disruption, social isolation and economic insecurity produced by this crisis.

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ASOs respond to COVID-19

As stay-at-home orders took effect in spring of 2020, ASOs acted quickly to adapt their operations, training, and services to meet the new needs of employers and job seekers.

ASOs mobilized to remain accessible to vulnerable individuals and ensure open communications with all. When its office was forced to close, Project Return turned its large parking lot into an open-air reentry services hub to help newly released individuals in Nashville secure food and shelter and survive the lack of work. Cara Connects in Chicago added $2.00 per hour hazard pay for workers in essential jobs and instituted regular check-ins to ensure they could access proper PPP and felt safe on the job. In Fairfield, Ohio, the team at Staffanation rapidly converted its manual recruiting, onboarding and scheduling processes to virtual systems to stay connected with workers, new applicants and employer clients.

ASOs introduced new business lines and engaged with new partners. Blue Jacket Staffing in Fort Wayne, Indiana and Valeo Vocation in Tacoma, Washington trained and employed janitorial crews to help local nonprofits conform to new sanitizing protocols. Uplift Northwest in Seattle provided workers to staff critical hygiene stations for unsheltered individuals and attracted a new tenant to run an on-site food program offering free daily meals. Chrysalis Staffing in Los Angeles employed hundreds of individuals to staff Project Roomkey, a network of emergency shelters in area hotels and motels created to house people at risk of contracting COVID-19 who were unable to isolate or quarantine in their own home.

And amid ongoing economic uncertainty, ASOs proceeded to enter new markets. GoodWork Staffing in Charlotte, North Carolina expanded into IT staffing, and GSG Talent Solutions began training and placing repair technicians for a high-volume IT business in Memphis, Tennessee, its first venture outside central Texas. MaineWorks opened a second office in New Hampshire, and First Step Staffing added operations in Trenton, New Jersey and Orlando, Florida. In the final quarter of 2020, we celebrated the launch of three new alternative staffing businesses – StepUp Wilmington in North Carolina, Entry Point Staffing in Bridgeport, Connecticut, and Achieve Staffing in Cleveland, Ohio.

These examples underscore ASOs' flexibility, creativity and resiliency, and their strong positioning to face the future. As economic and social currents move toward greater inclusion and equity, ASOs stand ready as ever to connect overlooked talent to essential frontline jobs, ensure workers have access to vital support services, and champion job quality and dignity for tens of thousands of individuals seeking to make fresh starts and lead productive, fulfilling lives.

Customer Concentration

Generally, customer concentration risk exists when a single customer represents more than 20% of total revenues, or when the top five customers represent more than 40% of revenues. In 2019, ASOs reported a median of 70% of revenues from their top five customers, up slightly from 66% in 2017 and 2015 and indicating significant customer concentration risk. In comparison, conventional staffing firms that service the commercial market segment (industrial and office/clerical staffing), report a median 40% of revenue from their top five customers.

Size of firm is a variable in customer concentration. Conventional staffing firms of all types with annual revenue of $10 million or less report a median of 55% of revenues derived from their top five clients. For firms of $11 to $100 million in revenue, the median is 38%.

ASOs reported a median 70% of revenue from their top five customers, up slightly from our last two surveys and significantly higher than the median 40% of revenue reported by conventional staffing firms that deliver industrial and office/clerical staffing.

Gross Margin

Gross margin is the difference between sales revenue and the direct costs of employment, including wages paid to temporary employees plus taxes, mandated insurance, and voluntary benefits. These costs include FICA, federal and state unemployment insurance, workers' compensation insurance, health insurance, paid leave, and other costs specific to this labor.

ASOs' median gross margin in 2019 was 23%, up from 22% reported in 2017 and 20% in 2015:

Gross Margin	25th Percentile	Median	75th Percentile
2019 (N=19)	20.5%	23%	26%
2017 (N=22)	19%	22%	25%
2015 (N=17)	16%	20%	26%

Measuring gross margin earned by industries served and individual customers enables staffing companies to track how much revenue each market segment or client account is contributing to cover overhead costs. It also enables staffing companies to price their staffing services appropriately.

