A Snapshot of Trends Influencing Business, Talent Strategy, and the Staffing Industry

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# Table of Contents

## Introduction

Looking into the Major Trends

## The U.S.

Correcting the Talent Supply and Demand Equation

## Primary Eurozone

Business and Governments Struggle with New Workforce Pressures

## The U.K.

Businesses Struggle with a Mature, Competitive Talent Landscape

## APAC

A Region Divided — Distinct Trends by Select Countries

### China

### Japan

### Australia

### India

## The Lesson Behind the Trends

Look Beyond Yesterday’s Workforce Strategies to Meet Tomorrow’s Needs

Expand the External Talent Supply: Flexibility Addresses Talent Scarcity

Optimize Internal Talent Supply: Every Worker Matters

Commit to a Change: Look Beyond Transactional Results
INTRODUCTION

The global workforce is changing rapidly. Skills shortages, new models of engagement, and demographic shifts, as well as economic and political forces, are pushing companies to re-think their approaches to securing critical skills. As talent and business leaders look to the future, a strategic understanding of the forces of change is essential. With that in mind, Allegis Group has developed a snapshot of notable trends influencing the talent landscape around the world.

The “Global Workforce Trends Report” provides a region-by-region breakdown of major economic and demographic statistics and trends influencing the supply of talent. Accompanying these trends is expert commentary on the evolving strategic priorities and best practices associated with talent strategy and the use of solutions to find, attract, and retain workers. This focus includes analysis of the changing markets and demands for staffing, Recruitment Process Outsourcing (RPO), and Managed Services Provider (MSP) solutions.

For anyone looking to gain a high-level perspective on the changing workforce and the new priorities facing talent and business leaders today, the Trends Report provides a solid starting point based on global data and talent industry expertise.
LOOKING INTO THE MAJOR TRENDS

Based on research into global economic and demographic data, the study finds that workforce trends not only vary widely among regions, but they are enormously complex, and the pace of change is accelerating. Behind the trends, a big-picture view of the talent landscape reveals several key factors driving change globally.

**Macroeconomic Forces: Shifting Demographics and Changing Economies Create a Long-Term Workforce Impact**

Global population changes are setting the stage for a new talent supply profile that is likely to last for decades. This change is due to the retirement of a disproportionately large generation of older Baby Boomers in many countries, leaving a workforce shortage behind them.

Likewise, country-by-country shifts from manufacturing to service-based economies, or vice versa, also add pressure to workforces in certain areas. These pressures, both demographic and economic, are reflected in key productivity measures such as Gross Domestic Product (GDP), and, perhaps more revealing, per capita GDP.

**Industry and Markets: Rapid Innovation Leads to Scarcity in Critical Skills**

New technologies put a premium on emerging skills. As the influence of innovation permeates many traditionally lower-skilled areas of business, companies will grow increasingly dependent on Science, Technology, Engineering, and Math (STEM) fields of expertise.

In today’s economies, the increasing demand for technical skills spans both IT and manufacturing sectors. This trend is accelerating, and it influences different countries in different ways. Regardless of location or industry, companies around the world will find themselves struggling to address new demands for technical skills.

**Business and Talent: New Models Disrupt Traditional Workforce Strategies**

Finally, shifting economic conditions, demographics, and skills demands are leading to potentially disruptive changes in the way companies secure workers. These changes are reflected in the way various regions approach the use of staffing services and contingent workers, MSPs, RPO solutions, and freelancer and Statement of Work (SoW) talent.

The maturity of talent strategies and solutions still varies greatly from country to country, but companies in nearly every region are experiencing some level of pressure to get creative in expanding their talent supply. Organizations are re-examining talent requirements, increasing their use of flexible workers, boosting their commitment to developing current employees, and improving visibility and planning for future skills needs.

For talent decision makers, the trends underscore the growing importance of key elements in an effective workforce strategy. Flexibility in talent planning is essential as the traditional employee is no longer necessarily the default goal for filling a position. The care and development of a company’s incumbent workers are a priority as external sources of talent are subject to keen competition. And finally, the ability to adapt quickly to meet new talent demands will be a defining characteristic of successful companies in the future.

By understanding the broad areas of change — macroeconomic trends, industry evolution, and talent strategy — companies can gain a working perspective on today’s complex global talent and business environment. What follows in this report is a closer look at key regions and countries around the world through the lens of these broader issues. Areas of focus include the United States (U.S.), the Eurozone, the United Kingdom (U.K.), and Asia-Pacific (APAC), including China, Japan, Australia, and India.
CORRECTING THE TALENT SUPPLY AND DEMAND EQUATION

Companies in the U.S. face an intriguing contradiction in market forces. Namely, the economy is large, the value generated by U.S. workers is high, and the demand for many skills is outstripping supply. At the same time, while wages have grown at a steady pace over the last several years, a number of factors have prevented them from growing quickly enough to keep up with a tightening supply and demand situation.

A confluence of factors is contributing to the wage situation, but a closer look at the numbers shows that the supply shortage is not going away, and rises in the cost of labor may accelerate in the coming years. Business leadership, talent, and procurement decision makers need to take note: the way companies define and value workers is changing rapidly, and talent planners must stay ahead of the curve.

