

## **American Staffing Association: Products and Publications**

### ***Staffing Success Magazine (March–April 2007)***

#### **Loyalty Lowdown**

#### **Are Your Clients Looking for a New Staffing Firm?**

*By Eric Gregg*

This may come as a shock, but nearly one-third of your clients may be looking to replace your staffing firm with a competitor. A recent study of human resource decision makers conducted by staffing industry research firm iLoyalty found that 31% of staffing clients had considered changing primary staffing firms in the past 12 months. Based on recent industry revenue figures, that means that as much as \$25 billion in temporary and placement contracts are potentially at risk.

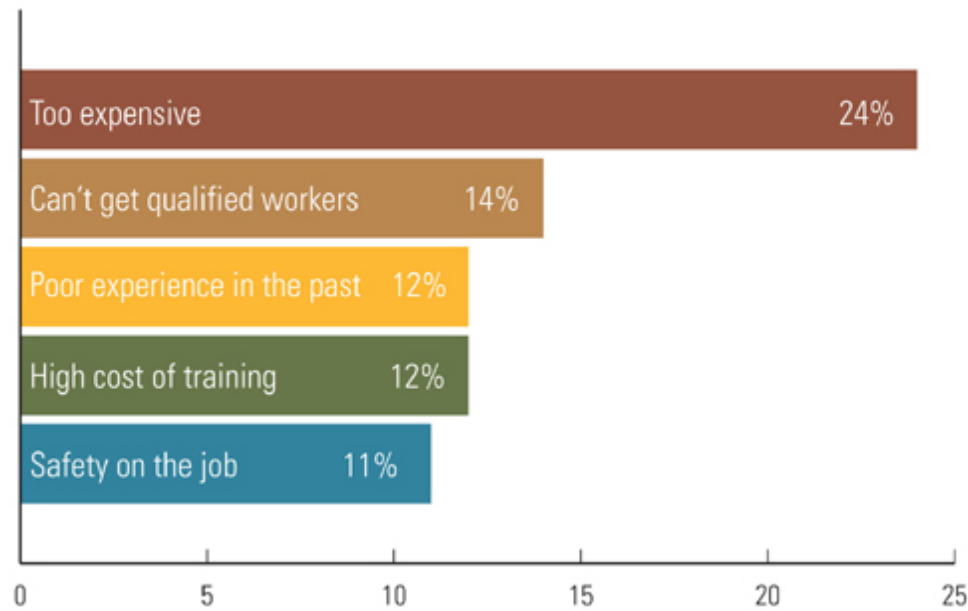
The study, which included responses from more than 500 human resource professionals responsible for staffing decisions, found that the staffing industry suffers from low client satisfaction and loyalty, with many clients actively looking for a new staffing provider. Are your key accounts safe?

#### **You Are Now Free To Seize the Opportunity**

Although the low satisfaction and loyalty scores are troubling for the industry as a whole, they represent significant opportunities for individual staffing firms. Consider the airline industry for a moment. When Southwest Airlines entered the industry, few airlines were able to consistently achieve profitability, and essentially every airline operated the same way, often at odds with the needs of customers. Southwest entered the competitive market flying different routes at much lower costs than its competitors, and offered unparalleled options for changing flights and other retention-based strategies.

Southwest redefined the relationship between airline and passenger and has been rewarded with 35 straight years of profitability, while many of its competitors have faced financial losses and bankruptcies. The company's innovative and aggressive approach redefined the airline industry, increasing competitiveness and ultimately helping to increase the number of people flying because of the affordability of its flights.

The staffing industry today shares many parallels with the airline industry of the early 1970s: limited differentiation between companies, low levels of client satisfaction and loyalty, and enormous opportunity. Recent studies by iLoyalty and the American Staffing Association estimate that between 74% and 85% of companies in the U.S. do not use staffing firms for any of their staffing or human resource needs. The top five reasons why are presented in [Figure 1](#). While these firms are no doubt often small to medium in size, they still represent millions of dollars in potential sales for innovative and aggressive staffing firms.

**Figure 1: Top Five Reasons for Not Using Staffing Firms**

### Satisfaction Myth—Why Loyalty Matters

For years, businesses have strived for (and measured) client satisfaction. Only recently have studies shown that in most industries, satisfaction has a somewhat weak relationship with client actions and ultimately, financial performance. Client loyalty is a much stronger indicator of business success. For those not closely following the research debate, the difference can seem like mere semantics. However, there is more to it than that, at least within the staffing industry.

