

A Guide on How to Start a Staffing Agency

With the tepid growth in almost every sector of the US economy, there is one area with historically solid growth: **the staffing industry**. All private, public and government entities of every size experience uneven and peak workload that requires additional personnel to get the job done. In addition, many entities cannot or do not want to add to their legacy costs and liabilities with the addition of more full-time employees. Solving these issues by providing high-quality temporary or full-time workers and understanding the needs of these companies creates the need for start-up staffing agencies. Paragon has created this guide on how to start a staffing company to help entrepreneurs on their journey.



What Do I Need to Get Started?

Even though the staffing industry is saturated with what seems like a temporary agency for every type of industry, job and needs you could imagine, perplexingly the market for qualified and dependable people many times goes unfulfilled. To increase your odds of being successful in this space, you need a clear game plan written out in advance. Reality and execution might vary considerably from your plans and defining the relevant variables before you launch, is essential.

Variables to Plan for when Starting a Staffing Company:

What is my Background?

Are you an expert in a certain niche that you can exploit to your advantage? Do you have staffing agency sales or administrative experience? Are you a great recruiter and your clients can't get enough of the talent you find? In your self-analysis, are you being honest about your skill set and where you have holes to fill? As with starting any business, make sure you have the knowledge and resources to succeed long-term. Choose wisely based on a real-world understanding of the skills you have and the type of people you must surround yourself with to thrive in business.



Create a Weekly Cash Flow Budget

The more successful your new staffing agency is, the greater your need for working capital. A cash flow analysis is required based on the exact dates all your bills need to be paid and a conservative estimate of when you will get paid by your clients (typically 30-60 days after you invoice them).

For example, you are billing \$20,000 per week (to start), and you have forecasted a 9% net profit. In addition, your customers take an average of 42 days (6 weeks) to pay you. That means you will need 91% (100-9%) just to cover your costs. Not all the 91% or \$18,200 (\$18,200 x 6 weeks) is to be paid over the next 6 weeks, but a high enough percentage is going out so that you better have the working capital or make arrangements with a staffing payroll funder. This example is based on zero growth. If you quickly grow from \$20,000 to \$30,000 per week in sales, then your working capital needs just went up another \$55,000!

Since [Paragon is a staffing finance company](#), we will talk much more about this at the end of this paper and how we can advance you 90% each week to cover the vast majority (99%) of your costs.

What is My Niche?

Better returns on your investment will come from providing expert service in a narrow niche. Gross margins in staffing can run from 15-50%. At a 15% gross margin, there is no room for a misstep or one dollar of bad debt. In today's economy, clients are increasingly searching for people with specific sets of skills tailored towards the job that needs to be completed. Being too general will result in a lack of employees that have any broad competency in their respective expertise and an overwhelming amount of client demands that will make it impossible for your temporary staffing company to survive long-term.

For that reason, you MUST have a target market. You will be able to land higher-quality clients, and it will grant you the flexibility to say 'no' to vacancies that do not fit your niche. You should have deep expertise in your niche and choose a market that will keep your company profitable over an extended period. The key is specificity and locality. Paragon, for example, has broad IT staffing and guard service funding and credit protection experience. We also target sales of staffing-related services to every level of government where many AR funding companies shy away from financing government sales.

How do you become knowledgeable in a niche? A great thing about our Internet Age is that you can quickly research your large, successful competitors, then emulate what they do well and improve upon their weak points. With the proper research, drive and knowledge you can quickly become the best in class with your specific offering.

Whom Can I Get on My Team?

You need to start recruiting to acquire highly qualified workers for your team. Applicants to your customer's jobs must be carefully screened via resume, LinkedIn, background checks and interviewed before you hire them. They are representing your company and must be vetted thoroughly before hiring any candidate for your team. Make sure to verify the schools attended, certifications and jobs listed on their resume. Sadly, resume fraud is a real problem these days.



Legal Advice & Counsel

One of the most painful things about starting a staffing company of any kind (IT, nursing, clerical, laborers, drivers, warehousemen, etc.), is the enormous amount of legalities that are involved. The amount of paperwork that is required for your business, your clients, and your workers is endless and ever growing. Failure to follow the Federal, State and Local laws on withholding taxes and workman's comp rules and classifications can cause you PERSONAL liability and break the corporate veil. Ignorance of labor and employee laws is not an excuse! Ensure that you work with an experienced staffing lawyer to obtain all of the documentation and contracts that you will need, along with information on the laws that pertain to staffing agencies and your industry. A good staffing and labor law attorney is a sound investment.

