

Operations Practice

Taking a fresh look at temporary-labor sourcing amid uncertainty

With many industries operating remotely, companies that can implement new processes to harness fluctuations in the temporary-labor market may achieve greater flexibility in the recovery.

by Adya Anima, Akshay Goyal, Britta Lietke, and Aasheesh Mittal



© Drazen_/Getty Images

For years, temporary labor has been vital to many organizations' overall talent strategy. From IT workers who complement in-house capacity, to hourly labor that enables manufacturers and retailers, to handle spikes in demand, companies across industries have relied on these workers. Before the COVID-19 pandemic, the playbook for procuring temp labor was well established: line up a sufficient supply of flexible capacity and manage costs against any fluctuations in the talent market.

The past several months have forced executives to rethink every facet of their operations. During extended lockdowns, many industries (such as manufacturing), ground to a standstill, while others (such as grocery, online retail, or delivery services) scrambled to manage shifting consumer behavior and demand. The resulting historic levels of unemployment, economic uncertainty, and the potential for new outbreaks have scuttled existing business strategies. At the same time, many companies shifted their entire operations to remote working, an initial disruption that also uncovered new possibilities for the future.

All of these factors directly affected the temporary-labor market. In April 2020, for example, the United States hit a ten-year low of just two million temporary and contract employees.¹ Beyond the rapidly changing demand for certain skills, companies are also scrambling to adapt their hiring, onboarding, and management practices for remote temporary labor. Meanwhile, the pandemic has caused prospective employees to rethink their expectations for employment—many are seeking to work with organizations with purpose aligned to the current climate. Although increased supply should be a boon for companies that are hiring, additional regulations make wringing cost savings out of the current asymmetrical market anything but assured.

Companies across industries have the potential to reshape their approaches to temporary labor—and help to fuel their recoveries in the process. Undertaking such a transformation will require greater familiarity with a labor market that can vary significantly by industry and role. Executives who optimize temporary labor by implementing new talent-procurement and management strategies can come out of the pandemic with enhanced flexibility and resilience to respond to future challenges.

A snapshot of the temporary-labor market

Unemployment caused by the pandemic has taken a toll on both permanent employees and temporary labor. A look at this fallout highlights industries that have been particularly affected.²

Overall employment

The US unemployment rate soared from 3.8 percent in February 2020 to 14.4 percent in April. However, the impact was not evenly distributed across job categories. According to the labor force statistics published by the US Bureau of Labor Statistics (BLS), service occupations were hit the hardest. Computing, engineering, and science occupations were better insulated (though not immune) from rising unemployment due to COVID-19.

This unemployment surge is a result of both demand-side and supply-side factors. They may include reduced consumer willingness to purchase a good or service (for example, less travel due to health concerns) and the inability to produce or sell a good or service (perhaps due to a mandated retail-store closure).

¹ BLS Monthly Employment Data, American Staffing Agency, Data Dashboard, updated October 2, 2020, americanstaffing.net.

² The analysis is based on available data for the US market; key findings and implications appear consistent across markets

More recently, a slight uptick in jobs caused the US unemployment rate to fall from 14.4 percent in April to 8.5 percent in August 2020 across many industries (Exhibit 1). We expect this trend to continue in upcoming months as economies across the world start to reopen and move to the next normal, though this rebound will differ by industry and how governments intervene to slow the spread of the novel coronavirus. professional- and business-services unemployment rate declined by more than 26 percent (two and a half percentage points) from April to August of this year.³ In other industries, unemployment rates fell much harder: by around 51 percent in wholesale and retail trade, 46 percent in leisure and hospitality, and 42 percent in education and health services.

Employment trends in the temporary-labor market

The level of unemployment at any given time has a direct impact on demand for temporary labor: when companies can't fill a permanent role quickly, they might staff temporary workers to get the work done in the short term. In addition, temporary staffing is an avenue for companies to find permanent hires.

The temporary-labor market has fallen dramatically, but staffing companies are generally optimistic about prospects over the next year. According to a recent survey, slightly more than 70 percent of respondents believe that the staffing industry will come back stronger after the pandemic despite the current challenges.⁴ The initial trajectory of the temporary-labor market provides evidence to support that optimism.

Exhibit 1

US unemployment eased from April to August 2020.