Macroeconomic Trends: Economic Growth and a Lower Working-Age Population

The evolution of the U.S. workforce is driven in large part by changes in the general population. A recent Pew Research Report notes that without immigrant workers, the population of working-age U.S. adults will shrink by 2035, and in 2016, Millennials (nearly 80 million, aged 18-35) surpassed Baby Boomers (approximately 74 million, aged 52-70) as the largest living generation in the U.S.¹

This shift toward a younger, shrinking working age population means companies have to approach talent scarcity as a normal part of business. The overall economy, however, is strong, as the U.S. remains the premiere global economic force, contributing more than 15 percent of all global GDP. China, with more than three times as many employed workers as the U.S., generates 40 percent less total GDP. Inherently, the value of workers in the U.S. is very strong with over 70 percent in the services industry, one of the highest marks for all countries.

According to an analysis of data from the U.S. Bureau of Labor Statistics (BLS), the combination of strong business pressure and limited worker supply has led to a measurable tightening in U.S. labor markets. As seen below, the availability of workers at all levels of education, based on unemployment rates, has shrunk by half since 2011, when the economy began rebounding from the 2009 recession.

<table>
<thead>
<tr>
<th>U.S. LABOR FORCE BY EDUCATION LEVEL</th>
<th>Labor Force (2016)</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(In ’000s)</td>
<td>April 2017</td>
</tr>
<tr>
<td>Less Than High School Diploma</td>
<td>9,725</td>
<td>6.5</td>
</tr>
<tr>
<td>High School Graduate</td>
<td>33,580</td>
<td>4.6</td>
</tr>
<tr>
<td>Some College/ Associate’s Degree</td>
<td>36,563</td>
<td>3.7</td>
</tr>
<tr>
<td>Bachelor’s/ Advanced Degree</td>
<td>52,925</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Considering the tightening of the U.S. workforce as shown by data from the U.S. Bureau of Labor Statistics (BLS), it is no surprise that companies are feeling the effects of talent scarcity across industries.”²
Industry and Markets: Talent Scarcity Begins to Impact the Marketplace

The workforce supply and wage situation in the U.S. has already led to talent shortages. The U.S. economy has been an effective job creator since the recession, and hiring has been strong in 2017. Although the pace is likely not sustainable, the sheer volume of job gains seven years into the recovery is commendable.

Much of the job growth in the U.S. comes from lower-skilled industries such as restaurants (up 254,000 YoY) and construction (up 177,000 YoY), but there are also significant increases in the most lucrative sectors. Healthcare added nearly a half a million jobs in 2016. A TEKsystems Healthcare IT survey found that 50 percent of managers planned to increase contingent IT hiring, and 67 percent planned to increase full-time hiring. Likewise, finance, insurance, and investment banking (up 112,000 YoY) are finally seeing a turnaround after years of declines. On the down side, several segments have struggled, namely durable goods manufacturing, especially machinery and semiconductors, which are heavily affected by canceled oil and gas drilling projects and a sharp decline in Chinese exports. Other segments have not grown at the pace many expected.

Even considering the slower growth in some sectors, the overall U.S. economy still struggles with worker scarcity. With the number of available workers at half of their 2011 levels and falling, industry struggles are creating news:

“The worker shortage facing America’s farmers”
– CNN Money (Sept. 2016)

“What’s Holding Back the Housing Market? Not Enough Construction Workers”
– Reuters (Sept. 2016)

“Oil companies face worker shortages after 350,000 layoffs”
– USA Today (June 2016)

“Is 2017 the Tipping Point for the Manufacturing Skilled Labor Shortage?”

The scarcity of skilled workers will continue to be a driving force in the U.S. economy, and the impact of that scarcity has already begun to reshape the world of business and talent.
A GLOBAL-LOCAL STRATEGY IS MORE IMPORTANT THAN EVER

Just a decade ago, most companies managed their workforce needs in localized silos bound by regions or countries. By implementing global, enterprise-wide talent operations, many organizations achieved great improvements in their ability to secure the right people at the right time and move the business forward cost-effectively. But in today’s economy, companies recognize that being global is not enough.

A lasting and impactful workforce strategy must embrace a balance of both global and local strategies in what is often referred to as a “glocal” approach. It accounts for the cultural, workforce, and regulatory factors distinct to individual locations while achieving the visibility, consistency, and measurable impact that are essential to the global enterprise. The result is an organization that is positioned to secure quality talent today, support a vision for the future, and adjust quickly to market changes as they occur.

A truly impactful talent advisor, whether an internal leader or external talent partner, will have the commitment to help the organization understand and embrace this glocal vision for their workforce strategy.

Ron Hetrick
Director of Labor Market Business Intelligence
Allegis Group
As the U.S. economy grows, the shortage of workers is being felt across industries. In fact, while productivity in terms of per capita GDP is strong, overall GDP growth is sluggish, and the struggle for growth is likely due to the labor supply issue. Consider the imbalance of talent across industries as represented in BLS unemployment data.

The worker shortage points to a more serious issue that may impact the future of jobs in the U.S. Namely, by traditional measures, wage growth has not responded to supply limitations; instead, wages rose immediately after the 2009 housing crisis and then settled into a period of steady but modest growth that continues today.

Many factors have kept wage growth in its range over the last several years, but three of the most influential drivers are also becoming an integral part of the talent conversation among companies across industries. Those drivers include the rise of the procurement mindset, the use of overseas workers, and a growing pool of freelancer and SoW labor whose rising wages may not be fully captured in the statistics. Each of these phenomena offers lessons for talent planners.

The Influence of Procurement, Flexible Workers, and Solutions Providers on Wages

Following the 2009 recession, companies hesitated to add full-time employees. As a result, organizations relied more heavily on contingent workers. While employee hiring has traditionally fallen under the HR umbrella, managing the suppliers of contingent workers fell increasingly into a procurement area of responsibility, and procurement’s traditional focus has always been to drive down costs.

