



Evolution of Workforce Strategy

Business White Paper

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Introduction

The reality of today's trying economic climate has forced organizations of all sizes and across all industries to reevaluate their approach to workforce staffing. Not long ago, employers worried about the balance of union vs. non-union labor. However, today, the focus has largely shifted to decisions of hiring W-2 payroll employees, 1099 independent contractors, or an outsourced staff through vendors.

This white paper discusses the pertinent information surrounding this issue and presents recent industry research regarding the topic. In addition, the paper contains actual case studies highlighting organizations faced with making these workforce decisions and SA IT shares what they have learned from over 25 years of experience managing an integrated workforce.

Industry Overview

Any industry review of recent workforce issues and trends must begin with the economic recession beginning in late 2007. The New York Times (*April 2012*) compiled and compared workforce losses and recoveries around the last five recessions since 1994, revealing two interesting patterns.

First, the length of time for full job loss recovery has increased with each succeeding recession. For example, the recession of 1980 required less than a year for full job recovery, while the recession of 2001 required nearly four years to return to its original state.

Second, the current recession exhibits a depth of job loss dramatically different than recessions over the past three decades. As previously mentioned, each succeeding recession has required a longer period of time to restore the jobs that were lost. If this trend continues, in combination with the extreme depth of job losses since 2008, full restoration of jobs for this current recession may not take place for five or more years.

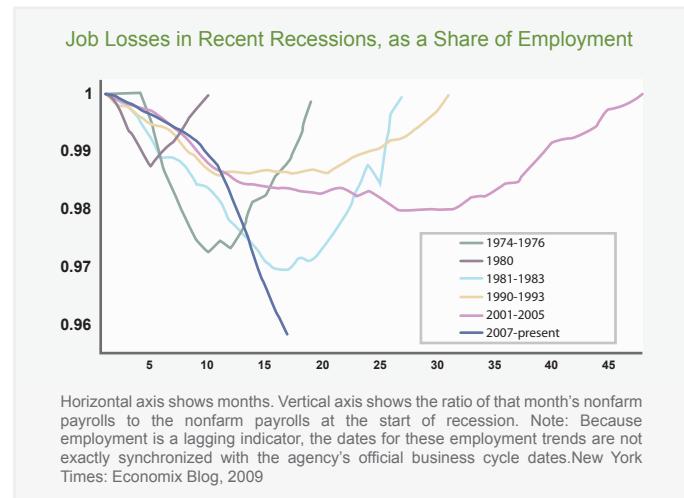
Since the downturn of the economic recession, most companies have looked for ways to save money and reduce spending as budgets have been cut back.

The chart below illustrates the impact on job losses this current recession is having in comparison to recent ones. Represented by the dark blue line, it is clear to see that we are experiencing a more severe loss of jobs and have yet to make a turn for the better.

It is no surprise that economic recessions have a direct impact on that of employment numbers and job losses. But why is the recovery period lengthening with each successive recession. One reason may be directly attributed to the increased use of 1099 independent contractors and outsourcing of jobs to staffing companies.

Businesses are looking for ways to reduce labor costs – and the cost difference between hiring an employee vs. an independent contractor can be vast. According to Steven Snyder of Rominger and Associates, hiring an employee costs 25%-30% more than hiring an independent contractor. Large companies, including Fortune 500 organizations, now augment their workforces from 10% to 50% by outsourcing work to consulting companies or by hiring temporary help.

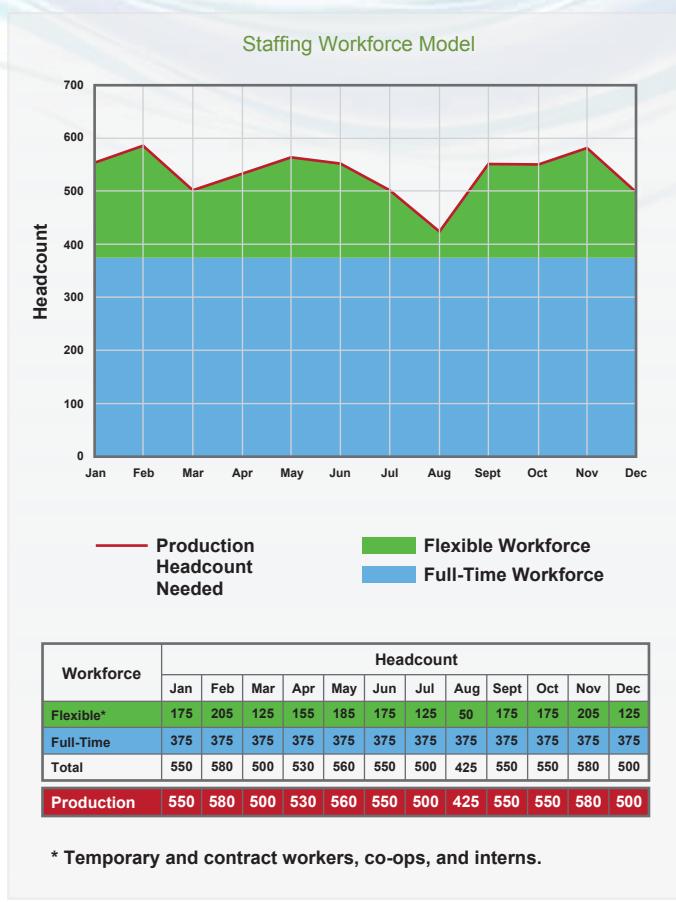
The staffing strategy helps companies reduce short-term workforce costs, but also contributes to elongating the recession recovery. By utilizing consultants or contractors, a company can certainly achieve low headcount while maintaining the labor resources they need (source: *Slaughter Development, LLC 2012*). The question remains, however, is this approach effective or just a short-term reaction to the current situation? The remainder of this paper will explore the optimal workforce structure for today's dynamic business environment.



