

## Solid economy boosts Canadian staffing But agencies face skilled talent shortages

May 12, 2006

An economic pickup, fueled in part by a job boom in the western half of the country, is keeping Canadian staffing companies growing but prompting some to start importing workers from elsewhere for skilled positions.

Although Canada suffered an economic downturn a couple of years ago just like the United States, it came a bit later and wasn't as harsh. And unlike the sharp recovery U.S. staffing companies experienced in 2004, the Canadian industry's growth has been more moderate.

"Last year was kind of a recovery year," said Kevin Dee, CEO of Eagle Professional Resources Inc. and a past president of the Association of Canadian Search Employment and Staffing Services. "Things are much improved across Canada."

In 2004, the latest year for which data are available, the Canadian staffing industry generated C\$6.1 billion in operating revenue, a 6.5% increase over 2003, according to a March report from Statistics Canada. The growth rate for temporary staffing versus permanent placement and contract activities was similar at about 6.0%. Alberta and British Columbia were the fastest-growing of the large provinces, with growth of about 11.0% in each over 2003.

As in the United States, staffing companies in Canada are starting to feel a candidate shortage as businesses increasingly turn to them to fill orders, especially in the booming construction and energy industries. Soaring energy prices have turned the oil- and gas-rich western provinces into the country's economic hot spots, forcing employers and staffing agencies to be creative to find skilled workers.

But the labor tightness in the West has been partially offset by layoffs at manufacturing companies struggling with the rise of the Canadian dollar, leaving some slack in the eastern half of the country. However, staffing companies in Quebec, especially, face ongoing challenges from unions and legislation that would require them to give temporary employees similar pay and benefits as permanent ones.

According to projections from the Bank of Montreal, Alberta and British Columbia will lead economic growth in Canada this year. Alberta's GDP increase is pegged at 5.2% in 2006 and B.C.'s at 4.0%; the country as a whole was expected to rise 3.1%. Quebec was forecast to rise 2.7% and Ontario 2.8%. Alberta and B.C. employment also outpaces other provinces, with an expected 2.2% increase versus 1.5% overall.

So far, observers say, runaway price inflation has not occurred despite the strength of the economy. But the Bank of Canada may impose "some modest further increase in the policy interest rate" after upping its growth forecast modestly, and believes the economy will operate slightly above its production capacity to the end of 2008.

There are an estimated 4,269 staffing offices in Canada, but the 20 largest businesses accounted for more than a third of sales. According to "Report on the 2004 Survey of Employment Services" by Statistics Canada, the staffing industry's 20 largest companies generated 38% of operating revenue in 2004. The total industry revenue was pegged at C\$6.1 billion (US\$5.1 billion).

Surprisingly, the data from the most recent in-depth look at employment services showed the operating profit margin for the 20 largest companies fell to 3.4% in 2004 from 3.5% in 2003. And the operating profit margin for them was approximately one percentage point below that of the rest of the industry, which was 4.3%.

The industry is dominated by temporary staffing, which accounted for 79.0% of service revenue in 2004; perm placements and contract had 19.4%, and other services 1.6%. Industrial and trades personnel accounted for 31% of revenue, followed by office, clerical and administrative, 26%; technical, 11%; professional and management, 10%; and IT, 8%.

The world's largest staffing companies have Canadian presences, including Kelly Services Inc., Manpower Inc. and Adecco SA. They are followed by Spherion Corp., which has 32 offices in Canada, and Labor Ready Inc., which has 37.

Only a handful of companies have sales of C\$100 million or more, and consolidation is reducing their numbers.

## Skills shortage

One person who's been in a position to view the ups and downs of the economy is Frank Wilson, owner of The Employment Solution (TES), a 31-year-old professional staffing company based in Toronto. TES operates in all the provinces and is facing a "major skills shortage" in many of them. "Technical people – engineers, project designers, skilled trades – are difficult to come by," Wilson said. In fact, he's in the process of bringing 60 workers – technicians, millwrights, electricians and pipe fitters – from Romania for work in the West.