As a part of the solutions approach, many large companies now manage contingent staffing suppliers through Vendor Management Systems (VMS) run by MSPs tasked with driving further efficiencies.

According to Staffing Industry Analysts (SIA), North America represents 60 percent of all revenue passing through MSP/VMS systems, and the U.S. market is nearly four times larger than the next largest market (the U.K.). Growth in MSP/VMS usage in North America greatly exceeds actual staffing revenue growth, and it is now estimated that 66 percent of all staffing revenue worldwide is coming through an MSP/VMS. A disproportionate amount of those placements occur in IT, a profitable sector of contingent staffing but also one with high average wages due to skills shortages.

Looking ahead, the influence of procurement will likely evolve as organizations face decreasing talent supplies. Attracting and retaining workers, along with ensuring talent quality, are becoming larger priorities for traditional employees and flexible workers alike. In other words, the need for cost control and efficiency is no longer the only focus; it is one of many parts of an effective procurement and contingent workforce strategy, and so the other factors, talent quality and retention, may compel planners to increase wages more quickly in the future.
The Use of Outsourced Labor and Its Influence on U.S. Workers

Hand in hand with the rise of procurement-driven strategy, the usage of largely Indian-based IT and engineering services firms has also influenced wage growth. From 1995 to 2001, U.S. contingent IT staffing grew at a rate of 22 percent per year. Since 2004, IT staffing has grown by five percent per year, from $16B to $29B, while Indian services firms such as TCS and Cognizant grew at 21 percent annually to nearly $50B. In other words, IT staffing growth over the past decade in India mirrors that of the U.S. in the 1990s. At the same time, the salaries of seasoned IT workers in India are typically a quarter or less of their U.S. equivalent.

Currently, companies are not yet changing their views on India as a solution to their talent needs. A report by the Society for Human Resource Management (SHRM) notes that 55 percent of surveyed employers plan to hire foreign talent in 2017, and 63 percent cited foreign national employees as important to their companies’ talent acquisition strategy.

For procurement and HR planners, an endless supply of inexpensive overseas talent to fill in the gaps is not a foregone conclusion. India has its own talent shortage. The supply is in flux across other countries, and companies may begin to see wages rise. In fact, this uptick in worker costs is already happening, but it is doing so under a new label, leading to a third trend influencing labor costs: the rise of the freelancer.

Freelancer Influence: Independent Workers Providing Cover for Real Wage Increases

Beyond traditional employee hiring and contingent worker engagement, hiring managers and staffing companies often take other routes to secure talent. The two most used-paths are through the use of SoW resources and independent contractors (ICs). Neither of these worker types is new, but their usage in the staffing space has only recently exploded. It is difficult to estimate the size of SoW and IC usage in staffing. In 2013, SIA estimated that the largest sector for SoW in contingent staffing, IT, was only $2.7B in revenues, with SoW at no more than 10% of sector revenues overall. Another 2015 report found that 51% of respondents incorporate SOW into their CW program with an additional 39% planning to do so in the next two years. While many contingent firms may not yet emphasize or publicize their growth in this area, the engagement of SoW and IC talent does represent a significant part of the workforce, and many services and solutions providers are creating paths to bring these freelancers or “gig workers” under management through advanced MSP or total talent solutions.

Regardless of how companies engage IC and SoW talent, freelancers represent a category that may be falling out of view of those who track workforce spend. When workers become contractors, their job titles and duties may change. Many developers or business analysts are now called consultants or subject matter experts, allowing their bill rates to increase significantly. While wage increases have been muted within occupations, workers can land raises by upgrading their occupational titles. Likewise, on the employer side, managers may find themselves using SoW or IC workers as a way to engage talent under higher rates while avoiding the watchful eyes of their procurement teams.

Moving forward, SoW workers will probably rise in numbers as companies deal with worker shortages. They will have new job titles, and companies will classify the spend under different departments. In short, companies will do whatever is necessary to get work done and find good workers, but the actual cost of talent will continue to rise.
Looking Ahead: The Future for Talent Planners in the U.S.

The U.S. workforce situation is representative of the same issues talent and business planners face around the world. There is a collision course between talent scarcity and wages. Many organizations are addressing the shortage by depending on overseas talent, or they are paying dearly for people who can do the work and then hiding the spend under SoW or IC categories.

Moving forward, efficiency and cost-control will remain priorities for procurement in its approach to the workforce, but additional priorities are now also part of the picture, as companies improve their ability to compete in an increasingly tight labor market. Strategic planning, flexible thinking, developing workers from within, candidate and worker experience, and employer brand are all likely to be part of the language for procurement, just as they are for HR and talent acquisition today. It’s a slow path of evolution, but the companies that embrace change are likely to improve.

Notable Trends in the U.S.

Economy and Workforce
- Millennials outnumbering Baby Boomers in the workforce
- Strong services economy
- Worker shortage in both STEM and lower-skilled roles
- Wage growth steady but modest

Business and Talent
- Rising freelancer workforce (SoW and ICs)
- Mature markets for staffing, MSP, and RPO
- High use of offshoring skilled and unskilled labor

Looking Ahead
- Expect companies to focus on increasing integration of employee recruitment, contingent, and flexible workforce strategies.
- Focus on data, employer brand, and technology innovation to compete for talent.
- Look for accelerated wage growth in critical skills.
BUSINESS AND GOVERNMENTS STRUGGLE WITH NEW WORKFORCE PRESSURES

For companies in Europe, securing talent involves navigating a range of economic, regulatory, and social factors. Conditions vary greatly from country to country; however, analysts tend to view the primary Eurozone countries of Germany, France, Netherlands, and Italy as sharing a similar level of development in terms of talent practices. The U.K. has distinct market characteristics and is best viewed separately.