To understand the difference, let's consider the following example. One of your clients has been with your staffing firm for years. The client currently spends 100% of its staffing budget with you, and you believe you have a strong working relationship with the client's staff. However, a competitor has just offered your client a risk-free analysis of its staffing practices and would like the opportunity to provide candidates for its next opening.

If your client is loyal, the client's staff will politely tell the competitor the client is not interested, it already has a staffing partner, and it would not consider changing firms at this time. However, if the client is only satisfied, the client's staff are likely to think that this free service may have some value, and it wouldn't hurt to have another firm send a few candidates. After all, attracting talent is a challenging business.

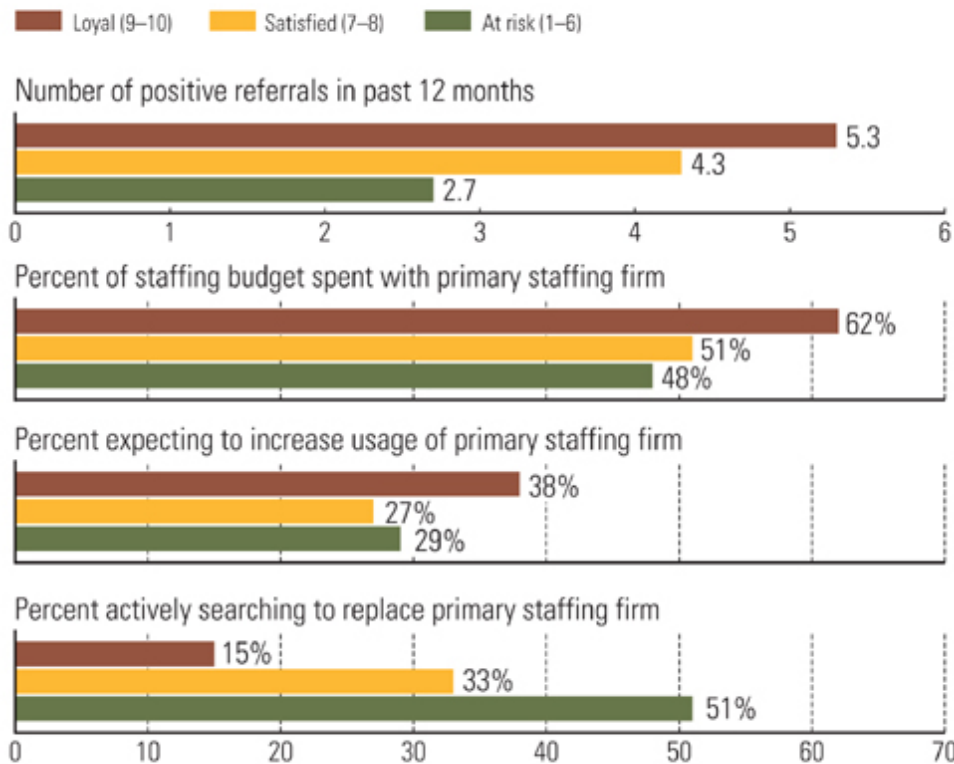
Which type of client would you rather have—satisfied or loyal? Dan Neuburger of Today's Staffing, headquartered in Dallas, puts it best: "Client loyalty is the one and only asset that competition cannot undersell and destroy."

If good is the enemy of great, as management educator Jim Collins asserts in his best-selling book *Good to Great*, then satisfaction is the enemy of loyalty.

If clients ranked your staffing firm, on a scale of 10, at 6 or lower in a particular area, it would open eyes. People at all levels of your firm would agree that changes need to occur. But if the ranking was a 7 or 8, the sense of urgency would be lost. It is easy to say, "We want to do better, but a 7 or

8 is still pretty good." However, the difference between clients that are satisfied (7 and 8) and clients that are loyal (9 and 10) is very real in the staffing industry (see [Figure 2](#)).

**Figure 2: Differences Among Clients That Are Loyal, Satisfied, and At Risk**



Loyal clients—those who indicate they would be willing to refer your firm to a friend or colleague—show their loyalty with their actions. They are half as likely to look to replace you, and they provide 25% more positive referrals than those who are merely satisfied.

The gap between loyal and at-risk clients is even greater. On average, those who give your firm a 6 or lower are more than three times as likely to be looking to replace you and nearly half as likely to give you a positive referral compared with loyal clients.

**Staffing Industry Report Card**

One simple way to grade the staffing industry's performance in the area of client loyalty is to compute the overall "net promoter" score. The net promoter concept, popularized by Harvard Business School graduate and loyalty expert Fred Reichheld, uses as its basis a client's willingness to refer a business to friends or colleagues. The score is computed by subtracting the percentage of detractors from the percentage of promoters.