Importantly, where you incorporate your company and the state(s) you derive your sales from is another big decision you need to research and make.

A friend of Paragon and veteran staffing industry attorney, [Diane Geller](#) makes the valid point *"The worst states for legal locations are in the West and Northeast, where lawmakers commonly consider regulations to be tools for social change and, consequently, administrators find compliance difficult for staffing firms. More likely in these areas than in other parts of the country, judges tend to certify cases for trial that wouldn't pass otherwise."*

Geller goes on to say *"Some states prohibit non-competes by statute and then there are states like New York, where enforcement requires a narrowly tailored agreement, so employers usually pay employees not to play."*

Liability Insurance & Workman's Compensation

You will need insurance protection for general liabilities, worker's compensation, and any accidental damages caused by your people working at a client's location. As with the previous requirement, you will want to meet with a commercial insurance professional and discuss precisely what your business will look like and the proper risk protection needed. Your customers also will require proof of insurance and many will need higher levels of coverage than you anticipated.

The proper job coding and classification of your employees is critical. Do not be tempted to classify warehouse personnel as clerical to falsely improve your gross margins. ***This has been seen as a criminal action by company owner(s) in some jurisdictions.***

Office Space

Like in real estate, one of the most important things about operating a staffing company is the office location that you choose. You want to aim for a professional atmosphere in a place that is easy for clients and future workers to find. You only get one chance at a good first impression. As author J K Rowling said, "A good first impression can work wonders."

However, you might be targeting an industry where your customers and hires never visit you or you need easy access with plenty of parking for your hires. Try and keep the rent cost to a minimum by choosing a "B or C" location as high fixed costs are to be avoided.

Software to Manage Your People & Clients

Your working capital is probably limited but your ability to track recruits, hires, specific jobs, employee's hours and your customer's satisfaction is crucial to your success. Servers, workstations, accounting and staffing industry software, can be expensive. However, there are cloud-based solutions that can be had with limited initial investment and can flex up and down with your growth prospects.

How are you set for training and the ability to quickly ascertain your new hires skill sets for specific jobs? A great service and selling feature is the ability for your hires to hit the ground running versus weeks of low productivity. For example, a new hire might be at 33% efficiency for entering data or telemarketing. It can take 2-4 weeks to get that person to 100% productivity. What tools do you have in place to both measure current and growing skill aptitude? A solid talent acquisition, training and retention strategy will separate you from the pack.

Note: Everything else will be easier when all the above criteria are researched and met.

Next: How to Quickly Grow Your Staffing Company Above the Break-Even Point

You have made the decision to start a staffing agency that will quickly (hopefully) be very profitable, fund your lifestyle and in the future fund your retirement on its sale. You have chosen a staffing niche where your clients can retain through your temporary workers during busy periods, emergency situations where a full-time worker needs to be replaced or even permanent workers supplied by you to reduce your client's legacy employee costs.



You have your perfect office space picked out, and hired personnel who will provide great value to your customers. *However, there is just one problem with this entire situation: Your staffing agency has the startup capital for 30 days of operation, but your largest customers don't pay your invoices for 45-60 days.*

How will you fund 6-8 weeks of payroll when your people want to be paid at the minimum bi-weekly? You can't even think about payroll processing, people scheduling or an invoicing system if there is not the money to cover more than 1-2 weeks of payroll!

What are my Working Capital Options?

1. A Line of Credit from the Local Bank?

When it comes to borrowing money, a new staffing company will typically make a trip to their local bank. However, this option will not work for many new staffing agencies for a multitude of reasons. Why is a bank not a great choice for many start-ups and young staffing companies? *Banks typically are not:*

- Start-Up Friendly
- Open to New Borrowers with High Customer Concentration
- Lending to those with Bruised Personal Credit
- Making loans to business without two years of tax returns & YTD Financials all showing good cash flow

Well, since you are at the very least a start-up with only one customer (at first) and losing money for at least the first few months; a regulated bank is probably not going to be the answer to your working capital needs.

