

Preparing for the Rebound.

How Human Resources Outsourcing Can Help Your Business Through Uncertain Economic Times



SUMMARY

Despite indications that the tight economy may be starting to turn around, small businesses may feel the squeeze for some time to come. While pundits predict economic growth in 2010, small businesses must take matters into their own hands to stabilize expenses and promote growth. Many have done so by turning to Human Resources (HR) Outsourcing firms as a way to strip excess expense, reduce overhead, and improve employee productivity. While some employers may select to outsource specific functions, others have opted for a complete outsourcing solution. Despite the sluggish economy, HR Outsourcing continues to gain momentum.

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The Recession Lingers On for Small Businesses

Despite some early optimistic views of 2010, current research clearly shows that small and medium sized businesses are taking a “wait and see” approach when making strategic decisions regarding expansion, hiring and other business expenses. Reports from the close of 2009 show economic growth in the 3rd Quarter at 2.2%, while the 5.7% growth in the 4th quarter beat all analysts’ expectations.¹ However, the force behind that growth - companies replenishing inventory - is likely to weaken as consumers continue to spend cautiously.

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Lagging economic indicators like employment rates are still dismal. National unemployment rates are holding at 10% (in California it is over 12%)². Continuous discussion of health reforms, VAT taxes, energy costs (Cap & Trade), interest rates, and small business lending are additional sources of concern for business owners. The overall sentiment is that the recession is not quite over and pessimism prevails among many small business owners. In fact, a recent survey by George S. May International of over 700 businesses reports that 84% of small employers fear they may close their business in 2010.

Looking at the Bright Side

The US Department of Labor reported in January 2010 that although employers continued to shed jobs in November and December, losses were slowing dramatically - employment losses in the first quarter of 2009 averaged 691,000 per month, compared with an average loss of only 69,000 per month in the fourth quarter.³ The Department also said the average workweek rose to 33.2 hours, and the temporary-help sector expanded for the fourth month, up 166,000 since July

¹ Peterson Institute for International Economics (PIIE), September 2009.

² Bureau of Labor Statistics, U.S. Department of Labor. January 8, 2010

³ BLS, U.S. Department of Labor. January 8, 2010.

2009. Aside from the silver lining in the slowing tide of job losses, leading indicators like the stock market are also telling a happier story. Last January the Dow Jones Industrial Average was under 9000 while it currently trades well over 10,000. Significant market movement can be seen as a predictor of the overall direction the economy is headed.

More good news from November is that consumer spending rose 0.5 percent, for the second straight month.⁴ Additionally, the Small Business Administration (SBA) announced that their flagship lending program backed 37% more loans in the last quarter of 2009 than it did a year ago. In the final three months of 2009, the SBA's 7(a) lending program processed 12,393 loans totaling \$3.8 billion, according to preliminary data released by the agency. That's a sharp increase from the 9,070 loans, totaling \$1.9 billion, processed in the previous quarter.

Other indicators such as interest rate spread, average weekly manufacturing hours, building permits, industrial production, personal income less transfer payments, and manufacturing and trade sales, and real money supply are also looking healthier⁵. The Obama administration's commitment to creating more jobs is also a positive factor to consider. Government spending on major infrastructure projects will no doubt create new jobs and opportunities for small businesses.

Overall, the indicators would support the premise that we are slowly exiting the recession, but the numbers are still mixed. Small businesses in particular are finding this transitional period particularly challenging. Additionally, when we consider how deep the recession has been with over 7.2 million jobs lost since it began⁶, it would be wise to assume that it might take another year or so before things are relatively back on track.

⁴ Bureau of Economic Analysis, US Department of Commerce, December 2009.

⁵ The Conference Board, Leading Economic Index for November 2009

⁶ Bureau of Labor Statistics, U.S. Department of Labor.

Key Employment Strategies for 2010

Despite the uncertainty, businesses should take stock of what is required to succeed and use this time to prepare for the bumpy road ahead as the economy slowly recovers. When considering the future, small businesses should focus on three key employment strategies in 2010: stabilizing operating costs, reducing employment risks, and enhancing overall employee performance.

Stabilizing operating expenses. Following dismal sales throughout 2009, employers will be looking to reduce unnecessary expenditures and maintain a lower operating budget until revenues return to pre-recession levels. While there are hundreds of areas to consider, labor costs account for a large percentage of operating expenses in a business. These expenses include both hard and soft costs. Beyond payroll and tax overhead, hard costs are related to health insurance premiums, workers' compensation insurance, recruiting fees, payroll processing and legal fees. Soft costs include: employment administration, management's time dealing with employee issues, employee reviews and labor law compliance. Reducing these employment costs can significantly impact an employer's bottom line.

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Reducing employment risks. There is a direct correlation between an increase in employment related lawsuits and difficult economic periods. Stephen C. Dillard, head of Fulbright's global litigation practice, states “Generally, litigation rises in an economic downturn as regulators tend to step up enforcement, laid-off workers head to court, and companies need to file more suits in order to collect money owed.” As such, employers should prepare themselves by reviewing and training managers on termination policies, updating their forms and policies, and ensuring compliance with payroll-related labor laws and regulations. As the economy

strengthens, employers may begin to expand and increase their workforce. To prepare, they should review proper interviewing techniques and update employee handbooks, HR forms, new-hire packets and offer letters, for compliance.

Enhancing employee performance. Even as companies begin hiring again, it will take some time before the workforce is back to pre-recession levels. What this means for the average business is that managers are trying to maximize productivity with a smaller workforce. The inevitable result is a more stressful work environment as both employees and management struggle to find a healthy balance between productivity and the decreased manpower. Employers will be required to find new ways of incentivizing, motivating and training their workforce to maintain a positive attitude while managing increased workloads.