Comparing This Recessions to Previous Ones: Job Losses
New York Times: Economix Blog, 2009

Old Model vs. New Model

According to MAU Workforce Solutions (*The Birth of a New Workforce*, 2010) in the past, a great majority of organizations pursued a W-2 only workforce model. The Patriarchal Workforce Model consisted of full-time, regular employees that built careers of multi-decade loyalty to a single employer. These employees typically stayed with a single company for most of their lives, retired and then collected pensions. The Patriarchal Workforce Model created highly trained, loyal and productive workforces. However, this model had no buffer against market fluctuations which created workforce to market demand imbalances as companies could not add staff or shed staff quickly to react to market conditions. As a result, the Patriarchal Workforce Model proved to be expensive, inefficient, and lack flexibility.



As MAU Workforce Solutions notes, however, “Staffing trends have dramatically changed over the past several decades, and have since evolved into a flexible, fluid design.” The Staffing Workforce Model, also referred to as the Integrated Workforce Model, gained popularity due to its ability to help businesses respond to change. Businesses began to adopt the idea of hiring temporary help to handle seasonal, economic, or productivity changes.

The graph represents a case study on Butler’s Manufacturing published in October 2011 revealing a proper headcount of independent contractors vs. fulltime employees. It illustrates the flexibility that hiring independent contractors may be easier to manage during labor demand fluctuation.

The Integrated Workforce Model approach enables companies to maintain the benefits of their fulltime staff as their core labor pool and augment it with non-traditional temporary labor such as independent contractors. This outsourced labor allows for quick increases or decreases in labor resources depending on market demand.

For example, during the months of February and November there was a production headcount increase from 550 workers to a demand of 580 workers. However, Butler's workforce was comprised of only 375 fulltime workers. Bringing in 205 flexible workers (i.e. independent contractors) helped Butler adapt to the increase in work demand without incurring labor costs associated with hiring additional fulltime staff, by employing temporary help. The Integrated Workforce Model enables businesses to increase adaptability, flexibility, and scalability.

Strategic Alignment

Strategically defining customer needs and business goals is essential in determining the proper workforce combination. Few companies employ an entirely W-2 workforce model or an entirely 1099 independent contractor workforce model. The key is determining the right balance of W-2 employees, independent contractors, and outsourced vendors. Simply adding outsourced or 1099 labor to the workforce does not guarantee reduced costs, improved adaptability, improved flexibility or scalability.

Before implementing a new workforce strategy, experts advise companies to first strategically define their customer needs and then align the workforce goals to fulfill those needs.

For example, Tim Bailey from Avid Builder notes a workforce model aligned with company deliverables and outcomes equates to better customer satisfaction. Case studies of many successful companies reveal that happy employees create happy customers. In fact, the primary influencer or customer relations are employee relations.

A positive employee to employer relation environment creates positive employee to customer relations. According to a case study conducted by ADP in 2012, employee engagement not only creates customer satisfaction but also directly impacts an organization's bottom line allowing companies to be more productive and more profitable. Pursuing an Integrated Workforce Model, however, makes it more difficult to achieve high levels of employee satisfaction and loyalty. Deciding on the proportion of W-2 employees to 1099 independent contractors is not always easy. One of the most perplexing decisions for a manager is when to hire someone as an employee or when to engage the person as an independent contractor (*Georgetown University, 2008*).

Integrated Workforce Model

1. **Adaptability** - Adaptability is the ability of a business to change the skills and characteristics of its workforce in response to changes in the marketplace. An Integrated Workforce Model allows companies to more easily adapt to the changing environment and respond to customer needs. As times change, the skillsets of workforces also need to change in order to keep up with trends in the industry.

One obstacle to adaptability is cost. Hiring new employees that possess the skills and experience required by the changing marketplace is expensive. According to the study conducted by MIT (*How Much Does an Employee Cost?, 2002*), on average the cost of a salaried W-2 employee increases by 25%-40% of the base salary when adding benefits and overhead. These expenses include life insurance, workers compensation, health benefits, retirement plans, occupancy space, and managerial and administration costs. Experts conclude that the relevance of MIT's research, as it applies to conditions today, has significantly changed. In fact, benefit costs have increased to an average of 50% of an employee's base salary in 2012. With such large costs to hire and train a W-2 employee, it is understandable that businesses today are moving toward incorporating more contractors and outsourced workforces.

"It is estimated that contingent workers make up more than 30% of the workforce in the U.S."

