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951 0377

Report on the 2000 survey of EMPLOYMENT SERVICES

Highlights

- Revenues generated from staffing services amounted to $5.8 billion in 2000.
- Temporary staffing services accounted for 69% of industry revenues.
- Some 62% of industry revenues were earned in Ontario.
- Before-tax profit margin for the industry was 6.7%.
- The industry reported that 465,000 workers found temporary assignments in 2000. These workers produced 232,000,000 billable hours for the industry.
- The largest user of this industry's services was the business sector, paying nearly $4.8 billion.
- More than 100 million dollars was generated from clients outside Canada.

Industry facts and figures

The population of firms and the target sample

Under NAICS, the employment services industry group consists of the three industries; namely, placement services, temporary staffing services and co-employment staffing services (professional employer organizations).

Employment Placement Agencies
This industry comprises establishments primarily engaged in listing employment vacancies and selecting, referring and placing applicants in employment, either on a permanent or temporary basis. The individuals placed are not employees of the placement agencies.

Temporary Staffing Services
This industry comprises establishments primarily engaged in supplying workers for limited periods of time to supplement the workforce of the client. The individuals provided are employees of the temporary staffing service establishment. These establishments do not provide direct supervision of their employees at the clients' work sites.

Co-employment Staffing services (Professional Employer Organizations)
This industry comprises establishments primarily engaged in providing human resources and human resource management services to clients. These establishments operate in a co-employment relationship with client organizations (i.e., the rights and responsibilities of the employer are shared or allocated between the client firm and the PEO) and provide a range of human resource and personnel management functions such as payroll processing, administration of benefits (retirement, life, dental supplementary health, etc.) and human resource functions (counselling, employee assessment, regulatory compliance, risk management, etc.)

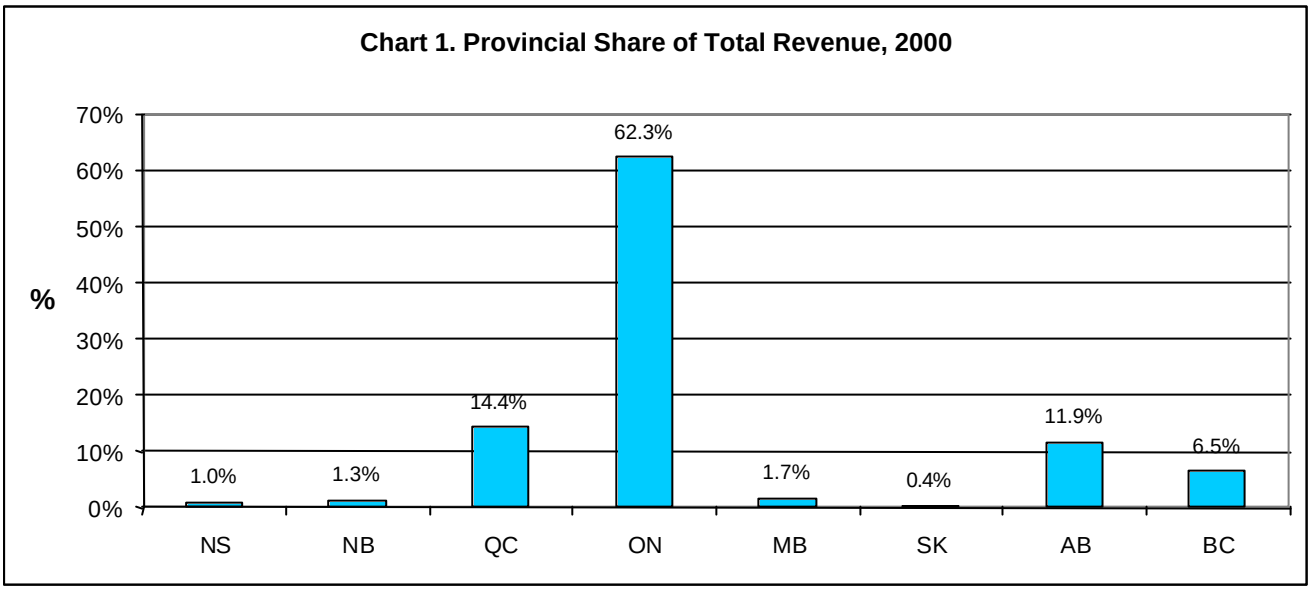
Some familiar names in this industry include Kelly Services (Canada) Ltd., Drake International Inc., Diversified Staffing Services Ltd., Manpower Services Canada Ltd., Todays Staffing Ltd. and Robert Half Canada Inc. More information about this industry group is given near the end of this report.