2. Staffing & Payroll Funding from an Invoice Factoring Company?

[Non-recourse invoice factoring specifically designed for staffing firms](#) can provide your staffing business with the capital it needs to safely and cost effectively grow in scope and size.

Non-recourse invoice factoring provides businesses cash flow by selling client invoices due in the future to a third-party factor. The company receives up to 90% of the net invoice amount immediately versus waiting extended periods of time to receive payment from their client. In exchange for the service, the AR funder receives a time-based fee to cover the [Working Capital](#), [AR Management](#), and [Credit Protection Services](#) that they are providing.

The fees can be very reasonable (considering they include Working Capital, Credit Protection & AR Management) and are flexible depending on your individual circumstances and will decrease as your factored volume increases. Fees can run from 1.25-2.5% per 30 days including all the services, and the cost can flex down as your volume grows.

Although invoice factoring can be a wonderful source of cash flow for staffing agencies, there are few things that you should research about the factoring company you work with:

- Research if the factoring company has a minimum invoice amount per month to finance your transactions. Paragon's typical clients have sales of \$25,000-\$10,000,000 per month. However, we can deal with a staffing company in its early months as it grows to \$25,000+ in monthly sales. More importantly, if you don't think you can get to \$30,000+ in monthly sales relatively soon, you won't make much of an income. You want to create a company and just not a job for yourself.
- Some Factors might have a minimum or maximum total amount of invoices when you request funding. Some also have time limits on invoice terms, anywhere from 60-90 days. With Paragon's Credit Protection and Non-Recourse Programs, this is not an issue for you or us.



- Many factoring companies cannot deal with any outstanding legal or tax problems on yourself or your business. At Paragon Financial, with 24 years of taxing authority experience, we often work through legal and tax issues to get you funded and have successfully worked with taxing authorities to subordinate their position to Paragon.
- Most importantly, does the factor have broad experience in your chosen staffing niche? You can't trust neophytes with the responsibility of your cash flow, credit, and AR management. The care and handling of your customers is critical too. You will enjoy Paragon's famous "soft touch" with your clientele.

How Does Invoice Factoring Help Temp Staffing Agencies?

Speed

As previously mentioned, invoice factoring is one of the fastest ways to turn invoices into ready cash (many times the same day!) This is particularly useful if your clients take 45-75 days to pay your invoices. This means less time spent worrying about the next payroll, and more time devoted to expanding the sales and profits of your staffing agency.

Flexibility

Invoice factoring allows you to receive money for invoices based on the growing demands of your business. If your agency has increased in size and needs a capital boost, submit more invoices. Without the cash flow worries, you and your workers can stay focused on growing and expanding the company!

YOU also control how the advanced funds are used. The great thing about an invoice factoring company paying you for your invoices, is that they do not have an influence on your purchases besides making payroll, paying taxes and insurance with the monies advanced to you. Rather than having to wait for approval by a lender before making any growth-based decision, you can spend on what you need and expand your company at the rate that you choose. Just be careful and watch your gross margins closely.

Fast Unlimited Working Capital

Invoice factoring companies will handle much of the necessary paperwork and administrative processes that are involved in the funding facility that they give you. Instead of spending long, tedious hours processing paperwork, you will be able to re-direct your time towards growing your business.

Ease of Qualification

With many other financial lending options, you will find yourself going through a very strict qualification process before you receive any money. Due to the fast-paced nature of staffing agencies, long wait times for working capital is not feasible. You can qualify much faster for working capital compared to other financing options. *We have funded in just three days(!) and then same day funding after that.*

Zero Debt

One of the biggest hurdles that any company will face, whether it's a staffing agency or not, is the accumulation of debt that eventually has to be paid off. Since invoice factoring is not a loan, but an asset sale where the money is paid back rapidly, you won't need to record this as a loan payment or long-term liability, and this will keep you and your employees solely focused on growing the company and not playing 'catch-up' with any debt.

Credit Protection

In your business life, there is only one thing worse than no sales, and that is selling staffing services and not getting paid. With Paragon's Non-Recourse and Credit Protection Programs, you are protected if your customer files bankruptcy. We also pre-approve all your potential customer's creditworthiness. With Paragon, you always get a free Credit Manager.

We hope this short guide on starting a staffing company has been helpful. We want to be your trusted resource and are excited to be with you from the beginning to the successful ending of your entrepreneurial journey. Good Luck!!