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The Shift to a Job-Seeker's Market and its Effect on the Light Industrial Workforce

PART ONE OF A TWO-PART SERIES

Five Trends that Are Impacting Your Ability to Stay Competitive in the New Recruitment Climate

With the global economy in an upswing, many businesses are investing in growth opportunities. Companies are introducing new products, engaging new markets and entering new geographic territories at a fast clip. Job seekers are experiencing a new kind of labor market – one where they are in the driver's seat. This job-seeker's market allows potential employees to "shop around" and find the job that's best for them.

As a result of this new recruitment climate, employers need to rethink their employment offerings to ensure that they are still competitive enough to attract quality candidates. This is particularly critical for employers of light industrial labor as demand for new employees continues to climb. According to the Economic Policy Institute, manufacturing in the U.S. grossed an output of $5.9 trillion in 2013, more than one-third of the entire U.S. gross domestic product. This robust activity creates a high demand for light industrial employees.

Current unemployment rate stands at

5.1%

which is the lowest the U.S. has seen in over

7 YEARS

according to the Bureau of Labor Statistics

3.5M MANUFACTURING JOBS TO BE FILLED BY 2025

Employment growth for light industrial labor is just getting started. According to a recent study by Deloitte and the Manufacturing Institute, manufacturers will need to fill an estimated 3.5 million jobs through 2025. Adding to this job growth is the exodus of the Baby Boomers from the workforce. AARP cited that, through 2030, 10,000 Baby Boomers per day will reach the average retirement age of 65.

Another emerging trend is the reshoring of production, or a part of it, to the U.S. due to the improving economy, increased domestic demand and diminishing cost structure differential. According to a study by the Boston Consulting Group, more than half of manufacturing companies with sales over $1 billion are planning or actively considering returning a portion of their production from China to the U.S.

Deloitte and the Manufacturing Institute predict that of the estimated 3.5 million jobs that will need to be filled by 2025, more than 2 million will go unfilled. Several factors will make it progressively difficult for companies relying on light industrial labor to recruit the necessary volume and quality of workers they need. The following socio-economic factors suggest a growing shortage of workers in the near future:

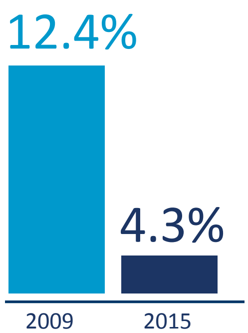
1. Shrinking candidate pool
2. Vocational skills gap
3. Lack of workplace and government training
4. Negative industry perceptions
5. The minimum wage effect

Staff Management | SMX has explored each of these factors to help illustrate this growing problem and the potential impacts it has on businesses.

FACTOR 1:

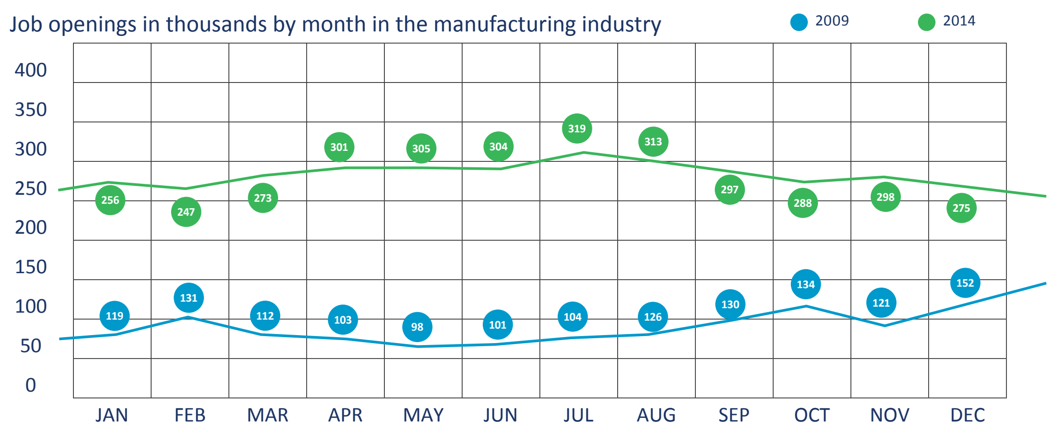
Shrinking Candidate Pool

July unemployment rate in the manufacturing industry



Monthly employment rates in the U.S. have continued to grow at a steady incline. The Brookings Institution predicts unemployment will fall to 4.7 percent by September 2015. This will be the lowest rate the U.S. has seen since 2006 when unemployment stood at 4.4 percent before the financial crisis transpired.