Establishments providing employment services numbered 3,309 in RY2000.The survey covered about 1,490 establishments targeting 775 respondents. The survey portion of the overall industry estimate represented 94% of the estimated revenue for the industry. The non-survey portion is determined from administrative sources.

Industry revenues

For 2000, the total revenue for the employment services industry was estimated to be $5.8 billion. Businesses in Ontario generated the lion's share of total revenue at $3.6 billion or 62.3% of the industry's total revenues, followed by Quebec ($837.9 million or 14.4%), Alberta ($691.9 million or 11.9%) and British Columbia ($377.9 million or 6.5%). The provincial share for each of the other provinces was less than 2% of the industry's total revenue (Chart 1).

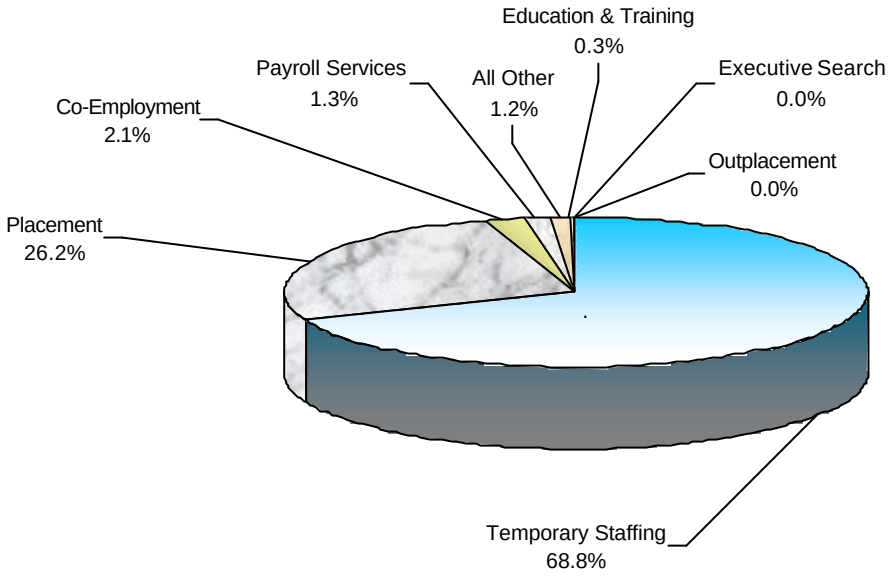
In 2000, clients in the business sector generated about 87% of the industry's revenues, with 79% derived from the non-financial component of this sector. Clients in the government sector accounted for just over 8% of the industry's revenues.



Major services provided

The major service provided by firms in the employment industry group is temporary staffing. This service accounted for about 69% of the total revenue. Placement services accounted for 26%, co-employment services for 2% and payroll services for 1% of total revenue.

Chart 2. Revenue by major services provided, 2000



Expenditures

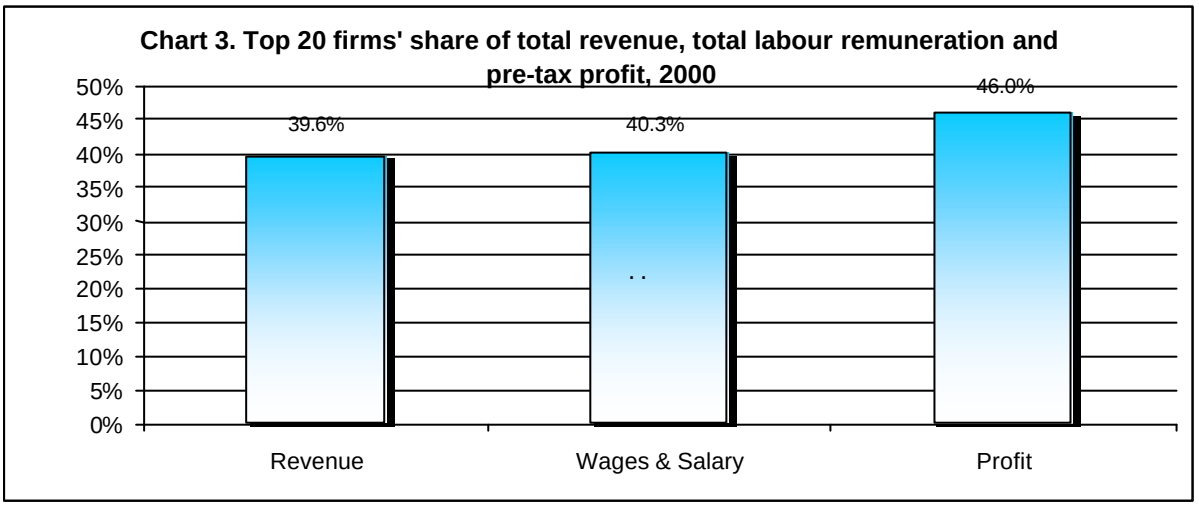
For 2000, the major expenditures for the industry were for salaries and wages and professional fees. For every dollar earned, 73 cents was spent on salaries and wages. Professional fees added another 9 cents for every dollar earned.

