Differentiators of the Most Successful Staffing Firms

Sept. 27, 2011

Moderator

Sona Sharma
Sr. Research Analyst

SPEAKERS

Jim Childs
Managing Partner
CHILDS Advisory Partners

Ranjini Poddar
President
Artech Information Systems LLC

Kevin Knaul
Director, Strategy and Corporate Development
Indecon Solutions
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Agenda

Section I  Fastest Growing Staffing Firms
Section II  The High Growth Local Branch Model
Section III  The High Volume/Centralized Delivery Model
Section IV  Questions/Thoughts/Observations
SIA’s 2011 List of Fastest-Growing Staffing Firms

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>2010 U.S. Staffing Revenue ($000)</th>
<th>CAGR (2006-2010)</th>
<th>Staffing Specialties</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>WorkSource Inc.</td>
<td>$6,578</td>
<td>52%</td>
<td>C/LI</td>
</tr>
<tr>
<td>2</td>
<td>Rose International</td>
<td>$205,000</td>
<td>46%</td>
<td>IT</td>
</tr>
<tr>
<td>3</td>
<td>Pinnacle Technical Resources</td>
<td>$188,000</td>
<td>44%</td>
<td>IT</td>
</tr>
<tr>
<td>4</td>
<td>TekPartners/MedPartners HIM</td>
<td>$41,466</td>
<td>41%</td>
<td>IT</td>
</tr>
<tr>
<td>5</td>
<td>Insight Global</td>
<td>$388,023</td>
<td>41%</td>
<td>IT</td>
</tr>
<tr>
<td>6</td>
<td>Industrial Labor Management Group Inc.</td>
<td>$18,884</td>
<td>39%</td>
<td>C/LI</td>
</tr>
<tr>
<td>7</td>
<td>Digital Intelligence Systems</td>
<td>$165,500</td>
<td>37%</td>
<td>IT</td>
</tr>
<tr>
<td>8</td>
<td>The Select Group</td>
<td>$18,432</td>
<td>36%</td>
<td>IT</td>
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<tr>
<td>9</td>
<td>Q Analysts</td>
<td>$19,100</td>
<td>35%</td>
<td>IT</td>
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<tr>
<td>10</td>
<td>TalentBurst Inc.</td>
<td>$21,438</td>
<td>34%</td>
<td>IT</td>
</tr>
<tr>
<td>11</td>
<td>Arrow Strategies LLC</td>
<td>$21,800</td>
<td>34%</td>
<td>IT</td>
</tr>
<tr>
<td>12</td>
<td>HealthCare Partners Inc.</td>
<td>$20,339</td>
<td>34%</td>
<td>HC</td>
</tr>
<tr>
<td>13</td>
<td>Amerit Family of Companies</td>
<td>$24,900</td>
<td>32%</td>
<td>P/C</td>
</tr>
<tr>
<td>14</td>
<td>Employment Plus</td>
<td>$175,486</td>
<td>32%</td>
<td>C/LI</td>
</tr>
<tr>
<td>15</td>
<td>Mindlance Inc.</td>
<td>$40,000</td>
<td>31%</td>
<td>IT</td>
</tr>
<tr>
<td>16</td>
<td>Portfolio Creative</td>
<td>$5,548</td>
<td>30%</td>
<td>MKTG</td>
</tr>
<tr>
<td>17</td>
<td>InfoGroup Northwest</td>
<td>$10,519</td>
<td>29%</td>
<td>IT</td>
</tr>
<tr>
<td>18</td>
<td>EdgeRock Technologies LLC</td>
<td>$14,893</td>
<td>29%</td>
<td>IT</td>
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<tr>
<td>19</td>
<td>Populus Group LLC</td>
<td>$46,800</td>
<td>29%</td>
<td>P/C</td>
</tr>
<tr>
<td>20</td>
<td>Akraya</td>
<td>$32,500</td>
<td>28%</td>
<td>IT</td>
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<tr>
<td>21</td>
<td>The Daniel Group</td>
<td>$27,500</td>
<td>27%</td>
<td>C/LI</td>
</tr>
<tr>
<td>22</td>
<td>American Cybersystems Staffing</td>
<td>$130,000</td>
<td>27%</td>
<td>IT</td>
</tr>
</tbody>
</table>

General Observations:

- 27 of 41 (66%) focus on IT
- Emergence of payrolling/compliance
- No F&A
- About half are diversity players
- 13 repeats
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</tr>
</thead>
<tbody>
<tr>
<td>23</td>
<td>Artech Information Systems</td>
<td>$271,604</td>
<td>25%</td>
<td>IT</td>
</tr>
<tr>
<td>24</td>
<td>Beacon Hill Staffing</td>
<td>$67,100</td>
<td>23%</td>
<td>IT</td>
</tr>
<tr>
<td>25</td>
<td>Bradsky Group</td>
<td>$13,524</td>
<td>23%</td>
<td>PERM</td>
</tr>
<tr>
<td>26</td>
<td>Ambrose Employer Group</td>
<td>$198,500</td>
<td>22%</td>
<td>PEO</td>
</tr>
<tr>
<td>27</td>
<td>Ardor Health Solutions</td>
<td>$20,339</td>
<td>22%</td>
<td>HC</td>
</tr>
<tr>
<td>28</td>
<td>ALTEK Information Technology</td>
<td>$11,042</td>
<td>22%</td>
<td>IT</td>
</tr>
<tr>
<td>29</td>
<td>The Delta Companies</td>
<td>$55,902</td>
<td>22%</td>
<td>HC</td>
</tr>
<tr>
<td>30</td>
<td>ClearPath Workforce Management</td>
<td>$61,000</td>
<td>21%</td>
<td>P/C</td>
</tr>
<tr>
<td>31</td>
<td>DIVERSANT LLC</td>
<td>$55,000</td>
<td>21%</td>
<td>IT</td>
</tr>
<tr>
<td>32</td>
<td>Extrinsic LLC</td>
<td>$14,712</td>
<td>21%</td>
<td>IT</td>
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<tr>
<td>33</td>
<td>Pyramid Consulting, Inc.</td>
<td>$88,566</td>
<td>1980%</td>
<td>IT</td>
</tr>
<tr>
<td>34</td>
<td>Integrity Staffing Solutions</td>
<td>$153,929</td>
<td>19%</td>
<td>C/LI</td>
</tr>
<tr>
<td>35</td>
<td>Synergis</td>
<td>$16,386</td>
<td>19%</td>
<td>IT</td>
</tr>
<tr>
<td>36</td>
<td>Mitchell Martin Inc.</td>
<td>$116,000</td>
<td>18%</td>
<td>IT</td>
</tr>
<tr>
<td>37</td>
<td>Search Services</td>
<td>$5,787</td>
<td>17%</td>
<td>IT</td>
</tr>
<tr>
<td>38</td>
<td>Apex</td>
<td>$546,996</td>
<td>16%</td>
<td>IT</td>
</tr>
<tr>
<td>39</td>
<td>MAKE Corporation</td>
<td>$15,810</td>
<td>16%</td>
<td>IT</td>
</tr>
<tr>
<td>40</td>
<td>Digital Prospectors Corp</td>
<td>$22,255</td>
<td>16%</td>
<td>IT</td>
</tr>
<tr>
<td>41</td>
<td>Indecon Solutions LLC</td>
<td>$30,455</td>
<td>15%</td>
<td>IT</td>
</tr>
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Source: Staffing Industry Analysts.
### SIA’s 2011 Fastest-Growing Staffing Firms – Over $100mm

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<th>Company</th>
<th>2010 U.S. Staffing Revenue ($000)</th>
<th>CAGR (2006-2010)</th>
<th>Staffing Specialties</th>
<th>Diversity</th>
<th>Model</th>
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</thead>
<tbody>
<tr>
<td>38</td>
<td>Apex</td>
<td>$546,996</td>
<td>16%</td>
<td>IT</td>
<td>N</td>
<td>Local IT</td>
</tr>
<tr>
<td>5</td>
<td>Insight Global</td>
<td>$388,023</td>
<td>41%</td>
<td>IT</td>
<td>N</td>
<td>Local IT</td>
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<td>IT</td>
<td>Y</td>
<td>VMS</td>
</tr>
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<td>Rose International</td>
<td>$205,000</td>
<td>46%</td>
<td>IT</td>
<td>Y</td>
<td>VMS</td>
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<td>Ambrose Employer Group</td>
<td>$198,500</td>
<td>22%</td>
<td>PEO</td>
<td>N</td>
<td>-</td>
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<td>$188,000</td>
<td>44%</td>
<td>IT</td>
<td>Y</td>
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<td>N</td>
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</tr>
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*Source: Staffing Industry Analysts.*

Our Observations

- Most growers are in IT but almost all segments represented

- 11 firms have over $100mm in sales AND high growth

- Over $100mm firms break into 2 very different models
  - High volume model many of which are diversity
  - High growth local branch model (Insight and Apex)

- The two largest firms, Insight Global ($388mm) and Apex Systems ($546mm) have posted clearly superior results vs. the industry
Agenda

Section I  Fastest Growing Staffing Firms

Section II  The High Growth Local Branch Model

Section III  The High Volume/Centralized Delivery Model

Section IV  Questions/Thoughts/Observations
## The Best Performing Firms of the Past Decade