Unemployment rates by industry,

%

	April	August	Percent Change
<i>Nonfarm private-wage and salary workers</i>	15.6	8.8	-43.6%
Leisure and hospitality	39.3	21.3	-45.8%
Other services	23.0	9.1	-60.4%
Wholesale and retail trade	17.1	8.3	-51.5%
Construction	16.6	7.6	-54.2%
Transportation and utilities	13.5	11.3	-16.3%
Manufacturing	13.2	6.7	-49.2%
Information	11.0	8.6	-21.8%
Education and health services	10.9	6.3	-42.2%
Mining, quarrying, and oil and gas extraction	10.2	12.4	21.6%
Professional and business services	9.8	7.2	-26.5%
Financial activities	5.4	4.2	-22.2%
Agriculture and related private-wage and salary workers	9.6	5.6	-41.7%
Government workers	9.4	5.7	-39.4%
Self-employed, unincorporated, and unpaid family workers	9.7	6.8	-29.9%
Total	14.4	8.5	-41%

source: Labor force statistics from the current population survey, US Bureau of Labor Statics, August 2020, bls.gov

³ Under Bureau of Labor Statistics taxonomy, workers paid by temporary-staffing agencies are counted within the professional- or business-services industries.

⁴ "StaffingHub releases COVID-19 pulse survey on how the pandemic is impacting the staffing industry," StaffingHub, April 30, 2020, staffinghub.com.

Temporary labor suffered a precipitous decline in April, enduring employment losses that were roughly double those of the broader economy in Q2 2020. Staffing employment rose each week from late May to late July 2020, though its level remained down about 25 percent from the same week in late July 2019.⁵

The benefits and drawbacks of remote work for temporary labor

Before the pandemic, most companies allowed a portion of their employees to work from home. The onset of COVID-19 forced organizations to quickly adapt to remote-working models wherever possible,

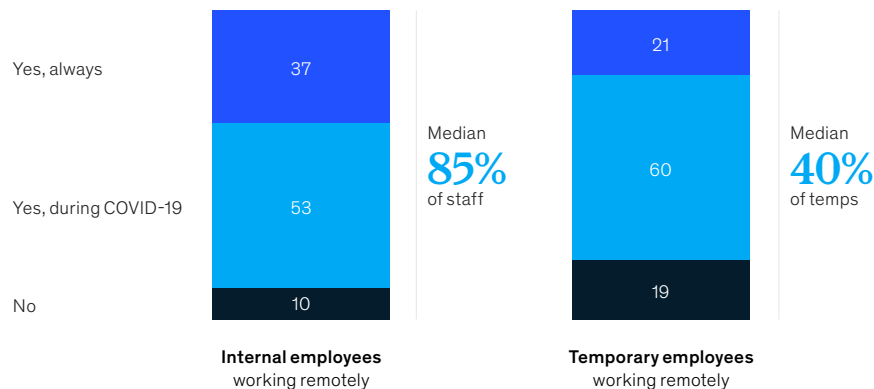
such as by amending contracts for temporary staff to include work-from-home arrangements. During the pandemic, 81 percent of companies have had temporary employees working remotely—an indication that such modified arrangements have not impeded temporary labor (Exhibit 2). The rapid transition to a remote workforce also didn't hinder overall performance. Indeed, many organizations have experienced improved productivity, collaboration, and flexibility. Such trends suggest that remote work will endure once the pandemic abates. The majority of staffing agencies agree that remote work will continue after the pandemic (64 percent) and that contactless

Exhibit 2

Remote work is not a barrier to temporary staffing.

Staff working remotely during COVID-19,

%



Source: ASA; CareerBuilder; Clearly Rated

recruiting will be more prevalent (57 percent).

However, this shift to a virtual workplace has been accompanied by several challenges. Senior executives have reported concerns about issues—such as human connection and on-the-job social bonding—are suffering, affecting employees' engagement with corporate culture and learning. Younger generations and individuals whose home life isn't conducive to remote work—for example, due to a lack of internet connection, small or shared space, or family obligations—report more challenges. This

are in line with what we saw during the initial move to remote work at the beginning of the COVID-19 crisis: a McKinsey survey observed a dip in energy levels among workers in China at the start of the pandemic. However, energy returned to normal levels once people adapted to remote working. Therefore, both permanent employees and temporary workers may need additional time to acclimate to further changes associated with the move to a hybrid model.⁶

An added complication is that most companies didn't have the management practices in place to enable

⁵ "Staffing employment recovery continues in July," American Staffing Association, July 21, 2020, americanstaffing.net.

⁶ Lihong Pan, Bernie Yang, Tianwen Yu, and Haimeng Zhang, "Re-energizing through the epidemic: Stories from China," April 21, 2020, [McKinsey.com](https://mckinsey.com).

remote monitoring of productivity and performance before the pandemic. As a result, the transition

to a virtual workforce has reduced visibility and accountability and could increase the risks to data and cyber security. A recent survey confirmed that key reasons for productivity losses while working remotely during COVID-19 were related to a lack of operating model support: reduced collaboration among team members, lack of performance management processes, and lack of motivation in employees and teams.⁷

How the demand and supply of temporary labor will affect companies

Although the temporary-labor market has somewhat improved lately, the landscape's mercurial nature will force companies to take a customized approach, depending on their industry and the roles they are seeking to fill.

