

# Contracting Corner

The Perm Recruiter's Contracting Resource

## New Standard: Contract Staffing Grows WITH the Economy!

Why should recruiters care about contract staffing when business is booming?

The last recession may be over, but a **fundamental shift** in the workforce has taken place, and recruiting strategies need to realign accordingly. For many recruiters, contract staffing has become a critical part of their success—in every economy.

Historically, an economic downturn has meant fewer direct job orders for recruiters and an increase in contract (contingent) placement opportunities. Then, during recoveries, it was standard for contract staffing demand to fall as direct job orders surged.

However, evidence is mounting that a new economic standard has emerged. In this article, we examine the signs that **contract staffing is now a permanent thread** woven through the fabric of the U.S. economy, and how recruiters can capitalize on this shift.

### The Contingent Workforce: Here to Stay

Even in post-recession times, companies are finding that speed and flexibility is the name of the game. To remain competitive and drive business growth, they need to get the best workers, and fast—but they also need to **stay agile, reduce risk, and keep fixed costs down**.

The [American Staffing Association](#) (ASA) notes, “businesses seem to be adjusting their employment strategies to better weather the economic volatility.” The need for agility and risk management was reinforced by a **rough 2016 start to the stock market. The solution businesses have found is a blended workforce** made up of direct hires and contingent workers.



**“Given the pace at which the contract-based contingent workforce is growing, there has never been a better time for recruiters to start down this path.”**

Surveys across the board report expected growth in this area:

- A recent [Manpower report](#) found that **23% of companies** facing a talent shortage are preparing to adopt alternative work models, including **leveraging contingent workers**.
- Ardent Partners' 2015-2016 State of Contingent Workforce Management report predicted that by 2017, the contingent percentage of the average company's workforce **will grow to 45%**.
- A Bureau of Labor Statistics survey revealed that **80% of large companies** plan to increase their use of a flexible workforce extensively.

The blended workforce model is already firmly entrenched. ASA's statistics show that staffing employment has grown **3.5 times faster than the economy and 7 times faster than overall employment** since the recovery began.

That kind of contingent growth in a recovery is historically

unprecedented. As the ASA concludes, “These trends suggest that a **fundamental, or secular, shift** [in employment] is helping to drive demand.” The shift to a flexible workforce is one that Top Echelon Contracting, Inc., has been experiencing in recent years, and it seems to be picking up even more speed.

### The Growing Economy’s Effect on Recruiting

It’s impossible to deny that the economy has improved immensely in the years since the recession. The **unemployment rate has dropped to 5%** from a recession high of 10%, and [Manpower Employment Outlook Survey](#) results show the highest **US hiring outlook for 2016 since the recession**.

However, [ERE](#) reports that companies are still dragging their feet on hiring, causing time-to-fill for open jobs to reach record highs. As a result, companies are losing over half of qualified candidates to quicker, better offers—and **recruiters are losing out on direct hire placement fees**.

From a recruiting standpoint, an improving job market is a double-edged sword. It means the job orders are flowing, and that’s never a bad thing. However, we’ve shifted to a candidate’s market, which means the **top challenge executive**

**recruiters face is sourcing qualified candidates**.

### How Does Contract Staffing Help Recruiters?

Contract staffing offers a number of advantages to recruiters working in the current market. For one thing, it lowers the chance that recruiters will lose out on hard-earned placement income due to slow-hiring clients. Due to the **lower commitment level of contract staffing**, clients are less likely to draw out the hiring process waiting for the “perfect” hire.

Additionally, recruiters often find it easier than expected to engage contract candidates. One key advantage of contracting is scheduling **flexibility**, which can help workers achieve greater work-life balance. Contractors can also have **higher earning potential**, since they are paid for every hour worked. Other selling points can include a **speedier hiring process**, the opportunity to **travel**, the ability to **expand skills**, and **access to a great benefit package** (through a contract staffing back-office).