Profit margin before taxes

Gross margins for this industry are generated primarily from the temporary assignment of field employees to clients on a commission basis, averaging about 16% in 2000. As a result, before-tax profit margins tend to be relatively low for this industry after deducting overhead and administrative expenditures. In 2000, the before-tax profit margin was 6.7%.

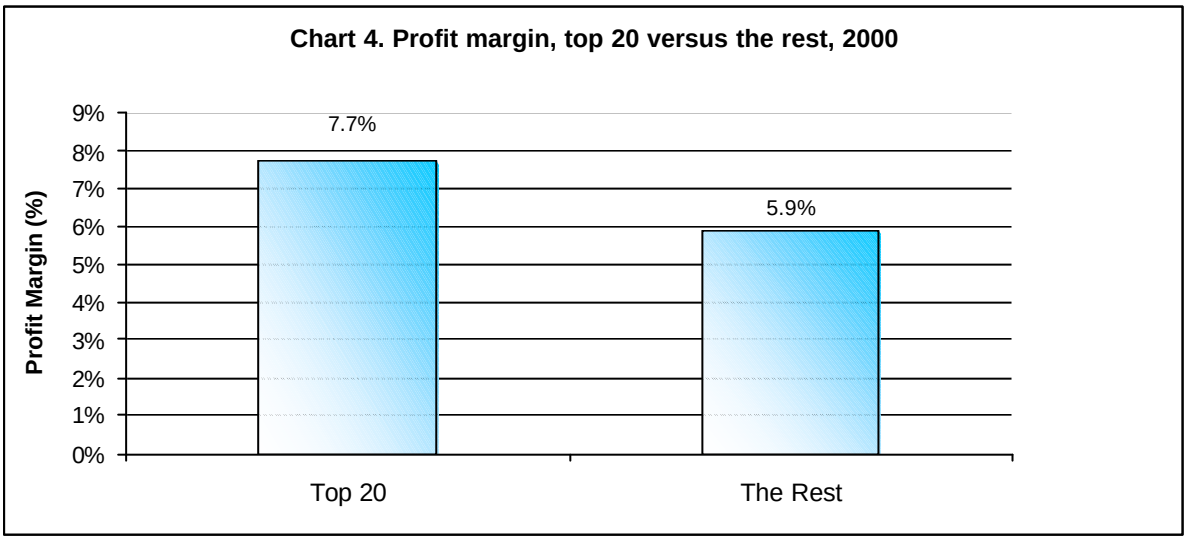
The top 20 firms' share of the industry

The top 20 firms represent a sizeable concentration in this industry. They accounted for 39.6% of the industry revenues, 40.3% of total wages and salaries paid, and 46.0% of the industry profits.



Top 20 firms profit margin

The before-tax profit margin for the 20 largest firms stood at 7.7% in 2000. For the rest of the industry, the profit margin was 5.9%.



Employment Characteristics

The extent of temporary help is significant. In 2000, there were 2.8 million workers in temporary jobs[1]. These workers represent 18.7% of total employment.

Survey data, however, suggest that only a fraction of these workers were temporary employees of temporary staffing firms. The 2000 survey shows that about 465 thousand temporary employees worked in client organizations on assignments that accounted for about 232 million hours of work performed. Thus, on average, each employee worked 498 hours.