The net promoter score (percent loyal clients less percent at-risk clients) for the staffing industry is 10%, according to the iLoyalty study. This score is lower than those of many industries, as reported in a recent *Harvard Business Review* article by Reichheld, including the airline and car rental industries—not known for their high levels of customer service. This score varies substantially across staffing firms, yet indicates low levels of loyalty within the industry as

a whole.

### **'Staffing Buyer Six'**

So how do we improve loyalty? In the iLoyalty study, of the 38 specific questions asked regarding service performance, six rose above the rest in their combined ability to predict loyalty. This "staffing buyer six" provides a model that drives loyalty in the staffing industry:

1. My staffing firm makes me feel like a valued client.
2. The internal team at my staffing firm is available when my business needs them.
3. The quality of the temporary staffing sent to us by my staffing firm has consistently met or exceeded my expectations.
4. I trust the people I work with at my staffing firm.
5. The service provided by my staffing firm is exceptional.
6. My staffing firm provides the best value in the staffing industry.

How would your clients rate your firm on each of these six factors? If your ratings are high in these areas, your clients are likely loyal and promoting your business when given the opportunity. If your firm underperforms in any one of these areas, your client base may be at risk, leaving you vulnerable to large swings in orders from your clients—and profitability.

### **Strengths and Weaknesses**

The iLoyalty study also looked at strengths and weaknesses of the staffing industry and found the industry to be quite successful in many cases at building personal relationships and providing services in a timely fashion.

The five questions that received the greatest percentage of responses of 9 or 10 are industry strengths:

1. Responds quickly to our staffing needs.
2. I enjoy working with my contacts.
3. We receive temporary hires in the timeframe we need.
4. Has done an excellent job building a relationship with me.
5. Committed to nurturing a long-term relationship with our organization.

However, clients rate their primary staffing firms quite low on questions regarding the value provided and use of technology to provide information in a timely manner.

The five questions that received the fewest percentage of responses of 9 or 10 are industry weaknesses:

1. Has helped our company reduce turnover.
2. Our profitability has increased due to my primary staffing firm.
3. The service provided is exceptional.
4. Utilizes technology to deliver the staffing and HR information I need.
5. Provides the services we need at a reasonable cost.

### **From Ordinary to Extraordinary**

Although understanding the drivers of loyalty in the staffing industry is a valuable exercise, if the information is not made actionable, it will be of little use to your staffing firm. Through research and interviews with industry

leaders, iLoyalty developed five steps to transform your staffing business from ordinary to extraordinary:

1. Be different and find clients that value that difference.
2. Put clients first.
3. Eliminate service failures.
4. Look for "wow" opportunities.
5. Measure and track your firm's performance over time.

### **Step 1: Be Different and Find Clients That Value That Difference**

The first step in building a sustainable and loyal client base is to find your unique value proposition within the industry. Start by taking a good hard look at your staffing firm's entire value proposition. How do you differ from your competitors?

Jim Lanzalotto of the Yoh Group, based in Philadelphia, believes that differentiation is one of the keys to success in the staffing industry. "It is critically important that companies differentiate themselves," he says. "There is little differentiation in this industry. Some individual companies attempt to differentiate, but there is not a significant distinction in the marketplace."

A differentiation strategy for your firm must pass two tests.

First, it must be defensible. If your answer to how you are different is that you provide higher levels of customer service or you offer a lower price, you may be in trouble. These are two examples that are hard to prove and difficult to defend.

If you meet with a prospective client and the message you deliver is that you will provide better service and a lower price, you may get the order. However, no matter how well you service the account, you are constantly at risk of losing the business if a competitor delivers the same message. If you do pick a differentiation strategy that is based on your service, find ways to prove it to your current and prospective clients. Show them concrete examples of things you do that your competitors don't or can't.

Second, your point of differentiation must be meaningful. If my staffing firm's point of differentiation is that we focus exclusively on placing left-handed temporary and contract employees, I might find that I am truly different from my competitors. However, I am also likely to find that my prospective clients don't care. Your point of differentiation has to be meaningful and valuable to your clients, not just to you and your staff.

Once you have an idea of what makes your staffing firm special and different, try it out on friends and family. If you can't get them to genuinely understand how you are different and see how this difference would be extremely valuable to a certain type of organization, chances are your prospective clients won't get it either. And if they don't get how you are different from the rest, you aren't different from the rest. In the eyes of clients, perception is reality.