The possibility of a contract-to-direct-hire conversion is often the clincher. An [ASA survey](#) revealed that **49% of staffing employees view contract work as a bridge to a permanent job**. This works great for clients who prefer “try-before-you-buy” solutions. Even better, recruiters earn money for every hour the candidate works on contract AND collect a conversion fee if the candidate gets hired directly—a “win-win-win” scenario.

### Case Study: Joe R. and Quick Success

Many recruiters are experiencing new success with contract staffing thanks to the shifting landscape. Joe R.\*, managing partner of a 2-person search firm in Washington, is a great example. He was stuck making the “hard sell” for direct-hire job orders and turning away business because he couldn’t provide contract solutions.

Joe had seen the value of contracting in past roles and wanted to be a “full-service” provider for his clients. However, he didn’t want to become the employer of record, so he looked into outsourcing the responsibilities and liability to a back-office. He decided to run contract business through Top Echelon Contracting, Inc., and made **8 contract placements in his first 8 months**.

Contracting is valuable because the income is **recurring** and **multiplied** by the number of contractors a recruiter has out at any given time. At one point, Joe was making a whopping



Top Echelon Contracting, Inc., the recruiter’s back-office solution, helps recruiters offer contract staffing to clients and candidates. As a contract staffing service provider since 1992, Top Echelon Contracting becomes the W-2 employer of record and handles all of the employee paperwork, legal contracts, timesheet collection, payroll processing and funding, tax withholding, ACA compliant benefits, Workers’ Compensation, invoicing, collections, background checks, etc. Top Echelon Contracting does business in 49 states and specializes in technical, professional, and healthcare contract placements.

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*Debbie Fledderjohann, President of  
Top Echelon Contracting*

**\$68.20 for every hour** that his first 7 individuals worked. As Joe said, “I love it because of the recurring revenue. Even in months when we don’t make any direct hire placements, we don’t have to worry about our cash flow because we have those contract profit checks coming consistently.”

Joe also thought ahead and put conversion fee language in place for all 8 contract placements. This means that if his clients wish to hire his contractors directly, they owe him a **fee above and beyond his contract income**. Two of his initial placements have already converted to direct hires, netting him an additional \$10,000+ payout.

Like most recruiters, Joe knows that getting your foot in the door with a client is often the most difficult part. Fortunately, once he had placed one contractor for a client, it quickly led to 4 more contract placements with them. He is now making **\$56.50 per hour from that client alone**. He profits from this relationship with **each working hour that ticks past** because he was able to provide a flexible solution to their staffing needs.

All told, Joe stands to make between **\$85,000 and \$115,000** (depending on whether his contractors convert to direct hires) **for just 8 placements in his first year of contract staffing**—assuming he doesn’t make any more between now and May. This seems unlikely, as he already kicked off the New Year with a placement in the first week of January! Joe plans to make more contract placements this year and projects that **25-30% of his firm’s gross profit** in 2016 will come from contract business.

## Gear Up for the New Year

Given the pace at which the contract-based contingent workforce is growing, there has never been a better time for recruiters to start down this path. And with the stock market starting off the year rough, it’s a good idea to hedge all your bets. You need to be ready for whatever 2016 throws at you, and contract staffing is a mainstay no matter which way the economy swings.

Joe R.’s case illustrates how quick and easy it can be to add contract staffing to your business using a back-office service. Check out the Q&A to learn how quickly you can start making contract placements!

*\*Name has been changed to protect confidentiality.*

## Q&A

### How Fast Can A Recruiter Start Making Contract Placements?

Using a contract staffing back-office, you can begin immediately!