[1] Source: Statistics Canada Labour Force Survey December 2000

Concepts, Methods and Data Quality

Concepts

The employment services financial statistics represent fiscal year estimates for revenue and expenses for the industry.

> Under the North American Industrial Classification System (NAICS), the industry comprises establishments engaged in listing employment vacancies and selecting, referring and placing applicants in employment; either on a permanent or temporary basis; as well as establishments primarily engaged in supplying workers for limited periods of time to supplement the workforce of the client.

The survey estimates provide selected revenue and expense items at the Canada and provincial levels.

Definitions

> A business entity is an economic transactor having the responsibility and the authority to allocate resources in the production of goods and services.
>
> A statistical establishment is one production entity or the smallest grouping of production entities which produces as homogeneous a set of goods and/or services as possible; which does not cross provincial boundaries; and for which records provide data on the value of output together with the cost of principal intermediate inputs used and cost and quantity of labour resources used to produce the output.

The population of interest:

> The population of interest is all establishments classified to NAICS 5613 and operating for at least one day during the reference year.
>
> NAICS 561310: Employment Placement Agencies
> NAICS 561320: Temporary Help Services
> NAICS 561330: Employee Leasing Services

Financial variables

?? Total Revenue is revenue generated mainly from employment services. It may also include revenue from other sources such as sales of other goods and services, interest and dividend revenue.

?? Salaries, wages and benefits include vacation pay and commissions for all employees for whom a T4 Supplementary form was completed. This category also includes the employer portion of employee benefits for items such as Canada Pension Plan contributions or Employment Insurance premiums. For working owners and partners their compensation is usually their share of pre-tax profit.

?? Depreciation expense is the expense related to depreciation and amortization of buildings, vehicles and other machinery and equipment.

?? Total expenses are the sum of all operating expenses, mortgage interest and other non-operating expenses.

?? Pretax profit is Total revenue – Total expenses

Methods

The data was produced as part of Statistics Canada's Unified Enterprise Survey (UES) conducted in 1998 for the first time. The survey incorporates several annual business surveys into an integrated survey. It aims to ensure Statistics Canada receives consistent integrated data from many types of survey and sizes of businesses with enough detail to produce accurate provincial statistics.

Target Population

The target population for this survey is all establishments classified to NAICS 561310, 561320 or 561330 on Statistics Canada's Business Register and operating for at least one day during the reference year and those self-employed unincorporated individuals who are not on Statistic Canada's Business Register.

Frame and Sample Design

Two sources of data were used to derive the estimates:

?? a probability sample survey of enterprises with gross business revenue greater than or equal to a cut-off that varied by province from $30,000 to $70,000.

?? taxation data to estimate for businesses with gross business revenue found on the Business Register less than a small size cut-off that varied by province from $30,000 to $70,000

The frame for the selection of the probability sample is Statistics Canada's Business Register. For 2000, in this frame about 3,309 establishments were classified to employment services.

Sample Size

A probability sample with network sampling was employed. Sampling units were created using a cell concept, which combined province and a 5-digit NAICS aggregation. Sampling units were stratified in four size strata that were defined by the total revenue of the sampling unit. For the size stratification, there is one take-all stratum for the large sampling units, two take-some strata for the medium-sized units and one take-none stratum for the smaller-sized units. The sample selected targeted 775 respondents covering 1,487 establishments.

Data Collection and Processing

Questionnaires were mailed to establishments selected in sample in the spring of 2001. The collection period ended in October 2001.

The data were examined for inconsistencies and errors using automated edits coupled with analytical review. Every effort was made to minimise the non-sampling error of omission, duplication, reporting and processing.

Partial records were imputed to make them complete, and were added to a donor pool along with completed records. Data for non-respondents, unable to locate and no-contacts were imputed using nearest neighbour donor imputation. Tax data was used in order to identify nearest neighbour donors.

Estimates Overview

The sampling weights derived from the sample design were modified and improved using post stratification. Estimates were derived using the final weight calculated by the sample design weight multiplied by the adjustment weight. The adjusted weight is a function of the information used at the design stage, the information received from the respondent, and new information on the frame. This is possible because the Business Register was updated with more accurate information in the time between the sample is selected and the estimates are produced. The final set of weights reflects as closely as possible the changing characteristics of the population in this industry.