Job growth has significantly improved since the recession as well. According to the Bureau of Labor Statistics, in 2009, there were a total of 1,431,000 manufacturing job openings in the U.S. As of May, that number has already been surpassed for 2015 with 1,672,000 openings and is expected to keep growing. Additionally, production and nonsupervisory jobs in the warehousing and storage sector have increased by nearly one million compared to 2010.



70 DAYS

is the average time to recruit skilled production workers, according to Deloitte and the Manufacturing Group

What does the shrinking candidate pool mean to you?

An increase in availability of full-time employment across all industries could potentially lure candidates out of the light industrial workforce pool. Couple this with the increasing seasonal demand for employees in distribution, logistics and warehousing and employers are faced with a significant recruiting challenge. Just when U.S. companies are looking to reshore the jobs that went to China, India, Singapore and other emerging manufacturing and production centers, they may be confronted with a potential shortage of workers to fill these ranks.

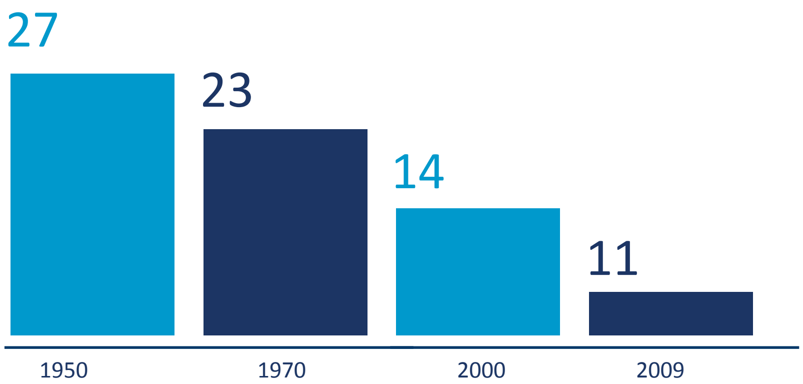
FACTOR 2:

Vocational Skills Gap

Another factor shrinking the candidate pool is the lack of vocational skills in the post-Baby Boomer workforce. Throughout much of the 20th century, it was common for high schools to provide vocational training to students. In the 21st century, skills like welding, machining, sewing and woodwork are no longer included in many high school curriculums; perhaps because jobs in these fields became scarce as overseas outsourcing grew in popularity.

U.S. MANUFACTURING AS A PERCENTAGE OF GDP

Reported by the Breakthrough Journal



Now, with U.S. manufacturing activity in the midst of a major recovery, businesses are confronted with a shortage of employees with vocational skills. In the Los Angeles Unified School District alone, more than 90 percent of high school shop classes have been eliminated.

A 2014 report by the California Department of Education indicates that the number of vocational high school teachers fell 20 percent between 2011 and 2012 and then declined an additional 20 percent the following year. The same story is being played out across the country. As vocational teachers retire, they aren't being replaced.

According to the National Center for Education Statistics, only

7.5%

OF CREDIT RECEIVED WAS VOCATIONAL CREDIT

for 2009 high school graduates

According to Associated General Contractors of America,

74%

of firms predict a shortage of trade workers as Baby Boomers retire

A World Economic Reform survey of logistics executives revealed that

2/3

of respondents **cited trouble finding qualified candidates** and many believe this results from the low profile given to this industry in schools

According to the American Staffing Association, more than

40%

of high school graduates hired by businesses are "deficiently prepared" for the entry-level jobs they're filling

According to a survey by the National Federation of Independent Businesses,

42%

CITED FEW OR NO QUALIFIED APPLICANTS FOR OPEN POSITIONS

Cultural Comparison

Apprenticeships are a popular form of vocational training in Germany. Apprenticeships last between two and four years and offer classroom learning with hands-on training. Trainees are paid for both their time in and out of the classroom and the arrangement typically leads to a permanent job.