"It's not easy, and it's expensive," Wilson said. "We are facing great difficulty sourcing and procuring great people." He predicts his business will be up more than 10% this year to about C\$60 million.

Another company that's shown substantial growth – 15% in the past three years – is Addmore Group in Toronto. The information technology staffing company focuses on placing specialists in SAP business computer systems and subcontracts to large integrators such as Deloitte Consulting.

"There's a lot of activity in the marketplace – a lot of companies have moved forward with new IT initiatives," said President Hynton Maizels. Business had been so good the past couple of years that the company opened a U.S. office in Indianapolis. But of late, the company is exporting fewer IT specialists here due to the strengthening of the Canadian dollar. "It's not as attractive for America to take Canadians on U.S. projects," he said.

The largest market for Eagle Professional is central Canada, where business is "doing quite well, not booming," according to Kevin Dee. He's seeing intense price and margin pressure: "Clients are buying aggressively and very focused on price." The introduction of vendor management tools is bringing on more challenges, he said, as is the move by some large system integrators into more staff augmentation work.

But in all, Dee said, "I really believe this is a great time for the industry as we head into shortages in professional talent. Our industry will be well-poised to take advantage and provide the answer to [client] needs."

## Creative solutions

Echoing the sentiment that recruiting is the No. 1 concern of staffing companies is Paul Christie, president of Unique Personnel Services Inc. in Montreal. Christie's company does office/clerical and trucking staffing, which is rapidly growing.

"The demand is out there – I could grow 500% if I could come up with supply," Christie said about the trucking business. An aging population and a perception among youth that truck driving is not an attractive occupation, coupled with high demand in the West, is creating a "huge shortage of labor."

Christie, the immediate past president of ACSESS, is working with customers to increase pay rates and reduce hours to make the job

CNC Global Ltd., the country's largest IT staffing firm with revenue in excess of C\$230 million and 247 full-time staff, was acquired earlier this month by Vedior NV. Vedior previously operated five offices in Ontario.

Design Group Staffing Inc. is one of the largest privately owned technical staffing companies, with nine offices and sales of about C\$170 million in 2005. Also in IT, Eagle Professional is expected to do C\$100 million in sales this year.

Brainhunter Inc., traded on the Toronto Stock Exchange, is a smaller IT staffing company but one that's been on an acquisition binge. It acquired four technology services companies last year and said it expects fiscal 2006 sales to be more than C\$100 million. For the 2005 fiscal year ended Sept. 30, the company reported C\$76.1 million in revenue and a net loss of C\$3.4 million.

---

Temp-to-perm conversions are on the rise in Canada. According to a survey from the Association of Canadian Search, Employment & Staffing Services, client conversions of temporary workers who are hired on permanently rose to 27% in 2005 from 24% in 2004. About a quarter of the 275 members who were surveyed responded.

"This rise reflects the shift to an employee-driven market," said Hilary King, ACSESS president and an executive with **Kelly Services (Canada) Ltd.** "In this market, we anticipate strategic

more attractive. He also is working with the government to establish training programs.

Doing business in Quebec remains an ongoing challenge, Christie said, because it is the second-most heavily unionized province after B.C.

One proposal before the Quebec government to impose equal pay and benefits for temps would "impose the most serious restrictions on the industry ever witnessed in this country," according to Mary McNinch, government relations manager of ACSESS.

Source: Staffing Industry Analysts, Inc. [www.staffingindustry.com](http://www.staffingindustry.com)

become imperative as employers strive to shorten the hiring cycle and mitigate obstacles such as multiple offers."

Among all staffing firms, 42% of job orders were in the light industrial category followed by heavy industry at 29% and office/clerical at 17%. In a similar survey in 2000, office/clerical dominated, comprising 31.1% of all placements.