Data Quality

All surveys are subject to sampling and non-sampling errors. Statistics Canada uses a variety of methods to minimise all types of errors. Measures of sampling error along with other indicators of quality are provided.

The coefficients of variation, a measure of sampling error, were computed. The quality of the estimates are classified as: Excellent (CV is 0.01 to 4.99%); Very good (CV is 5.00% to 9.99%); Good (CV is 10.00% to 14.99%); Acceptable (CV is 15.00% to 24.99%); Use with caution (CV is 25.00% to 34.99%); and Unreliable (> 35.00%).

Using these ratings, for total revenue, salaries and wages and total expenses, at the Canada aggregate industry level, the CV's were judged to be excellent. At the provincial level the CVs for total revenue were excellent. For salaries and wages and total expenses, the CVs ranged from excellent to very good.

The response rates of the 775 sampled units receiving a questionnaire were: Completed: 70%; Other (Inactive, Out of Business, Change of Ownership, Amalgamation, Incorrect Classification): 22%; Of the 22% Other classification, 14% were considered out-of-scope which reflects the quality of the Business Register at the time of sampling.

The sample of employment services represented 94% of the estimated industry revenues. Small businesses that were not included in the sample and where tax data was used to provide an estimate represented the remainder of the industry revenues.

All of the data was reviewed for accuracy and consistency. Users should bear in mind, however, that this is only the second year of the survey using the latest methodologies, and it is not feasible to make close comparisons to the earlier estimates.

Description of the Employment Services Industry

The employment services industry provides various types of staffing services. The firms in this industry are not only involved in bringing together job seekers and potential employers to achieve the most effective job placements, but they can also be involved in providing personnel to support, on a temporary or indeterminate basis, operations and special projects of their client organisations.

The employment services industry primarily serves the business community and is classified as part of the larger Business Services sector.

Under the North American Industry Classification System (NAICS), this industry includes three types of employment services. These services are defined as follows:

?? **Placement Services**
(*known as "Employment Placement Agencies" under NAICS)*

This industry is comprised of establishments primarily engaged in listing employment vacancies and in searching for and referring applicants to fill positions either on a permanent or on the basis of written contracts. Providers of this service are **not** the employers of record but act as brokers or employment intermediaries. These services may involve testing, interviewing, reference checking, evaluation and counselling of prospective employees. The activities provided by this industry includes **direct placement** (placement of applicants to client positions without a probationary period), **contract staffing** (finding and placing individual contractors in client positions on the basis of written contracts), **on-line job listing services** (soliciting and posting job listings to a database that may be browsed by job seekers) and **on-line résumé listing services** (soliciting and posting résumés to a database that may be browsed by employers or recruiters).

Activities that do **not** belong to this industry include executive search consulting services, outplacement services, employment assessment services, employment placement counselling services (federal government), employment counselling services (provincial government), résumé preparation services, temporary staffing services and temporary staffing-to-permanent placement services (i.e., placement of staffing firms' employees to positions in client firms after a probationary period).

The placement service industry includes casting agencies or casting bureaux that are primarily involved in casting actors and actresses with production companies but does not include casting agencies that are mainly involved in the production of motion pictures, videos, television programs or commercials. Furthermore, the placement services industry does not include establishments primarily engaged in representing artists, entertainers, celebrities and other public figures in the capacity as their agents or managers.

Establishments providing placement services often use employment **registries** such as chauffeur registries, maid registries, model registries, nurses' registries, ship crew registries, etc. in their operations. These registries are often confused with **services** that are not considered employment placement services such as driving services, maid services, model agencies, home health care services, shipping agents, etc. A **registry** (i.e., an employment registry) represents a list of prospective candidates for a given market niche that an employment agency may have immediately on file or can potentially generate via direct advertising or through conducting a "search". Such a list is used to refer and place candidates to client firms. Thus, those firms using employment registries in their operations such as **maid registries** are in scope to placement services. However, firms engaged in services such as **maid services** (which provide a cleaning service, not a placement service) do not belong to the placement service industry as they are not involved in filling client positions.