With that in mind, a look at the Eurozone countries reveals a range of dynamics that place pressure on the workforce and employers in ways that are magnified compared to other regions. Both services- and manufacturing-focused economies are struggling with diminishing supplies of skilled workers, and companies are also working with challenges related to population, politics, and regulations.

**Macroeconomic, Industry, and Workforce Trends: Shifting Populations and a Changing Services/Manufacturing Equation**

Population changes and economic conditions are having a profound influence on the workforce in Europe. Despite being many years into a general recovery, countries like France and Italy are still experiencing unemployment rates of 10 percent or greater although the underlying causes are more political than economic. Meanwhile, Germany’s unemployment rate of around four percent represents one of the healthiest in the world. The Netherlands enjoys similar economic strength. The relative strengths and weaknesses of these economies are particularly noticeable and reinforced in job vacancies data.

While Germany and the Netherlands hover at historic highs, France reflects the struggle of countries left behind in the current growth cycle. What is particularly interesting in the details is the contrast to the U.S. Both France and the U.S. have largely services-based economies, with 76 percent of France’s GDP and 71 percent of the U.S. GDP coming from their services sectors. France, however, does not have a strong GDP per capita. Its predicted GDP growth is weaker, and its inflation is lower.
Germany, a more manufacturing-focused economy, currently enjoys higher GDP measures than France. Even more interesting is that Germany’s manufacturing sector (up 269,000 YoY) led all its industries in net hiring while manufacturing in France (down 23,000 YoY) was second to last in jobs lost. In France, the only sector hiring at any significant level is administration (government) while that is the only industry contracting in Germany.

Industry performance in Germany and France differ, yet both share a similar population trend characteristic of countries in the region. Namely, labor force participation rates have not grown in the past 10 years after growing for decades. This lack of growth is largely due to one reason. Most European countries experienced their baby boom at the same time as the U.S., from 1946-1960s, with Germany’s baby boom starting roughly nine years later. That timing means that the region is currently experiencing a high level of retirements that will continue for the next several years.

These retiring people need a generation to replace them, and this is where the problem lies. In Europe, the Millennial generation (those born after 1980) represents only 24 percent of the adult population compared to 27 percent in the U.S. According to Pew Research, in Italy, it is as low as 19 percent. While Millennials are overtaking Baby Boomers as the largest generation in the U.S., in Europe, people over 50 still lead the population. At the same time, birth rates continue to decline, falling to 1.55 in 2013 (ranging from 2.01 in France to just 1.38 in Germany). For context, a rate of two is required for population stability, and the U.S. is at 1.87, down from 2.12 in 2007.

These population shifts will have some implications on the workforce, particularly as it relates to experience and education levels. For example, Eurozone countries have significantly fewer college-degreed workers as a percentage of the population than elsewhere in the world. Population pressures are likely to remain a continuing issue for European businesses, and even the strong German economy must address the resulting talent scarcity challenges that those population changes bring.

**Business and Talent: Skilled Worker Shortages Shape the Business and Talent Outlook**

Regardless of unemployment levels, European countries are experiencing a shortage of STEM workers and an over-abundance of industrial or low-level office workers. According to the Institute of Electrical and Electronics Engineers (IEEE), “The European Commission (EC) says the demand for new information and communications technology (ICT) sector jobs is up to 120,000 a year in Europe, which EC Digital Single Market Chief Andrus Ansip says could lead to a shortage of more than 800,000 skilled ICT workers throughout the continent by 2020.”

IEEE notes that Germany has the most job openings in the engineering and IT fields although one cause of unfilled jobs is a requirement that all workers in the country understand the German language. In France, the skills mismatch is not as prevalent, but regulations have made it very difficult for the labor market to have the flexibility to fill job openings.

Responding to the continuing talent scarcity, European companies differ from those in the U.S. and U.K. in their emphasis on flexible workers, staffing, and talent solutions. Together, the Eurozone represents roughly 16 percent of total contingent spend around the world according to SIA, lower than the U.S. Collectively, they have one-tenth the level of revenue passing through MSP systems as the U.S. does and only one-third of that in the U.K. At the same time, however, contingent workforce solutions in the region do include an option beyond MSP. This alternative approach
is “Contingent RPO.” In this arrangement, the RPO hires the vast majority of placements but does farm out a small percentage to contingent staffing firms that the RPO manages. Overall, the rate of RPO growth is expected to be higher in Europe than in North America, according to SIA, and contingent RPO may contribute to that growth.

Looking Ahead: A Challenging Future for Talent Planners in Europe

While many observers consider the European Union as a driver of regional economies, the reality is that internal political dynamics are a key force in the labor economy of the countries in the region. These internal factors are not to be downplayed and have become an integral part of the story of the most recent economic recovery. Immigration, regulation, and political uncertainty will continue to influence economic conditions; however, job growth in skilled industries drives economies forward, and many European countries are in a poor position to address those needs.

For companies navigating the markets for workers in Europe, a focus on flexibility will be important, just as in other regions. A growing portion of organizations are improving their approach to building data-driven intelligence, strengthening their employer brands, and navigating the complexities of multiple regulatory environments. Moving forward, business planners will require an open-minded approach to talent and workforce strategy and will likely expect expert guidance from their staffing, MSP, or RPO partners in the process.