When German automotive firm Volkswagen tried to implement this practice in the U.S., it was met with hesitation. "People didn't understand why they had to spend 3.5 years of their lives training to be an employee at Volkswagen later on," said Sebastian Patta, executive vice president of human resources at Volkswagen.

What does the vocational skills gap mean to you?

If there is a shortage of skilled labor, employers won't be able to find qualified workers to fill their lines and keep up with production rates.

FACTOR 3:

Lack of Workplace & Government Training

Closely tied to the vocational skills gap is the lack of comprehensive training programs in the U.S. Peter Capelli, management professor at the Wharton School, cited that, on average, workers received 2.5 weeks of training per year in 1979. Compare that to 2011 where almost 80 percent of workers received no training over a five-year span.

Employers aren't the only ones who are increasingly reluctant to provide training. According to the New York Times, from 1979 through 2006, federal government funding for employment training declined by roughly 70 percent. By 2013, it had fallen another 18 percent.

To put it simply – employers want to hire employees they don't have to train. Because of this, many employers have their expectations set unreasonably high for the type of job they are looking to fill. This holds true across all industries. According to Harvard Business School professor, Joseph Fuller, 65 percent of executive secretary job listings require candidates to have a college degree, yet only 19 percent of current executive secretaries meet this expectation.

What does the training gap mean to you?

Without adequate training, one of the following will result:

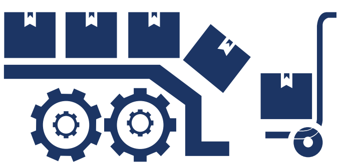
1. Production rates will decrease because employees are taking more time to meet quality standards
2. Quality will decrease because employees are trying to keep up with production demands
3. Employers won't be able to fill their open positions because candidates will not meet the requirements

FACTOR 4:

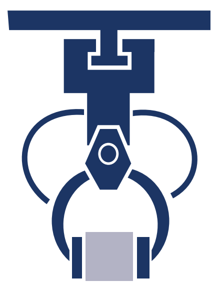
Negative Industry Perceptions

Combined with a lack of training in light industrial professions is also a misperception about the work itself. A study by Deloitte and the Manufacturing Institute found that:

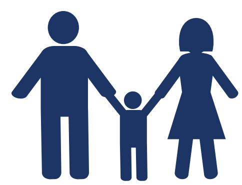
MILLENNIALS AGED **19-33** RANKED MANUFACTURING LAST compared to all other industries for where they wanted to begin their careers



61% OF MILLENNIALS perceived manufacturing work as dirty, dangerous, requiring minimal thinking/ skill and offering minimal potential for advancement



ONLY **1/3** OF PARENTS say they would encourage their children to pursue a job in manufacturing



Not only do Millennials have little interest in light industrial work, but Baby Boomers are doubting their ability to perform. Forty-three percent believe millennials lack the necessary work ethic and discipline to succeed in the industry, according to ThomasNet's Market Industry Barometer research.

What do negative industry perceptions mean to you?

Millions of light industrial jobs will need to be filled in the near future due to the departure of Baby Boomers from the workforce. However, Millennials aren't lining up to fill their shoes. If industries such as manufacturing, warehousing and distribution don't make an effort to combat negative perceptions and focus on targeting younger generations, their fill rates will suffer. This is especially true during periods of high seasonal demand.

FACTOR 5:

The Minimum Wage Effect

Pay rates that are uncompetitive are another factor that will increasingly become a barrier to connecting with the right talent. Across the U.S., efforts are underway to raise the minimum wage. In 2015, more states than ever before will be increasing their minimum wage schedules and, for the first time, most states will have a minimum wage exceeding the federal rate of $7.25 an hour.

Not only are wages being reconsidered at the federal and state level, but also at the local level with city-specific minimum wages. The surrounding suburbs used to draw workers away from cities due to their higher wage rates, free parking and shorter commute times. Now, the opposite is true – more workers are flocking to the city to take advantage of these higher-wage opportunities.