Overall demand has fallen

Our analysis indicates that demand for temporary labor varies significantly by industry (Exhibit 3). Healthcare and pharmaceuticals, e-commerce, food processing, and logistics and distribution have all experienced

Exhibit 3

The demand for temporary labor differs markedly by industry.

Industry	Movement	Rationale
Professional services		Slight decrease as companies cut budgets
IT		Neutral
Administration		Decrease due to cost cutting
Industrial		Heavy decrease as industries have shut down/filing for bankruptcy
Light Industrial		Increase in demand in distribution, fulfillment, and customer support roles
Pharma, food-processing		Neutral to increase
Distribution		Increase
Finance		Neutral to decrease
Entertainment		Heavy decrease in short term, and expected to remain affected in the long term
Automotive		Decrease
Oil and gas		Decrease
Others		Decrease

⁷ McKinsey Organization Blog, "Three important questions for the future of remote work," by Raphael Bick, Klaus Seywald, and Tom Welchman, July 10, 2020, [McKinsey.com](https://www.mckinsey.com/insights/operations/remote-work).

increased demand during the pandemic. By contrast, hospitality and catering have declined significantly over the past several months. And while the market for IT decreased initially, these occupations are expected to rebound, in part because the pandemic has elevated the importance of digital technologies and

e-commerce for business.

Overall, the current drop in demand for temporary and contract labor appears to outweigh increases in the supply, leading to fewer temporary work positions (Exhibit 4). A recent survey of staffing and recruiting

Exhibit 4

Overall job postings have declined, but there have been small increases in COVID-19-related occupations.

Job postings by occupational group

Top 15 occupations by absolute increases in job postings	Number	% change	Top 15 occupations by absolute decreases in job postings ¹	Number	% change
Interpreters and translators	19,902	268	Retail supervisors	-51,593	-15
Respiratory therapists	10,587	52	Childcare workers	-45,165	-36
Family and general practitioners	9,189	18	Retail salespersons	-42,551	-12
Physicians and surgeons	6,281	9	App-software developers	-33,583	-11
Registered nurses	5,510	1	Food-prep supervisors	-32,196	-22
Manual laborers and warehouse stockers	4,420	9	Light-truck delivery drivers	-30,820	-21
Internists	4,301	12	Customer-service representatives	-29,817	-12
Psychiatrists	3,469	13	Office and administrative supervisors	-28,425	-18
Obstetricians and gynecologists	1,878	13	Food-prep workers	-25,583	-20
Writers and authors	1,707	51	Personal-care aides	-24,926	-25
Loan interviewers and clerks	1,673	19	Restaurant cooks	-24,160	-30
Surgeons	1,502	7	Accountants and auditors	-20,895	-15
Chemistry and biology R&D managers	1,343	6	Heavy- and tractor-trailer truck drivers	-20,517	-3
Anesthesiologists	1,207	19	Maintenance and repair workers	-20,367	-16
Heating and air-conditioning installer ²	962	63	Restaurant servers	-16,556	-30

Note: Unidentified occupations were removed from chart; only occupations with at least 500 job postings in February 2020 were analyzed; names of occupations adjusted for clarity; occupations shown do not represent the full one million decline.

¹ March 18–April 16, 2020.

² Military-only occupations excluded from chart.

Source: EMSI; McKinsey Global Institute analysis

organizations (predominantly in North America and the United Kingdom) found that the biggest customer-related challenge for roughly 80 percent of respondents was that customers were placing fewer job requests.⁸ However, certain occupations, particularly those in healthcare, have seen an increase in job postings to combat the pandemic.⁹

Demand has risen significantly for traveling nurses,¹⁰ food-delivery services,¹¹ and jobs that require moving, packing, and loading skills.¹² These trends can be traced either directly to the pandemic or changing consumer needs and preferences.¹³ Early research suggests that consumers may continue to embrace offerings such as contactless delivery.

One of the advantages of temporary and contract workers is that they can provide companies with greater flexibility in uncertain economic times. According to labor economist Susan Houseman, the primary reason automakers employ large numbers of contract workers in plants is to “not simply cut labor costs but provide a labor-force shock absorber when business goes up or down.”¹⁴ Academic researchers also find empirical support that companies pursue alternative work arrangements to increase flexibility, as the use of temporary labor is greater in industries where employment has demonstrated greater variability.¹⁵

Temporary labor can be a leading indicator of a recovery. During the Great Recession of 2008, temporary-labor services experienced greater job losses, followed by a faster rebound compared with the broader economy: from June 2009 to June 2011, these services experienced a 30 percent increase in

jobs (whereas total nonfarm employment grew less than 1 percent).¹⁶ This pattern supports the notion that companies may lean on temporary and contract workers as the economy bounces back from COVID-19.