NOTABLE TRENDS IN THE PRIMARY EUROZONE

Economy and Workforce
- Shrinking working-age population
- Shortage of STEM workers
- France: Heavy services focus, low growth
- Germany: Heavy industrial focus, high growth, high vacancy rates

Business and Talent
- Rising freelancer workforce (SoW and ICs)
- Less use of contingent workers and MSPs than the U.S. or U.K.
- Use of contingent RPO for flexible and permanent workforce needs

Looking Ahead
- Internal politics, immigration, and regulations will influence markets by country.
- Flexibility is critical in talent planning for a region in flux.
- RPO use is positioned to grow.
BUSINESSES STRUGGLE WITH A MATURE, COMPETITIVE TALENT LANDSCAPE

The U.K. has distinct challenges and opportunities in relation to other countries across Europe. The country’s large global banking industry recovered from 2009’s lows. Brexit, a formal withdrawal from the European Union that has been passed but not yet implemented, has yet to have a large impact. Offshoring is well-established as a workforce option, and companies are competing strongly for dwindling talent supplies at home.

As a result of the historically strong competition for workers, companies have developed mature talent operations, including widespread utilization of flexible workers and adoption of sophisticated staffing, RPO, and MSP solutions. Understanding the economic factors and workforce dynamics, companies will continue to evolve their talent practices, but they will be doing so against competitors who are also mature in their approaches to securing critical skills.

Macroeconomic, Industry, and Workforce Trends: Shifting Populations and a Changing Services/Manufacturing Equation

From an economic perspective, the U.K. has several unique features. Its manufacturing sector represents around 10 percent of all jobs, close to the same percentage as the U.S., and its professional and technical services industry is larger as a percentage of the total than the U.S. However, its GDP per capita is one of the weakest compared to the other larger European economies. The low per capita GDP is surprising considering that London is both a world leader in banking and finance and a heavy employer of IT workers.

The high banking presence put the U.K. in a vulnerable position during the 2009 economic crisis, similar to the U.S., but the U.K. economy as a whole bounced back strongly without a significant contribution from banking, also similar to the U.S. The unemployment rate is now below its pre-recessionary levels, and job vacancies are now back to record highs.

The passage of Brexit is a potential disruptor, although the fallout remains unclear. The actual separation date is not until the end of March 2019, and while Brexit is widely viewed as an isolationist policy, the reality may be far less dramatic when it comes to labor market dynamics. Trade agreements will be slowly worked through and renegotiated, not withdrawn. Companies will reposition workforces that had previously been in EU headquarters locations in the U.K., but even those moves may be small.

Essentially, Brexit is a distraction from the greater reality that the U.K. itself is also facing severe shortages of skilled workers. In 2015, the Institute of Chartered Accountants of Scotland estimated that a massive £10B ($13B) was being lopped off U.K. total GDP due to unfilled skilled job openings, much more damaging than Brexit or even the sharp decline in exports to China from Britain’s heavy equipment and steel manufacturers. The U.K. publishes a list of the skill sets so in demand that they can be offered to non-U.K. residents without posting the openings domestically first. The list, published on workpermit.com, is littered with engineering and IT job titles in addition to healthcare roles. While Brexit’s intent was focused largely on reducing the swells of lower-skilled workers from outside the country, it has not stopped employers from expressing concern about limited access to skilled talent after its implementation.

With unemployment below pre-recessionary levels and job vacancies at record highs, it would appear that the only dynamics holding the U.K. back from accelerating growth is the lack of talent. Whether Brexit will make acquiring skilled foreign workers more difficult is not a question for the near term, but it may be the single most important factor for companies planning longer-term hiring initiatives.

U.K. JOB VACANCIES (Number of vacancies in ‘000s)

Source: www.tradingeconomics.com, Office for National Statistics
Business and Talent: Worker Shortages and Mature Markets Shape Business Strategy

The U.K. is a mature market when it comes to diverse talent acquisition methods and ease of doing business, making it conducive to the use of contingent workers or Indian offshoring. India invests more in the U.K. than the rest of the EU combined, thanks largely to a shared use of the English language. Brexit could cause more offshoring from U.K. companies, since Eastern European job applicants may find it much more difficult to get work visas into the U.K., but it’s important to note that the country already has a strong, historical blueprint for offshoring.

When it comes to the use of a flexible workforce, U.K. companies rank high among their peers around the world. Despite total employment of only 70 percent of Germany’s level and just 10 percent more than France, the U.K. spends the third largest amount on contingent staffing services, ranking only behind the U.S. and Japan. According to SIA, the U.K. also has the highest percentage of European IT temporary staffing spend, with 17 of the 30 largest IT staffing companies in Europe headquartered there.

Considering the heavy usage of staffing partners, it is not surprising that U.K. companies are also strong users of MSPs to help optimize the management of those contingent workforce suppliers. Although significantly behind the U.S. in total spend through MSPs, the U.K. stands alone in second place with nearly six times more spend than third place Australia. Furthermore, a large portion of MSP usage by U.K. companies focuses on IT workers and other professional roles, whereas staffing by European counterparts in Germany and France focuses almost exclusively on light industrial needs. The heavier and more strategic usage of MSP in the U.K. indicates that it is distinct from the rest of Europe in the maturity of its markets and the state of its regulatory environment — both factors making the U.K. conducive to advanced talent strategies and partnerships.