- Advisory Council, U.S. Department of Labor

2. **Flexibility** - While adaptability relates to an organization's ability to react to external forces, flexibility relates to the organization's ability to quickly change its own strategic focus and direction based on internal decisions. Independent contractors allow firms to use labor services in situations where a traditional employment relationship is either impractical or uneconomic for the worker, the client, or both (*Jeffrey A. Eisenach Navigant Economics, LLC; George Mason University School of Law, 2010*). An Integrated Workforce Model allows companies to more rapidly change the internal nature of their employment structure to best suit the needs of customers who do not require traditional employment.

Many employers embrace the concept of hiring independent contractors because they allow for greater flexibility in expanding and contracting their workforce. An independent contractor can be hired to accomplish a specific task and then released, enabling a business to obtain specialized expertise for a short period. An experienced independent contractor can usually be productive immediately, eliminating the time and expense involved in training employees (*Subsurface Consultants & Associates, LLC, 2012*).

3. **Scalability** - Applying more independent contractors and outsourced staffing vendors can easily achieve projects and other goals achieved through the combined work of these new employees. This additional outsourced support can help the company complete initiatives at a faster pace, enabling the company to take on more projects and complete current ones at an accelerated rate. Able to achieve scalability not only in terms of staff size, but also in geography, the Integrated Workforce Model enables a business to quickly onboard and deploy labor to remote geographic locations. The effectiveness of having independent contractors working with local employees can be limitless and brings greater productivity for both sides of the party.

In summary, national trends show a shift toward an integrated workforce comprising of W-2, independent contractors, and other outsourced vendors. In fact, the department of labor reports that over 30% of the U.S. workforce is comprised of contingent workers. The shift in the national workforce is supported by a multitude of corporate case studies, including SA IT's own findings through managing and implementing integrated workforces for over 25 years.

SA IT's Approach

With over 400 W-2 employees who have been background checked and drug screened, SA IT Services is able to deliver leading IT services with all the professional and legal advantages of a traditional workforce.

For over 25 years, SA IT has helped clients implement an Integrated Workforce Model by augmenting their W-2 workforce with SA IT's workforce. The following examples represent real life situations in which the Integrated Workforce Model enabled the client to achieve increased adaptability, flexibility, and scalability.

In early 2008, nationally recognized midwestern bank needed to upgrade office technology for nearly 25,000 employees at corporate locations in the downtown Chicago area and in Minnesota. The challenge was to complete all 25,000 technology upgrades by Labor Day, 2008. The bank, however, experienced a substantial amount of delays throughout the winter and spring due to network and application issues. With the deadline quickly approaching, the bank partnered with SA IT to complete the task on time. SA IT utilized a hybrid workforce to complete the job and was able to bring in nearly 30 trained and certified staff of independent contractors in the Chicago and Minnesota regions. The independent contractors worked hand-in-hand with the bank's W-2 staff and completed the project on time and within budget.

In 2007, SA IT worked on project consisting of about 8,000 users in 12 call centers that required technology refreshes nationwide. After the client had already received and staffed their workforce for the current year of 2007, the challenge was then handed over to SA IT. The current ratio of employees was not enough to take on such a large-scale project to complete within the given deadline. SA IT hired 16 contractors in which 4 travel teams were created from that group. Each group was then sent to one call center for 2 weeks to complete the assigned tasks. The overall result of the project proved to be a great success for both SA IT and the client, completing the job to specification and well before the deadline. In the end, SA IT was able to retain several of the contract employees to work on future technology refresh assignments.

About SA IT Services

SA IT delivers outsourced IT support services via a direct employed staff of W-2 employees and a variable 1099 independent workforce, comprised of over 400 IT professionals nationwide. SA IT also provides staff and clients with proprietary software solutions to increase productivity and service level performance.

With over 25 years of experience in the information technology industry, SA IT understands firsthand that the value of an Integrated Workforce Model. In today's environment, businesses need both dedicated W-2 labor resources as well as access to 1099 independent contractors and outsourced vendors. SA IT assists clients in satisfying the needs of their customers with access to the necessary labor resources when required. We have the ability to quickly deploy highly trained and skilled labor for clients residing in the most remote locations and can provide long-term access to these employees if necessary.

The critical component to supplying clients with the appropriate workforce mix involves training, technology, and access to systems that enable these alternative workforces to be efficient, productive, and meet the needs of the client. When SA IT deploys an independent contractor for a client, that individual possesses the relevant training and access to technology to efficiently solve the client's issue.

Our team of technical experts includes Certified Six Sigma Black Belts (CSSBB), CCNAs, CCIEs, and Microsoft Professionals. Often, SA IT provides access to skillsets that may not exist within the client's own staff. SA IT's certified professionals have the ability to develop solutions to optimize your IT investment and generate higher operating capabilities at economical costs. SA IT delivers industry leading professional and managed IT services to companies that range from having less than 100 employees to organizations with over 100,000 employees and can be onsite within 4 hours to resolve device interruptions regardless of location.

TO LEARN MORE, VISIT WWW.SAITSERVICES.COM
Contact us today at (770) 569-2828.

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