As with prior economic slowdowns, the pandemic has produced a high level of economic uncertainty. This lack of clarity for the future is compounded by the fact that the pandemic is not just an economic crisis but also a public health crisis. Consider that an index of business uncertainty as measured by the growth of sales, employment, and capital expenditures is more than three times higher over the next year compared with the period from 2015 to 2018. Businesses are particularly unsure about sales growth.¹⁷

An abundant supply

Supply by sector and labor type has been shaped by factors such as remote working, workplace safety, and the growing pool of available talent caused by unemployment. From February to April 2020, total employment declined by 21 percent in occupations that could not be performed remotely (such as food processing), compared with 8 percent in occupations in which telework was possible.¹⁸ The shift to remote working has also increased the talent pool in industries such as professional services and finance, which now have access to the best candidates regardless of geography.

To tap into a broader geographic range of talent, staffing agencies are increasingly turning to online talent platforms. These platforms have seen a rise both in users and jobs posted. For example, Freelancer.com, a freelance marketplace providing selected professional services, saw job postings in the second

⁸ Bob McHugh, “COVID-19 impact survey: Key findings,” Global Recruitment Insights and Data, Bullhorn, June 29, 2020, grid.bullhorn.com.

⁹ For more, see “COVID-19 and jobs: Monitoring the US impact on people and places,” McKinsey Global Institute, April 29, 2020, [McKinsey.com](https://www.mckinsey.com).

¹⁰ “StaffingHub releases COVID-19 pulse survey on how the pandemic is impacting the staffing industry,” StaffingHub, April 30, 2020, [staffinghub.com](https://www.staffinghub.com).

¹¹ Cathy Bussewitz and Alexandra Olson, “Gig workers face shifting roles, competition in pandemic,” AP News, July 4, 2020, apnews.com.

¹² “Coronavirus Fuels the Gig Economy,” Daily Sentinel, July 15, 2020, [gjsentinel.com](https://www.gjsentinel.com).

¹³ “Survey: US consumer sentiment during the coronavirus crisis,” October 7, 2020, [McKinsey.com](https://www.mckinsey.com).

¹⁴ Scott Tong, “How temp workers became the norm in America,” Marketplace, November 15, 2018, [marketplace.org](https://www.marketplace.org).

¹⁵ Peter Cappelli and JR Keller, “A study of the extent and potential causes of alternative employment arrangements,” Industrial and Labor Relations Review, July 29, 2013, Volume 66, Number 4, faculty.wharton.upenn.edu.

¹⁶ BLS Monthly Employment Data, American Staffing Agency, Data Dashboard, updated October 2, 2020, americanstaffing.net.

¹⁷ Survey of Business Uncertainty, Federal Reserve Bank of Atlanta, University of Chicago Booth School of Business, and Stanford University, updated June 24, 2020, frbatlanta.org.

¹⁸ Matthew Dey et al., “Ability to work from home: evidence from two surveys and implications for the labor market in the COVID-19 pandemic,” Monthly Labor Review, US Bureau of Labor Statistics, June 2020, doi.org/10.21916/mlr.2020.14.

quarter of 2020 grow by 25 percent compared with the first quarter and 41 percent year over year.¹⁹ In the first four months of 2020, the number of newly employed workers who have registered on one freelance marketplace that provides blue-collar services jumped by nearly 10 percent.²⁰

However, the pandemic has also led workers to rethink their employment options. According to one survey, 57 percent of respondents said they have experienced a shift in their feelings toward work due to the pandemic. Of those, 60 percent are more motivated to be employed at an organization that values its staff during unpredictable times, 40 percent will prioritize their personal life over their job moving forward, and 33 percent want to pursue a more meaningful or fulfilling job.²¹ These changing preferences might make it harder for certain companies to retain temporary workers.

Companies must update their temporary-labor playbook

Over the past several months, the landscape has been changing week to week, and every country and region are experiencing a different combination of challenges at any given time. This multispeed environment has exposed the limits of traditional labor procurement approaches and conventional wisdom. As the recovery proceeds amid persistent uncertainty, companies would do well to update their strategy for temporary labor to ensure they are taking full advantage of this vital resource. Five levers could prove particularly valuable.