Against this backdrop, several high-profile employers have taken matters into their own hands and boosted compensation for their lowest-paid workers. Popular retailers T.J. Maxx and Marshalls recently raised starting wages to $9 per hour. Discount grocery store Aldi pays cashiers $10.50 per hour. Fast food chain Shake Shack gives employees $10.70 per hour while offering perks like health, dental, vision, disability, paid time off, dining dollars and transit program options.

Local Minimum Wage Snapshot

Seattle recently increased its minimum wage to $15 per hour, one of the highest in the country

The ordinance includes the following provisions:

Businesses with over 500 employees have three years to increase to $15 per hour

Businesses with over 500 employees that offer employee benefits have four years to increase to $15 per hour

Businesses with fewer than 500 employees have seven years to increase to $15 per hour

Tips, bonuses and alternate compensation will temporarily count toward the minimum wage, though this will be phased out over time

Businesses are allowed to pay a temporary, lower training wage

Chicago plans to incrementally increase minimum wage to $13 per hour over the next five years

The ordinance includes the following timeline:

Non-Tipped Employees
July 1, 2015 - $10
July 1, 2016 - $10.50
July 1, 2017 - $11
July 1, 2018 - $12
July 1, 2019 - $13

Tipped Employees
July 1, 2015 - $5.45
July 1, 2016 - $5.95

The ordinance applies to:
Employers that maintain a business facility in Chicago and/or are required to obtain a business license to operate

Employees who work two hours within a two-week period

Chipotle goes as far as to offer

90% 
TUITION REIMBURSEMENT

to their employees up to a limit of $5,250 per year

What does the minimum wage effect mean to you?

If a high school graduate can earn just as much or more working in a drive-through or at a grocery store, he or she may be less interested in light industrial work. Industries that don't examine their starting wage for employees may experience high turnover rates or even have trouble getting light industrial candidates through the door in the first place, leading to shortages in their talent supply chain.

The Bottom Line

Now that job seekers are in control of the labor market, light industrial employers need to be able to compete with their non-industrial counterparts in order to fill their ranks.

A potential shortfall in available workers is likely to arise due to falling unemployment rates, a protracted decrease in vocational training opportunities, reluctance among many employers to provide on-the-job training, negative industry perceptions and rising minimum wage rates. Unless action is taken to address these challenges, light industrial employers are likely to encounter significant shortages of available workers in the near future.

Today's competitive job-seeker's market makes innovative recruitment strategies even more critical. If light industrial employers fail to competitively align with industry and economic changes, they are putting themselves at risk for a decrease in fill rates, quality and production.

PART TWO OF THIS TWO-PART SERIES COMING OCTOBER 2015

Key Strategies for Success in the Competitive Light Industrial Recruitment Market

In part two of this white paper series, Staff Management | SMX explores best practices for light industrial employers to successfully compete for quality labor. Cutting-edge and back-to-basic recruitment techniques, the importance of recruitment market data and contingent labor as a strategy to compete in a job-seeker's market will be detailed in depth. In the meantime, visit staffmanagement.com to read more about proven tactics that ensure your company stays afloat in the ever-changing labor market.

About Staff Management | SMX

Founded in 1988, Staff Management | SMX is a recognized leader in comprehensive staffing and outsourced workforce solutions that provide best talent, drive compliance, deliver tangible savings and yield sustainable value. Our expertise in supporting complex client staffing requirements without sacrificing quality, combined with our proven centralized service model, award-winning workforce and vendor management system (WVMS) and precision recruitment processes are key differentiators within the industry. Our innovative "inside-out" approach, commitment to continuous improvement and award-winning business model put client needs at the center of everything we do. The benefits of this approach are third-party validated, most recently with our #1 ranking in the Breadth of Service category on HRO Today's Baker's Dozen Customer Satisfaction for Managed Service Programs. We were also named to Inavero's Best of Staffing Client List for receiving a Net Promoter Score® nine times greater than the industry average for client satisfaction. Staff Management | SMX is part of TrueBlue Outsourcing Solutions.

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