Once you have a differentiation strategy that is defensible and meaningful, you have to find the right clients. While it is always difficult to turn away potential business, it is very important to target and select the right clients for your business. Buy, don't sell. That is, you should be searching for and selecting clients that your business is uniquely qualified to serve. If you specialize in placement for government agencies, the start-up technology

company down the street is likely not a good fit for your firm. Although in the short term this strategy may limit certain opportunities, it will provide a more solid foundation for growth and will keep you and your staff focused on your core strengths as a business.

## **Step 2: Put Clients First**

"We are client focused."

"Our firm exists to provide clients with the services they need."

It has become popular to mention in some way how focused your firm is on the needs of your clients, but do you really live it? Is your staffing firm truly committed to the needs of your clients, even if that means making decisions that may not be in the short-term best interests of your business? If you are to build a company that excels at client loyalty and retention, your firm has to live a client-first strategy, not just talk about it.

According to Lanzalotto, putting clients first is fundamental to business strategy. "It's real simple—deliver the right talent at the right place to the right client. You have to always strive to do what's right by your clients."

A client-first strategy has to start at the top. Many staffing firms offer their sales associates a commission or bonus for bringing in new business. It is a longstanding strategy, and it makes sense because new business is one of the engines for growth in almost any industry.

However, how many of the same staffing firms reward turning down business from a company that is not a good fit for the staffing firm's focus? How often are employees rewarded financially, or even verbally, for providing great client service, for going above and beyond what is expected by the client, or even simply for helping to retain the client they sold to last month?

Your staffing firm's reward structure sends a very important message to your employees about what you value. If all you provide is a commission for generating new clients and a quarterly bonus based on the financial performance of the office, you are telling your employees that short-term financial success and new business are more important than client loyalty and retaining existing clients. Imagine changing the compensation structure to reward your employees equally based on generating new business and retaining existing clients. How about a system that provides quarterly bonuses based on both the financial performance of the office and the ratings your clients give you for the service you have provided?

Aaron Green of Professional Staffing Group in Boston ties promotions and compensation to the net promoter scores his staff receive from their clients. "By building it into our compensation and promotion systems, we've made a statement that as you advance within the company, one of the things you must demonstrate is the ability to uncover what makes your client and candidate base loyal."

By making client loyalty paramount to promotions in his firm, Green has sent an unmistakable message about the importance he places on serving the client.

## **Step 3: Eliminate Service Failures**

The iLoyalty study found that clients that rated their primary staffing firm a 2 or lower (out of 10) in any area in the study were twice as likely to be actively searching to replace the firm.

The clients in this group were also significantly less likely to refer the staffing firm and spent a smaller percentage of their staffing budget with the firm that had failed them, on average. It is a near certainty that those who experience a service failure are hurting your business. Not only are they more likely to use a competitor, but they are also likely retelling the story of your service failure.

The iLoyalty research found that service failures most often occur for one of two reasons: Either the staffing firm has a fundamental flaw in the design or execution of its process, or it is failing to manage the expectations of its clients and communicate with them throughout the process.

The result, an unhappy client, is the same in each scenario. However, the cure for each is very different. In cases in which there is a fundamental flaw in the process (for example, reference checks aren't being completed or candidates aren't being coached on interviewing skills), the process must be changed. There are other times when the process is not the problem, but there is a breakdown in expectations or communication. The expectations of your client are fundamentally related to their perception of your firm. If the client is expecting you to send three potential candidates by Tuesday and you send them on Wednesday, you have not met the client's expectations. If the client wasn't expecting the candidates until Friday, you have exceeded the client's expectations.

"We let the client know right up front if we don't have the available talent and lay out the available options," says Linda Carchidi of JFC Staffing Associates, based in Camp Hill, PA. "Even though you may lose that piece of business, that client is going to call you back."

The staffing industry provides clients with a tangible product (quality temporary employees) through a series of largely intangible services (such as screening potential applicants, interviewing them, conducting background checks). When a temporary employee shows up at a client's job site, the client has no idea whether you screened out 100 people to find this one candidate you believed was a good fit, or whether you filled the position with the first warm body you could find. You have done the work behind the scenes to provide a good candidate. Now make sure you receive the credit for the steps you took by communicating the process to your clients.

To eliminate service failure, you must first understand when and why it is occurring. To do this effectively, we borrow a methodology from the field of operations management called root cause analysis.