Joe R. requested the [Quick Start Guide](#) in late April 2015 and **made his first placement through our back-office less than 2 weeks later**. He made another in June and picked up speed in the fall, with **3 placements in October and another 2 in November**. And he kicked off 2016 with a placement in the **first week of January!**

- 1. Why did you decide to add contracting to your business?** “In my niche, there is definitely a need for contract work. I had clients asking, but going into it, I didn’t expect we’d be able to do as much as we have. The quick success was a surprise, but now we’re building it into our business plan for 2016.”
- 2. What factors sped things up?** “Well, I decided to outsource employment of the contractors early on because I knew it was a pain to handle in-house, so I didn’t have to spend time building up my back-office. Also, once I started offering contracting, I didn’t have to do the ‘hard sell’ and talk my clients into a direct hire when it wasn’t what they needed. So I’d say once I had the back-office ironed out, listening for opportunities was the key.”
- 3. Which clients give you the best contract opportunities?** “I find it easiest with small to mid-sized companies. With the larger companies, the opportunities might be there, but they seem to already have more than enough staffing vendors for their needs.”
- 4. Do you expect all of your contractors to convert to direct hires?** “Most likely. At the higher level, the roles are more specialized, so there’s a 50-50 chance they’ll convert. It just depends on whether there’s a full-time need. At the lower level, most of those roles are ‘try-before-you-buy’ [in my niche], and they almost always convert at the end of the [6-month] contract. Either way, I always like to have a conversion fee in place just in case.”
- 5. Do you have contracting advice for other recruiters?** “Anyone who wants to try contracting should do it. If you use a back-office, it’s painless. In my experience, looking for cyclical business is the key—anywhere work needs can ebb and flow. It really is about listening to your clients.”

Request your **FREE Quick Start Guide** at  
[www.topechelon.com/contract-staffing](http://www.topechelon.com/contract-staffing)

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First Quarter  
2016

# RECRUITERS' ROUNDTABLE:

### See Where Contracting Grew in 2015!

According to TEC's placement statistics, **contract placements are 19% higher** than the same time last year. The following 5 areas were the biggest industries for contract staffing in 2015:

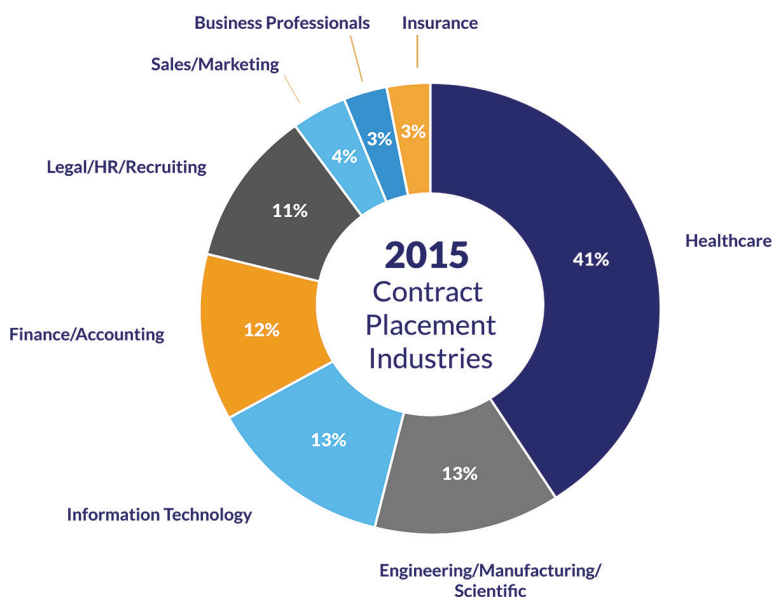
**Healthcare.** The Affordable Care Act and compliance requirements are still credited as the driving force behind growth in this sector. There is also an increased demand for contract therapy positions.

**Engineering/Manufacturing.** Projects and deadlines require contract solutions due to the talent shortage and skill gap.

**Information Technology (IT).** A strong performer year after year thanks to technology growth and a project-based industry. Other factors: an industry-wide skills shortage and a growth spurt in health IT.

**Finance/Accounting.** Audits are on the rise, and with them, the need for contract employees.

**Legal/HR/Recruiting.** Huge growth in this sector and a trend toward hiring in-house recruiters are behind placements.



### WHAT'S INSIDE:

- ✓ New Standard: Contract Staffing Grows WITH the Economy!
- ✓ Q&A: How Fast Can I Start Making Contract Placements?