When it comes to hiring traditional full-time employees, U.K. companies are also relatively mature in their usage of solutions partners to optimize recruiting. The U.K. is the dominant market for RPO in Europe. As mentioned earlier, the use of contingent RPO, a solution that includes an element of staffing in addition to recruitment, may provide a path for further development and increase revenues.

While RPO usage is likely to increase in Europe at a greater pace than the U.S., it is unclear how much of that growth will occur in the U.K. considering that it has a more mature market than its European counterparts.

Looking Ahead: A Race for Best Practice Talent Capability in a Competitive Market

In many ways, the concerns of talent planners in the U.K. are similar to those of the most forward-focused companies in the U.S. As with all regions, the core workforce issues stem from a scarcity of critical skills in the available talent supply. In competing for those skills, organizations are stepping up their approaches to engaging flexible talent, building their employer brands to better attract talent, applying advanced data and analytics for improved workforce intelligence, and advancing their use of recruiting technologies and sourcing practices. For any company doing business or securing talent in the U.K., the market will often put a premium on these talent best practices. The challenge for any company will be to look beyond the transactional aspects of staffing or recruiting to put these practices into place.
A REGION DIVIDED — DISTINCT TRENDS BY COUNTRY

While countries in other regions around the world share some similarities in their economic conditions and workforce environments, the same cannot be said for APAC. GDP varies greatly from country to country, as does population growth, skilled-worker availability, political and regulatory conditions, market strength, and sophistication of talent strategies. In addition, conditions change rapidly in many parts of the region, and the available data is often unreliable or difficult to interpret.

With these variations across the region, it is impractical to identify a single set of macroeconomic, business, or talent-related trends. Instead, a useful perspective can be gained by looking at APAC on a country-by-country basis, focusing on the economies of China, Japan, Australia, and India as a representative mix in the region.

China

China now produces approximately 15 percent of global GDP, yet its GDP per capita is a mere fraction of other industrialized nations, only ahead of agriculturally heavy India. In 2013, China’s government made the decision to begin the country’s transformation from a manufacturing focus to a more lucrative services-based economy. Imports declined sharply, as did GDP growth, the latter a victim of its own success, due to a high bar set by expansive growth in the prior decade.

From a workforce standpoint, China’s “one child policy,” overturned in 2013, has left its population unbalanced. As its economy transforms, Chinese business and government planners find that global companies were more than willing to export manufacturing jobs to China, but higher-end services jobs seem to have found their home in India.

China’s situation is unique due to its political approach to controlling the labor market and production. As labor is utilized, it can then be repurposed, but that takes time. A historically manufacturing-driven workforce is understandably falling short of skilled worker demands in the new Chinese economy. In other areas of the world, talent planners might be inclined to lean on outsourcing or use of contingent workers and staffing partners to fill the gap, so it may be surprising that contingent staffing is not a larger market in China than what it actually is. Despite possessing the largest employed ranks in the world (greater than the next 10 significant labor markets combined), China represents only two percent of global contingent spend. And not surprisingly, just like all major economic markets, China itself has a severe shortage of skilled trades.
Japan

Japan is the third largest contributor to global GDP. Since 2013, Japan has added nearly two million jobs; however, one-quarter of those gains have come from wholesale and retail trade.

Of all the segments that account for more than five percent of Japan’s economic growth outside healthcare, which employs a very narrow occupational range, little is coming from higher-skilled industries. More than anywhere else in the world, Japan’s ability to grow higher-end jobs is extremely limited. Its overall unemployment rate is a miniscule 2.8 percent, down 0.4 percentage points from the previous year, and job vacancies are soaring.

Considering Japan’s tight labor supply, one might expect wage inflation to skyrocket; however, the massive growth in lower-skilled jobs has limited overall wage growth rates. There is also the fact that there are very few workers to go around in Japan. The scarcity is due to Japan’s strong anti-immigration policies, aging population (Japan’s labor force will shrink by 500,000 annually for the next few decades), and very poor birth rate of 1.43. As a result, many workers are needed in the lower-skilled industries just to keep communities functioning.

Considering the conditions, one would expect talent planners to rely on flexible workers to fill the gaps in Japan’s tight labor market. Notably, however, Japan is not a hot spot for the “gig” worker population. Less than nine percent of workers in Japan are self-employed. There is not enough flexibility in the economy or culture for workers to detach into more personal-based businesses. Japan does, however, have a sophisticated and progressive labor market, and it is the second largest consumer of contingent staffing at 14 percent. The penetration rate of 4.2 percent for temporary staffing outpaces contingent spend in the U.S. by a significant amount.

Australia

Despite contributing only two percent to overall world GDP, Australia’s oil export-heavy economy produces a high GDP per capita. There are only 12 million employed workers in the Australian economy. For context, that number is equal to the population in the state of Texas in the U.S. and slightly ahead of the Netherlands, so while Australia’s current unemployment rate is just under six percent, the actual number of people unemployed is small. This small workforce is offset by Australia’s history of promoting immigration, which provides a constant stream of new workers into its economy.
Where are the talent shortages in Australia’s small but highly productive economy? One way to answer that question is to look at a list of the most in-demand jobs posted on “Focus Australia,” a publication of the Australian government used to promote immigration. Unsurprisingly, the list reflects the same worker shortages experienced by the rest of the world, but those shortages are not limited to scarce technical skills. Nearly every professional job can be found on the list, from IT (data analysts and developers), marketing, and HR to accounting and even manufacturing production managers. Likewise, the list also contains many lower-skilled job types such as food preparation and hospitality roles.