Reassess sourcing strategy

Depending on the industry, companies may face a surplus of qualified workers, creating a buyer's market. In response, procurement should seek to shift its contracting approach, with an emphasis on renegotiating temporary-labor contracts to lock in favorable terms. Companies should also use this opportunity to review their current sourcing strategy and potentially move from a traditional temporary agency model to one that harnesses the above-

mentioned marketplaces or a vendor management system. Tracking temporary staff's overtime hours can help organizations to rightsize demand in light of the labor surplus.

Companies should also monitor the current tenure of their temporary workers, implement more rigorous limits, and negotiate tenure discounts. Where critical roles need to be filled, it is important to focus on temp-to-perm conversions. These moves can help manage costs while taking advantage of the additional talent available.

Update onboarding and demand management

Companies can no longer rely on in-person onboarding, so they must update their processes to handle the administrative tasks for new hires. This effort will require investments in training and change management to prepare employees to perform remote requisition and onboarding. A number of apps have been developed to engage remote workers and manage many of the transactional tasks, which can free up procurement and HR to focus on higher-value work.

The pandemic has also altered the calculus for hiring temporary workers and laying off permanent employees. For example, during the months that the government paid additional unemployment benefits, some companies hiring blue-collar labor for minimum-wage jobs found it more challenging to find talent at the right cost, since unemployment benefits could put more money in people's pockets than a minimum-wage job. In some instances that meant employers had to either pay more for the same role or hire a higher-skilled resource.

These factors may get compounded by the pervasive uncertainty around COVID-19 going forward, which is forcing many companies to recalibrate their labor demand management. With less certainty of future demand, employers are less likely to hire into permanent positions directly, and therefore might rely on and demand additional temporary workers instead to meet current labor needs.

¹⁹ "Freelancer.com reports record numbers turn to freelancing during COVID-19 pandemic," Freelancer.com, July 2, 2020, press.freelancer.com.

²⁰ Andrew Karpie, "Wonolo launches new indicator to track the rise in gig-worker engagements at 'essential businesses,'" Spend Matters, April 17, 2020, spendmatters.com.

²¹ "Survey: 57% of workers second-guessing careers amid pandemic," Robert Half International, June 17, 2020, rh-us.mediaroom.com.

Develop a remote working model

Companies have suddenly been faced with the prospect of managing a remote workforce but without the tools or processes in place to do so effectively. As a start, they should invest in software and hardware to support productivity and manage intellectual property. For example, increased access to sensitive systems and documents by a remote workforce requires more robust cybersecurity measures. In addition, companies might consider investing in productivity measuring tools to track worker engagement. The digitization of processes such as logging timesheets can enable automation and support these efforts. They will also need to train hiring managers on how to better manage contingent labor remotely.

Factor in risk mitigation

In the short term, companies will need to explore and implement short-term risk mitigation measures for temporary workers who must work in person. Both temp agencies and customers have to make sure that safeguards are in place to protect workers from contracting COVID-19 in the workplace. In the long term, executives should identify which roles will be critical to hire internally. Through this exercise, companies can convert external workers to full-time employees for high-risk critical roles to ensure business continuity and avoid the loss of institutional knowledge. From an operational standpoint, the adoption of multiple collaboration tools would

necessitate additional safeguards to intellectual property and personal information of employees.

Increase the talent pool and negotiate better terms

The pandemic has led companies to move beyond location-based talent pools, and this approach should extend to temporary labor. For organizations in high-cost urban centers, this flexibility creates an opportunity to secure better rates and markups from lower-cost locations. However, new requirements for staffing firms to ensure that workers adhere to remote arrangements will increase the ultimate cost burden of hiring temp workers. There are also calls for increased benefits and protections for temporary workers since COVID-19, which may raise costs.²² New talent sourcing strategies will need to take all of these factors into account.

²² Jane Flanagan and Laura Padin, "Temp workers face greater risk and insecurity in COVID-19 crisis," OnLabor, April 13, 2020, onlabor.org.

Prolonged economic uncertainty calls for companies to build more flexibility into their talent strategies. In previous downturns, the temporary labor market was a vital element in the rebound; it could play a similar role in this recovery. Most organizations will need to adapt their strategies and build new capabilities to be more responsive to changing conditions on the ground. Procurement leaders who can do so will be more resilient and better positioned to harness this crucial resource.

Adya Anima is a consultant in McKinsey's New York office, **Akshay Goyal** is a knowledge expert in the Gurgaon office, **Britta Lietke** is a senior knowledge expert in the Chicago office, and **Aasheesh Mittal** is a partner in the Washington, DC, office.

The authors wish to thank Tim Bacon for his contributions to this article.