The alternative staffing sector continues to perform competitively with conventional, publicly traded staffing companies as follows:

Gross Margin: Conventional Staffing Firms and ASOs	**2015**	**2016**	**2017**	**2018**	**2019**
Adecco	19%	19%	18%	19%	19%
Kelly Services	17%	17%	18%	18%	18%
Manpower	17%	17%	17%	16%	16%
Randstad	19%	19%	20%	20%	20%
True Blue	24%	25%	25%	27%	26%
Conventional Staffing Firms, Median	19%	19%	18%	19%	19%
ASOs, Median	20%		22%		23%

Markup

Markup is the percentage added to workers' pay rates to determine the bill rate. It includes direct labor costs, sales and recruiting costs, general operating costs, and profit. Individual customer markups typically vary based on the workers comp insurance rate for various job assignments, along with skill level, length of the assignment, and size of the account.

In 2019, ASOs' median markup was 49%, up from 45% in 2017 and 47% in 2015.

Markup Rate	25th Percentile	Median	75th Percentile
2019 (N=20)	43%	49%	66%
2017 (N=21)	36%	45%	64%
2015 (N=19)	37%	47%	64%

Operating Cost Coverage

Operating cost coverage is similar in concept to net profit margin. A firm breaks even when coverage is 100%, indicating a 0% profit margin. As in our previous survey, ASOs reported a median operating cost coverage of 100% from staffing revenues, reflecting the sustainable nature of this social enterprise model for workforce development. Several factors, including differences in how ASOs charge overhead expense and allocate costs for worker support services, significantly affect this metric.

Workforce, Wages and Conversions to Hire

ASOs employed a median 535 individuals over their 12-month reporting year. Total ASO employees ranged from a low of 34 to a high of 6,000 (N=23).

Wage Rate

ASOs reported a median "average wage" rate of $13.27 in 2019. To provide greater context for this number and better understand the quality of ASOs' pay rates, we used the MIT living wage calculator to compare average hourly wages reported by each 2019 survey respondent with their respective market areas' living wage for a single adult. "Living wage" refers to the wage rate required to meet minimum standards of living in a given community.

Within our sample of 17 ASOs supplying wage data and operating in a single geographic market, the median average wage rate paid to workers was 101.4% of the living wage for a single adult. Individual ASO wage rates ranged from 76% to 123% of their local living wage rates, with half of ASOs paying at or above the local living wage rate.

Average Wage as % of Living Wage for a Single Adult	25th Percentile	Median	75th Percentile
2019 (N=17)	96.1%	101.4%	106.9%
2017 (N=22)	86.3%	98.7%	106.3%
2015 (N=17)	90.1%	98.5%	102.9%

Half of ASO survey respondents paid average hourly wage rates at or above their local living wage for a single adult.

As employment social enterprises, ASOs aim to help motivated, diverse talent enter and succeed in the competitive labor market and equip them to achieve long-term, stable employment. ASOs may identify temp-to-hire opportunities or use a series of temporary placements for resume and skill building to achieve this goal. We asked ASOs to estimate the percentage of workers who converted to hire with employer customers and the percentage of workers who secured external employment on their own.

Temp-to-hire Conversions with Employer Customers

The median percentage of temporary workers who convert to hire with employer customers was 26.5%, up 2 points from 24.5% in our previous 2017 survey. The range of responses was 1% to 74%.
We compared these results with Staffing Industry Analysts' most recent available data for this metric, from its 2017 North American Staffing Firm Survey. In general, ASOs performed similarly to other commercial (industrial and office/clerical) staffing firms as follows:

Conversions to Hire with Employer Customers	25th Percentile	Median	75th Percentile
ASOs (N=20)	10%	26.5%	40%
Commercial Staffing Firms (N=123)	10%	24%	50%

Opportunities for conversion to hire vary somewhat by industry segment. Staffing Industry Analysts found the conversion rates at commercial staffing firms, with a median 24% rate, were substantially higher than at professional staffing firms, whose median conversion rate was 10%.