In sharp contrast to the other countries in the region, Australia’s views on labor movement and acquisition are very conducive to building a strong workforce. While it represents only three percent of global contingent staffing spend, it has the third largest amount of revenue passing through MSP programs and is a major player in the RPO space.

India
Although more sophisticated labor economies like Singapore and Hong Kong are important to many global companies, they are dwarfed by India, the world’s seventh largest contributor to global GDP. Agriculturally heavy and exceedingly imbalanced, India has a seemingly endless supply of labor, yet it has difficulties filling technical jobs despite being the world’s home of offshoring.

The availability of reliable data for India is sparse. The last official unemployment rate, released in December 2013, was 4.9 percent; however, of the 500 million people in its labor force, 94 percent work in an unincorporated capacity and are not included in the unemployment calculations. For the 30 million who are incorporated, 60 percent work for the government.

It is probably surprising for many to note that only two percent of India’s 500 million workforce has received any formal skills training, but informal training is slightly more common. Government data further shows that only 6.8 percent of the estimated one million people entering India’s labor pool every month at the age of 15 are “skilled,” according to a 2014 Labour Bureau Report. Considering all the variables, a reasonable estimate of available skilled workers is approximately 30 million in India, but the need is 120 million. The country’s skilled labor shortage is well known. Many startups struggle to find or retain skilled workers, and wage inflation is rampant in that section of the workforce.

To make up for the supply shortage, established and rapidly growing offshoring services giants often use their own training classes to develop needed skills among workers in India. They generate what would be considered very attractive jobs if located in other parts of the world; however, in India, the difference in pay between jobs is not as significant, making it very attractive to non-Indian firms looking to offshore or outsource work. For example, in the U.S., experienced .NET developers make approximately $55 per hour. In Bangalore, India, they may make $8 per hour. Meanwhile, a much lower-level technical help desk representative makes about $15 per hour in the U.S. and around $2-3 per hour in Bangalore. That $40 per hour difference between occupations in the U.S. is a mere $6 per hour difference in India. With India’s comparatively tiny differences in wage ranges, offshoring demand from the U.S. and other English-speaking countries like Canada or the U.K. remains high.

To address skills shortages, companies in India are turning to talent solutions such as MSP to manage contingent workforce suppliers. India is the sixth largest country in terms of revenue through MSP systems. Given the low pay and bill rates in the country, that is not a surprise, and it suggests that the actual headcount in the systems is likely significantly larger than the countries that rank above it. As wage inflation continues to grow in the skilled sector, India may end up being the largest area of revenue growth for the MSP market in the next 10 years. When it comes to recruiting
traditional full-time employees, companies in India do utilize RPO solutions providers, and India’s RPO market is continuing to grow. Discerning India’s share of the RPO market is difficult as SIA’s recent RPO report lumps it into the “Asia” sector, which has approximately four percent of total RPO placements around the world.

India’s demographic profile suggests it will continue to become an integral part of the global labor force. An astounding 70 percent of Indians will be of working age in 2025, a stark contrast to the steadily declining rates of working populations in Japan, China, Europe, and even the U.S. However, to rise to the demand for needed skills, the country must overcome the crippling internal roadblocks of underfunded and antiquated educational and infrastructure facilities.

Looking Ahead: Population Demographics Will Shape APAC Talent Strategies
Like no other part of the world, population demographics are the story in APAC. Japan represents the dangers that extreme labor tightness can put on GDP while India represents the opposite: a potential labor supply to help other nations struggling to find enough skilled workers. Elements of the staffing industry could explode in these markets, MSP and RPO being the most immediately obvious, something SIA also predicts due to global firms’ enrollment of all hiring into their programs. SoW usage is less clear. India is a country that can attribute its growth to SoW as an alternative labor solution. Australia uses independent workers much like the U.S. or Europe. Historically, Japan relied on China for offshoring or SoW work, but that was before China began its services transformation and the skills shortages that came with it.

In the end, employers in much of the area, also including Singapore and Hong Kong, will increasingly need to reach beyond their borders. There are vast numbers of minimally skilled workers in neighboring countries who could potentially be trained using models similar to India’s with the right investment and loosening of restrictive governmental policies. As demand for skilled workers continues to grow, improved training and access to workers across boundaries will become more than just a smart policy idea for APAC businesses and governments; it will be an economic necessity in the region.

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### NOTABLE TRENDS IN APAC

#### Overall
- Skilled worker shortages across region
- Stress of changing manufacturing/services balance in key markets
- Cultural and regulatory factors reinforce national “boundaries”

#### China
- Shift from manufacturing to services
- Skills gap to meet new market needs
- Low use of advanced MSP or RPO solutions

#### Japan
- Pressure from an aging/shrinking population
- Limited growth in skilled industries due to talent scarcity
- High use of contingent workers and staffing services

#### Australia
- Small population, strong productivity in per capita GDP
- High vacancy rates across skilled and non-skilled fields

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• Strong immigration policy helps mitigate worker shortage
• Mature markets for RPO and MSP

### India
- Growing worker population, large contributor to global GDP
- Leading offshore provider of offshore skilled services
- Experiencing its own skills shortages
- Emphasis on training provided by companies
- Strong MSP use but low spend rates due to low wage rates
- Challenged by education needs

### Looking Ahead
- Changing demographics will shape the economic future.
- Immigration and education remain strong influencers of supply.
- RPO and MSP markets have room to grow in size and sophistication.
Global Talent Strategy Insight

SPEED, COST, AND BIG PICTURE PRIORITIES

When it comes to recruiting and contingent workforce strategies, much press is given to the idea that speed and cost are less important priorities than they were in the past. To a certain extent, this view is accurate, but it can be misleading.