Fundamentally, root cause analysis is built around the concept that to improve operations, it is imperative to identify the root cause of the problem, not just the symptoms. For example, if your clients rate the professionalism of your temporary employees low, you must continue to ask *why* until you find the true cause of the problem. Perhaps it is because they show up to work a few minutes late. That is merely a symptom of the problem, not the actual cause. Why do they show up late? It may be because your firm tells temporary employees to arrive for their job assignments at the agreed start time. You may need to change your policy and ask temporary employees to arrive 15 minutes before the agreed start time to ensure that they are on time. By fixing the root cause, the symptoms go away.

#### **Step 4: Look for 'Wow' Opportunities**

Once you have identified and fixed the causes of service failures, you can concentrate on moving clients along the spectrum from satisfied to loyal. This can happen in a variety of ways and will be different for each client.

"What we haven't done is take the approach that you can mass produce loyalty," Green says. "What makes me loyal to a company might actually turn you off."

For some clients, it may be building the relationship. Others may want to look good in front of their supervisors, or need real-time access to information. Sometimes, it can be as simple as taking an active interest in their lives and their business. Carchidi's operations managers got creative in building loyalty with one of their largest clients. During a client's company picnic, Carchidi agreed to sit in the dunking booth. When one of the head supervisors dunked her, a story was born. According to Carchidi, "That has gone a long way. They talked about it forever. You form a friendship, a relationship, a partnership. That's how it all starts."

Lasting client loyalty is a moving target. As your clients grow to expect great service from your firm, you will have to continually evolve to meet and exceed those expectations. When FedEx began offering online tracking of shipments, the service was new and unique. It exceeded the expectations of clients, who were used to being able to find out whether a package had arrived, but had no expectation of being able to track it at every point in the journey. Today, however, the ability to track a package from shipping to destination is offered by every major shipping company. No longer a "wow," the service is now expected, and FedEx is forced to search for the next opportunity to "wow" customers.

"Wow" opportunities don't always present themselves, and it takes an alert eye to identify ways to exceed the expectations of your clients. Often, the opportunities come when things have gone wrong. How does your firm respond when you have a temporary employee who doesn't show up for an assignment? In most cases, you probably scramble to replace the person with another candidate as quickly as possible, apologize profusely to your client, and hope this new candidate works out better. These are all appropriate actions to take, but they are the minimum of what is needed to meet the expectations of your client.

However, what if you did all of those things and also handwrote a letter of apology, and accompanied the new temporary employee to his or her first day on the job with the letter and a plate of baked goods for the department affected by the absent employee?

Maybe for this client, it takes something more. What if instead of baked goods, you offer to pay for the entire first day of the new temporary employee?

It is different for different clients, but it is the job of you and your staff to determine what the expectation is, and then find a way to do something that is beyond expected. Arm your clients with stories to tell that show your commitment to them and their organizations. Be remarkable, and you'll be rewarded with the loyalty of your clients.

## Step 5: Measure and Track Your Firm's Performance Over Time

What gets measured gets improved. You have probably heard this business truth in one of its many variations.

"To understand how well you are meeting clients' needs, you have to ask your clients," says Neuburger. "To gather that information systemically, we conduct an annual survey to identify what our clients believe we need to do to further improve. This survey reinforces our overall value proposition both internally and externally."

If you really want to improve your client loyalty and retention, then track it. There are many different methodologies, ranging from the net promoter concept that asks a single question (willingness to refer) after each transaction, to a more in-depth annual or semiannual client feedback study. Each has its merits, strengths, and weaknesses. But they all have one thing in common: They provide a baseline and track performance over time in a systematic, quantifiable way. Consider the voice of your clients as the early warning indicator that will help you identify loyal and at-risk accounts while there is still time to do something about it.

If done correctly, the process of asking your clients for feedback itself can be of value. By asking for their feedback, you are intrinsically telling them you care what they think of you and you are trying to serve them better. Once you have analyzed their feedback, you have a great story to tell your clients. The message is simple: Thank you for your feedback, this is what we learned, and this is how we plan to improve.

### Nurturing Loyalty

The most efficient and economical path to growth in the staffing industry is through client loyalty and retention. It does not happen overnight. The loyalty of your clients is something that is built over the course of months and years and can be lost in a matter of minutes if it is not nurtured.

Every single person in your firm affects client loyalty on a daily basis, from the person answering the phone at the front desk to the temporary employees in the field. At each interaction is a unique opportunity to either build or destroy client loyalty. Treasure those opportunities and make the most of them. The sum of these interactions will ultimately determine the success or failure of your staffing business.

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