?? **Temporary Staffing Services**
(known as "Temporary Help Services" under NAICS)

This industry is comprised of establishments primarily engaged in supplying personnel for temporary or extended work assignments. The temporary staffing firm normally hires its own employees and assigns them to client organizations to support or supplement the client's workforce in work situations such as employee absences, temporary skill shortages, seasonal workloads and special assignments and projects. The employees are on the payroll of the temporary staffing firm that is legally responsible for their actions but when working, they are under the direct supervision of the client. Temporary Staffing services include **temporary help services** (provision of personnel for short-term work assignments), **long-term staffing** (provision of personnel for extended work assignments), **temporary staffing-to-permanent placement** (provision of personnel for temporary employment, with the expectation of being converted to permanent status with the client's firm at the end of the probationary period), **on-site management of temporary help** (provision of personnel to supervise employees provided by the staffing firm**), payrolling** (placing a client's hand-picked candidates onto the payroll of the staffing firm for the purposes of legal employment), **general labour contractors** (establishments that supply labour to construction firms and other client organizations) and **labour pools** (except farm labour).

Activities that do not belong to this industry includes contract staffing, farm labour contractors, payroll processing services, co-employment staffing services, managed services, general or prime contractors (establishments primarily engaged in the construction of complete structures on behalf of clients) and agents and managers for models, artists, athletes, entertainers and other public figures.

Listed below is some temporary staffing activities that can be confused with activities not in scope for temporary staffing:

- **temporary staffing versus contract staffing**

Temporary staffing involves the provision of personnel who are employees of the staffing firm for temporary or extended assignments with client firms. Contract staffing, however, involves the placement of individual contractors (who are not employees of the staffing firm) to client positions on the basis of written contracts that stipulate the deliverables for which the client has contracted as well as specific terms and conditions of employment. The latter is regarded as a placement service activity.

- **temporary-to-permanent placement versus direct placement**

Temporary-to-permanent placement involves the possible placement of staffing firm employees after a probationary period whereas direct placement concerns the placement of candidates who are not employees of the staffing firms to client positions without a probationary period. The former is a temporary staffing activity whereas the latter is a placement services activity.

- **payrolling versus payroll processing services**

Payrolling refers to the activity of placing client employees or candidates nominated by the client onto the payroll of the temporary staffing firm and assigning them to perform services for the client firm. Payroll processing services, on the other hand, are services that involves the calculation of employee hours worked, pay rates, deductions and other payroll related data for client firms and generates paycheques, payroll reports and tax filings. Payrolling is a temporary staffing service activity. However, firms that mainly provide payroll processing services are out-of-scope to the employment services industry group.

- **general labour contractors versus general contractors**

General labour contractors are establishments that supply labour to construction firms and other client organizations on a temporary basis. General contractors (or prime contractors), on the other hand, are establishments (in the construction industry) primarily engaged in the construction of complete structures such as buildings, highways, roads, bridges, sewers, water mains, etc. They bid on contracts let by principals and assume responsibility for successfully completing the structure but not for its sale. General contractors are out-of-scope to the employment services industry group.

?? **Co-employment Staffing Services** (Professional Employer Organisations)
(known as "Employee Leasing Services" under NAICS)

This industry is comprised of Professional Employer Organizations (PEO's) and other establishments that provide a range of payroll related activities, benefits administration and human resources management services to a portion or all of the client's workforce on an on-going basis in a co-employment relationship with the client firm. The individuals of the client's workforce affected by this arrangement are employees of both the PEO and the client organization and are permanent employees.

The unique feature of co-employment services is the contractual arrangement between the client firm and the PEO whereby the rights and responsibilities of the employer are shared or allocated. Generally speaking, as a minimum, the PEO assumes exclusive employer responsibility for payroll-related activities such as payment of employee wages, maintenance of pay records, filing of government payroll forms, withholding of taxes and depositing of funds into government accounts, garnishing wages, paying employment insurance premiums and administrating worker's compensation. The PEO may also assume exclusive employer responsibilities for a range of activities relating to the administration of benefits (such as retirement, life, dental, supplementary health and disability) and human resource functions (such as counselling, personnel document preparation, employee assessment, training, regulatory compliance and risk management). The PEO and the client firm may also share some of the above mentioned employer responsibilities. The client firm generally retains exclusive employer responsibilities and supervision for product development, production, marketing, sales and services.

Co–employment service is a major employment services activity in the United States. This industry is built on American federal laws and regulations relating to employment. Co-employment staffing services are used by American businesses to avoid certain regulations of the Internal Revenue Service associated with retirement benefits and to provide employee benefits, particularly medical benefits in a less costly manner.

