

Human Capital Management Services Sector Update Amidst COVID-19 Uncertainty



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As Q1 2020 began, few could anticipate a disruption to the global economy of the breadth, depth and pace of that which we now face. Human capital services touch every sector of the economy, and as a result, most of the sector's key client verticals are experiencing some level of impact from the spread of COVID-19. As a result, economists expect that the unemployment rate will reach 18-20% during 2020 after coming into the year at a multi-generational low of 3.5%. Inevitably, companies in the recruitment, HR outsourcing and professional services areas will experience significant impact on their revenues, and while pure play HR software companies will be somewhat more insulated, they too will be negatively affected by significant distress being experienced by clients. Impact can take the form of reduced revenues where the revenue model is tied directly to number of employees or number of hires. A separate obstacle exists for companies that go to market via team-based projects as "shelter in place" mandates prevent the conduction of work and also the likelihood of clients deciding to delay projects as they prioritize those that constitute truly critical expenditures. As the first quarter closed and the second quarter got under way, a number of public competitors in these spaces pulled earnings guidance, announced compensation cuts or outright furloughs.

However, given the very human costs of the COVID crisis, human capital services providers are playing a pivotal role in helping clients devise strategies and execute contingency plans that will help to retain talent, ensure business continuity, strengthen employer brands and most importantly, account for and promote the wellbeing of clients' human capital assets. Many providers in the space have quickly implemented services and provided information related to key client pain points including:

Workspace consulting – helping companies adjust to working from home, digital adoption support and providing helpdesk support services

Updating software to include COVID-related response functionality such as navigating the FFCRA, CARES Act and related guidance

Business continuity plan assistance

Helping businesses assess and quantify the impact of the COVID situation, including consulting related to supply chain management, customer relationship management and IT system management

Sourcing alternative healthcare and other benefits coverage for impacted workers`

Assisting clients to utilize robotic process automation (RPA), AI and other workforce technologies to reduce ongoing exposure to the health crisis if it lingers or resurges

And while unemployment is skyrocketing, companies continue to need help from providers to fill critical roles. According to the Federal Reserve, "Multiple staffing contacts and firms from varied sectors reported that rising layoffs have not made it easier to attract and retain labor," as "contagion fears and at-home child care needs have led some workers to stop showing up for work; those concerns plus unemployment benefits are also keeping workers from seeking other jobs.

Lincoln anticipates that significant future value will be created by companies that provide critical assistance to the most negatively impacted sectors (hospitality, travel, retail, etc.) while agilely concentrating their near-term revenue opportunity on those sectors that are least hurt by or even scaling quickly to meet the crisis (healthcare, critical infrastructure, work/learn from home, last mile logistics) and doing so using digital technologies to tailor their service offerings for a social distancing world. These companies will dampen the effects of growing unemployment while best positioning themselves for future growth as employment resumes growth. While the M&A activity in the space has slowed measurably by the current external challenges, business that demonstrate these characteristics will find a quicker path to market at strategic valuations.

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