Around the world, speed and cost will always be important. What has changed is that in more mature talent markets, they are no longer the only measures of success. Quality of talent is part of the equation. Candidate, employee, and flexible worker experience is important and so is the ability to be predictive, adjust quickly to change, and turn data into real intelligence.

These priorities are all a means to an end, and that end is business growth and impact. It’s a common goal that is shared by business leaders, stakeholders, and talent and procurement partners alike. Around the world, the emphasis on these measures varies greatly, but for any talent planner, all of these factors must be part of the conversation when setting out an effective workforce strategy.

Ron Hetrick
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LOOK BEYOND YESTERDAY’S WORKFORCE STRATEGIES TO MEET TOMORROW’S NEEDS

Across all regions, today’s trends underscore the continuing pressures on employers in a global environment of shrinking talent supply, rising demand, and industry competition. As companies and the staffing and talent solutions providers that support them look to the future, they see that traditional approaches to talent may not be trusted to fill the gaps.

In many respects, the challenges of change are already shaping how companies view the future. Inexpensive off-shoring and outsourcing alternatives may not be available. Transactional, cost-driven staffing and recruiting approaches may leave companies with lingering vacancies as competitors with more strategic models and best practices win over the available talent. Even basic assumptions about the value and potential of current employees will need scrutiny.

Looking ahead, successful talent organizations will likely be the ones that apply a conscious approach to three critical areas of challenge and need. These areas include external talent, internal talent, and a commitment to change.

Expand the External Talent Supply: Flexibility Addresses Talent Scarcity

Today, many companies realize that legacy practices are placing restrictions on their supplies of available talent. If procurement owns one set of talent, and HR owns another, for example, the hiring manager for a position may be limited to the talent associated with full-time or flexible talent but not both.

Smart organizations are beginning to add flexibility to their job requirements, opening themselves to the people with the right skills regardless of worker type. Solutions providers are evolving to address this need. Staffing and MSP providers expand to become “total talent” or “integrated” solutions or, as mentioned earlier, RPOs are evolving to become “contingent RPOs.”

Even beyond opening a requirement to permanent or contingent workers, companies are expanding their options by questioning all assumptions. For example, they may ask, “Does a role require a single worker or can it be accomplished by aggregate efforts and skills of multiple, different resources?” Or even, “Can a machine do this job?” For any company or solutions partner, asking these questions is the path to flexibility — and flexibility will be essential for expanding the supply of available talent.

Optimize Internal Talent Supply: Every Worker Matters

Beyond determining where to recruit and what type of worker to seek in the marketplace, successful companies are increasingly looking to their internal talent as their best defense against worker shortages and changing skills demands. The case for employee retention in terms of avoiding the costs of vacancy, recruitment, and onboarding is well known.

As talent scarcity becomes more acute, however, the business case for retention will also be largely about using current talent to grow into new skills demands. That means a missed opportunity to expand a current worker into a new role is just as much a liability as actually losing an employee due to attrition. An employee-first approach applies active training and skills development to fill workforce needs.

In India, as seen earlier, training, and not recruiting, is increasingly the main source of new skills. This emphasis is also found in high-skilled organizations around the world, and skills development will be a fundamental strategy for growth in the talent environment of the future.
Commit to a Change: Look Beyond Transactional Results

Experts have long embraced the idea that transactional approaches to talent acquisition and management are an obstacle to change and success. At the same time, talent operations remain largely transactional in many companies. The day-to-day measures of performance (e.g., cost-of-hire, time-to-fill, or contingent worker rates) all focus on speed or cost. The challenge of breaking out of this mindset is significant. It requires change, and change is not easy to achieve.

Fortunately, many companies realize that efforts to build employer brands, improve data and analytics intelligence, and boost retention and development of current employees are essential for their ability succeed and grow. All of these efforts require investment in both time and budget, and they generally are not part of the day-to-day transactions of staffing, recruiting, or hiring. At the same time, experienced and strategically focused talent partners can play a key role in helping companies put best practices into place.

The right partner has the expertise to stay ahead of the changes, the objectivity and experience to navigate a client’s internal change management demands, and the technology to support the data, analytics, and communications needs. For any organization looking to compete for talent in any region, a strategic approach and commitment to change will be essential as markets continue to shift. By committing to smart implementation of best practices, organizations can achieve a talent capability that is more predictive in seeing the road ahead, more agile in adjusting to changes, and more competitive in securing scarce talent.

Endnotes


4Ibid.

5Ibid.


15Ibid.

Allegis Group is the global leader in talent solutions focused on working harder and caring more than any other provider. We’ll go further to understand the needs of our people — our clients, our candidates, and our employees — and to consistently deliver on our promise of an unsurpassed quality experience. That’s the Allegis Group difference, and it’s consistent across every Allegis Group company. With more than $11 billion in annual revenues and over 500 locations across the globe, our network provides businesses with a comprehensive suite of talent solutions — without sacrificing the niche expertise required to ensure a successful partnership. Our specialized group of companies includes Aerotek; TEKsystems; Aston Carter; Allegis Global Solutions; Major, Lindsey & Africa; Allegis Partners; MarketSource; EASI; The Stamford Group; and GettingHired. Visit www.AllegisGroup.com to learn more.