<table>
<thead>
<tr>
<th>Firm</th>
<th>HQ</th>
<th>Yr. Started</th>
<th>Number of offices</th>
<th>2006 Revenue</th>
<th>2010 Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insight Global</td>
<td>Atlanta</td>
<td>2001</td>
<td>26</td>
<td>$99mm</td>
<td>$388mm</td>
</tr>
<tr>
<td>Apex</td>
<td>Richmond</td>
<td>1998</td>
<td>51</td>
<td>$300mm</td>
<td>$546mm</td>
</tr>
</tbody>
</table>

- Both firms hit the $100 million mark in about 5 years and grew through economic downturns.
- Both have accomplished this with little/no outside capital and no acquisitions.
- Both started by ex-TEK Systems employees.
Elements of the High Growth Local Branch Model

- Growth Culture and Leadership
- Hiring, Promotion, Retention
- Rapid Replication of Office Model
- Organizational Structure
- Density Footprint
- Simplicity/ Focus
- Metrics & Process Management
Elements of the High Growth Local Branch Model

- **Growth Culture and Leadership**
  - Everything starts with leadership and vision
  - Growth culture results to support leaders’ vision
  - Growth culture attracts certain kind of people and repels others

- **Hiring, Promotion, Retention**
  - Hire inexperienced people into a very rigorous system
  - All hires start as recruiters (low pressure training)
  - Quick promotions; long-term incentive plans

*The beauty of this model is that it is constrained by the number of inexperienced people they can hire/train up rather than by finding the next “HERO”*

- **Organizational Structure**
  - Self-managing “pods” allow for quick promotion, leadership and replication
  - Drives sense of ownership/leadership, attracting career-minded people
  - Allows branch model to stay flat
Elements of the High Growth Local Branch Model

Simplicity/ Focus
- IT contract staffing only; no perm; no solutions
- Same metrics & process apply to everyone
- Substantial reduction in complexity which allows deeper process learning
- Systems decisions are easier and less time-consuming

Metrics & Process Management
- Consistent and rigorous execution
- Comprehensive process to allocate time/activity
- Clear expectations and accountability

*Rigorous execution is absolutely the key to any business!*
Elements of the High Growth Local Branch Model

- Acknowledgement of the $$ sitting under your nose
- Strict territory and account management
- Applying substantial resources to the area/account

- Reinvesting profits aggressively into new offices
- Using the HQ as the “launching pad”
- Systems, culture, process consistency

*Creates opportunity for your people*

*Creates multiple growth engines*
Agenda

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Environmental Trends Leading to Emergence of the HV/CD Model

- Higher spend levels and a tight economy have led procurement to become more involved in the selection of staffing suppliers at F1000
- Emergence of supplier-funded VMS/MSP solutions at more than 60% of F1000 vs. very low penetration in 2000
- Increasing importance of diversity status to large corporate buyers
  - Social responsibility
  - Avoidance of lawsuits

**Competitor reaction to the above trends:**

- Many traditional local ”high touch” models have resisted VMS or have served VMS without materially changing their cost or delivery structure
- Emergence of the High Volume/Centralized Delivery model
Key Operational Elements of the High Volume/Centralized Delivery Model

- **Recruiting:**
  - Centralized delivery centers (onshore and offshore)
  - Process for filling high volume of requirements
  - Technology and compensation systems to support delivery

- **Sales and Marketing:**
  - Segmentation of customers by desired sales contact
  - Organize and compensate sales force accordingly
  - Work the MSP channel
  - Differentiation strategies

- **Geographic Presence:**
  - Local market presence focused on client facing activities
  - VMS accounts allow geographic expansion
  - Build local “high touch model to pursue low volume/high margin biz
Agenda

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Section III The High Volume/Centralized Delivery Model
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Financial Profile of the Models

<table>
<thead>
<tr>
<th>High Growth, Local Branch Model</th>
<th>High Volume/Centralized Delivery Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>GP% of 30%</td>
<td>GP% of 18%</td>
</tr>
<tr>
<td>SGA of 20%</td>
<td>SGA of 10%</td>
</tr>
<tr>
<td>EBITDA of 10%</td>
<td>EBITDA of 8%</td>
</tr>
</tbody>
</table>

Both models can grow substantially and can be very profitable.
Final Conclusions

- No matter the model it comes down to execution. Simpler appears better.

- Despite talk of recessions and margin declines, etc the best firms are finding a way to grow
Questions

- Are the two models effective together?
  - Lower cost centralized fulfillment for VMS and local high touch for local mid-market business
  - May be the ideal combination?
  - What internal conflicts are inherent in building such a model?
  - What internal benefits are gained from a talent perspective?

- Are these models equally effective in other segments besides IT?

- What effect, if any, does diversity status have on an owner’s ability to sell?

- Is it an effective strategy for a firm to ignore VMS altogether?

- Does the high volume model result in less deep client relationships?
Questions and answers