Percent of Workers who Secured External Employment on Their Own

Only 11 ASOs reported the percentage of workers who secured external employment on their own, with 9 ASOs responding they do not track their workers' post-exit employment status. Among the ASOs that supplied data, the median rate of workers securing external employment on their own was 25%, also up a couple points from the median of 22.5% reported two years ago.

Financing

The 2019 survey included several questions relating to how ASOs finance their operations. The questions were developed in cooperation with Self-Help Ventures Fund and the Federal Reserve Bank of Atlanta, which are working together to explore potential ways for Community Development Financial Institutions (CDFIs) to expand their financial services to support employment social enterprises and other workforce developers.

Sources of Capital (N=18)

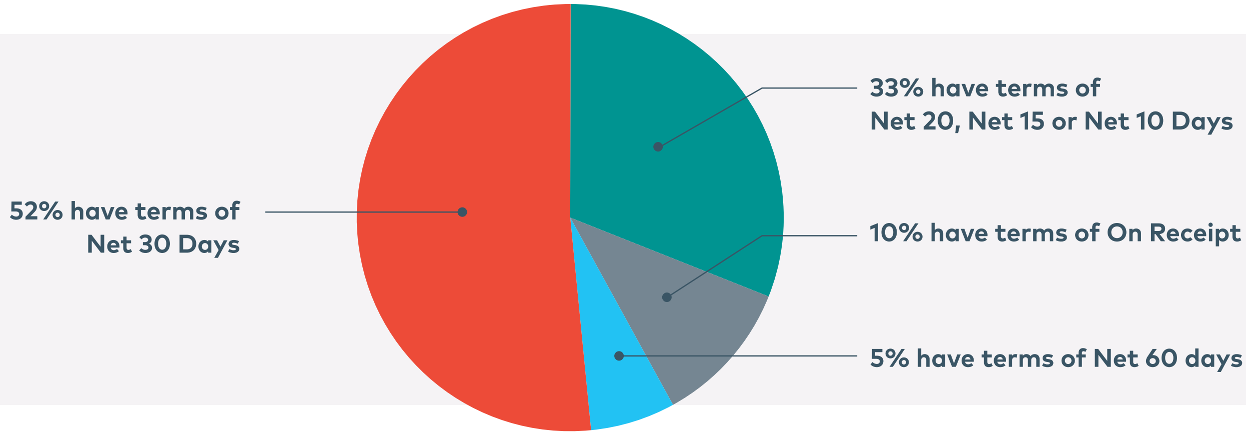
ASOs were asked about the sources of capital they use to finance their operations. Among our survey sample:

- 56% use income from grants or charitable contributions
- 56% use cash reserves
- 39% use a third-party payroll funder (i.e., invoice factoring)
- 39% have a loan or line of credit from a bank
- 11% have a loan from an individual

ASOs with access to cash reserves typically have a nonprofit parent organization and/or have operated enough years to build a reserve.

Payment Terms and Average Collection Period (N=21)

95% of ASOs reported selling terms of 30 days or less as follows:



We also asked ASOs to report their average A/R collection period and compared this with their respective selling terms. Payments ranged from “on time” to 57 days late, and the median was 8 days past due.

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Seasonality of Demand (N=20)

We asked ASOs about seasonality of demand for their staffing services. Just under half (45%) of respondents reported that their staffing enterprise experiences seasonal periods of high demand that require more operating capital to cover payroll.

Impacts of Inability to Access Capital (N=13)

We sought to understand the extent to which ASOs have difficulty accessing sufficient capital to operate and grow, and in what ways their growth has been limited. Among our survey respondents:

- 54% have delayed investments in internal hiring or professional development of staff
- 38% have delayed investments in technology improvements
- 15% have delayed investments in marketing
- 15% have had to turn away business or declined to bid for new contracts

Currently, only a handful of CDFIs focus their lending services on employment social enterprises. Expanding access to community development financing is one way to help alternative staffing businesses build their capacity, accelerate their growth, and in turn scale their social impact.