Canadian industry experts have indicated that only limited co-employment activities exist in Canada. They believe that PEO staffing activities are not prevalent in Canada and are not expected to grow rapidly in this country because of differences in the Canadian and American medical system as well as Canadian laws governing employment. In the United States, PEO arrangements that allow PEO firms to have more employees per employer than individual client firms enable PEO firms to provide employee benefits, particularly medical benefits in a less costly manner. In Canada, PEO arrangements do not result in the same degree of savings in providing employee benefits since most medical plans are publicly funded. Furthermore, Canadian provincial labour laws, the Workmen's Compensation Act and other legislation severely inhibit co-employment activities in this country.

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Table 1. Selected Financial Statistics[1], Canada, 2000

	Nfld.Lab.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Yukon	N.W.T.	Nunavut	Canada
Number of active establishments[2]														
2000	x	x	59	38	916	1,498	65	33	287	379	x	x	x	3,309
Total revenue ($000,000)														
2000	x	x	60.0	77.2	837.9	3,638.2	99.6	24.2	691.9	377.9	x	x	x	5,836.2
Salaries, wages and benefits[3] ($000,000)														
2000	x	x	37.3	68.2	520.5	2,768.0	74.9	18.8	497.6	266.5	x	x	x	4,263.4
Total expenses ($000,000)														
2000	x	x	58.0	73.9	784.3	3,379.6	94.2	22.0	659.2	348.2	x	x	x	5,445.3
Profit margin[4] (%)														
2000	x	x	3.3	4.2	6.4	7.1	5.5	9.2	4.7	7.9	x	x	x	6.7

[1] Estimates for the most recent year are preliminary. Preliminary data are subject to revision. Due to rounding, components may not add to total (where applicable).

[2] Active establishment
An active 'statistical establishment' is defined as one production entity or the smallest grouping of active production entities which produces as homogeneous a set of goods and/or services as possible; which does not cross provincial boundaries; and for which records provide data on the value of output together with the cost of principal intermediate inputs used, and cost and quantity of labour resources used to produce the output.

[3] Salaries, wages and benefits
'Salaries, wages and benefits' include vacation pay and commissions for all employees for whom a T4 supplementary form was completed. This category also includes the employer portion of employee benefits for items such as Canada/Québec Pension Plan or Employment Insurance premiums. Salaries and wages do not include the remuneration of owners of unincorporated business, therefore the relative level of 'salaries, wages and benefits' will be lower in industries where unincorporated businesses are significant contributors.

[4] Total profit margin is derived as follows: total revenue minus total expenses expressed as a percentage of total revenue. The derived figure excludes corporation income tax paid by incorporated businesses and individual income tax paid by unincorporated businesses. For unincorporated firms, operating profit margin includes unpaid remuneration to partners and proprietors, which is not recorded as 'salaries, wages and benefits'. Therefore, the operating profit margin will be higher in industries where unincorporated proprietorships and partnerships are significant contributors.

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Table 2. Revenue by Type of Service (survey portion only), 2000

	2000
	percentage
Temporary staffing	68.8
Placement services	26.2
Co-employment	2.1
Payroll services	1.3
Other	1.6
Total	**100.0**

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Table 3. Selected Expenditures as a Percentage of Total Revenue (survey portion only), 2000

	2000
	percentage
Salaries, wages and benefits	74.7
Professional and consulting fees	9.7
Rental and leasing expenses	1.2
Depreciation and amortisation	0.6
Office and administration	4.8
Other	2.2

Total	**93.2**

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Table 4. Employment characteristics (survey portion only), 2000

	2000
Field employees placed on temporary assignments	464,933
Total number of hours billed for field employees	231,619,380
Average hours billed for each field employee	498

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Table 5. Distribution of Operating Revenue by Type of Client (survey portion only), 2000

	2000	
	$000	**%**
Clients in Canada		
Individuals and households	28,977	0.5
Public institutions	104,741	1.9
Government	461,412	8.4
Business sector - financial industries	447,893	8.1
Business sector – non-financial industries	4,348,697	79.0
Clients outside Canada (exports)	116,483	2.1
Total	**5,508,203**	**100**

Summary statistics are available on CANSIM Table 361 0001.

For more information, or to inquire about the concepts, methods and data quality of this release, contact Tom Newton (613 951-0377) e-mail address: tom.newton@statcan.ca or Randy Smadella (613-951-3472) randy.smadella@statcan.ca.