

**BOB LEE**

# **HUMAN RESOURCES INC.**

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**BUSINESS PLAN**

**MARCH 2000**

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# EXECUTIVE SUMMARY

## PROFESSIONAL STAFFING INDUSTRY

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### USING HAWAII'S ECONOMIC MOMENTUM

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Human Resources Incorporated is a human resource company established in Hawaii as a C-Corporation in August 1999. The owner is Bob Lee, a Hawaii native with 25 years of executive experience in the computer and management consulting industries. The purpose of Human Resources (HRI) is to provide employment solutions to Hawaii companies, particularly those in the high technology sector. The company will offer:

- Employee Leasing and Outsourcing Management;
- Employee Recruiting (including reference and background verification services);
- Temporary Employee Placement, and;
- Personnel Management Consulting.

Human Resources Inc. (HRI) is founded on the premise that there is a revolution taking place in the American workplace. The changes taking place are positively driving the growth of firms specializing in human resources. Factors driving this revolution include corporate downsizing, the Federal government's efforts to get people off welfare, the shift from corporate paternalism to the independent portability of employment skills, increased workplace litigation and complexity in U.S. labor laws, and the growing need for highly skilled professionals, especially on a project-by-project basis. Companies are constantly seeking new ways to increase efficiency while decreasing risk and this has caused a powerful new trend to outsource services.

While there currently exist many employment and management consulting companies in Hawaii, only two offer the depth of services in the human resource management area that HRI intends to offer. Even given these established companies, research indicates that the market for personnel management services is set to escalate in Hawaii, as it already has done so on the mainland. By utilizing the experience of the company's president, capitalizing on the predictable and unstoppable trend towards new employer / employee relations, and establishing operations at the outset of this trend, HRI expects to establish itself in the Hawaii marketplace within three years.

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### USE OF PROCEEDS

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In order to begin operations, Mr. Lee has set aside \$35,000 in working capital and invested \$20,000 in start-up expenses. He has already leased an office space and begun to furnish it with the appropriate office equipment. Additionally, however, he seeks \$100,000 in short term financing.

<b>Description</b>	<b>Cost</b>
Legal Costs	\$5,000
Marketing Materials, including Design Work	\$25,000
Working Capital	\$70,000
<b>Total</b>	<b>\$100,000</b>

# INDUSTRY BACKGROUND

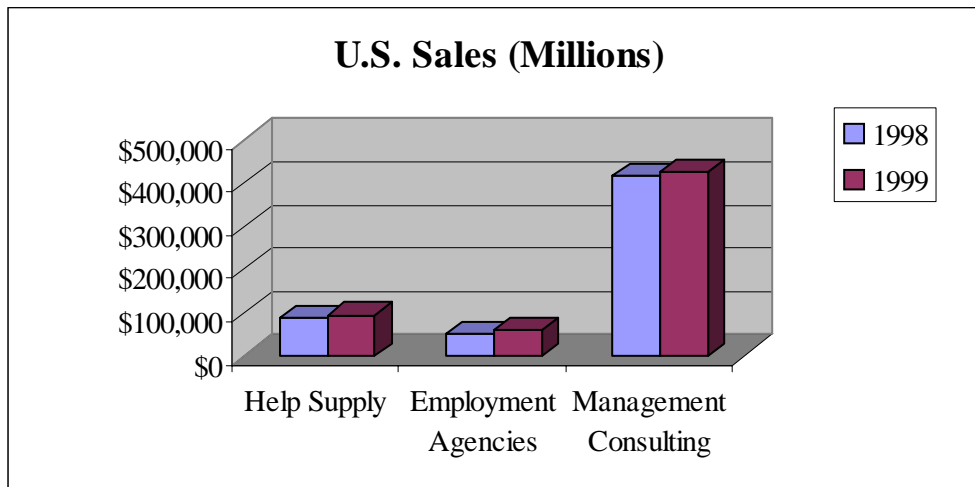
## BREAKDOWN AND TRENDS

### PROFESSIONAL STAFFING INDUSTRY

The professional staffing industry includes a wide variety of specialties. The most common are employment agencies, temporary agencies, employee leasing companies, help supply companies (which specialize in areas such as truck drivers, pilots, chauffeurs, maids, and industrial help), and human resource consulting. Some companies do most or all of these services, others provide services in one area alone. Over half of the companies in this industry are small businesses with 2-4 employees.<sup>1</sup>

	<i>Employment Agencies<sup>2</sup></i>	<i>Help Supply Firms</i>
Average Net Profit Before Taxes	\$340,000	\$100,000
Minimum Start-Up Investment	\$19,700	\$93,000
Average Start-Up Investment	\$40,000	\$110,000
Risk Factor	Moderate	Moderate

The U.S. market for employment agencies, help supply firms, and management consulting is large and growing. According to Dunn & Bradstreet, the three business segments combined had total annual sales of \$581.2 billion in 1999 for the U.S. Combined, the three segments showed a one-year sales growth rate of 4.71% in the U.S. During the same 1998-1999 period, the number of establishments engaged in these business declined slightly (-0.91%), thus pushing average sales per establishment up by 7.71%.<sup>3</sup>



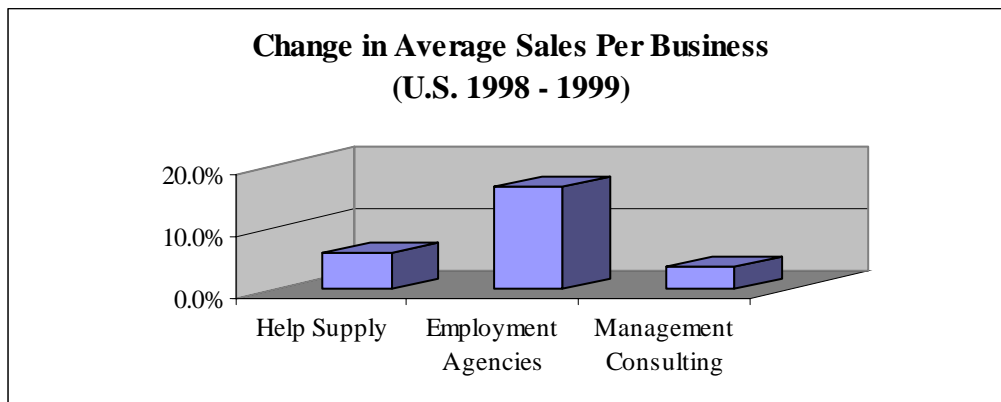
<sup>1</sup>. Dunn and Bradstreet, Market Profile for SICs 7361, 7363, and 8742. Calculated from Internet data available at [www.imkmp.zapdata.com](http://www.imkmp.zapdata.com).

<sup>2</sup>. The Entrepreneur Group, Entrepreneur Business Guides No. 1228 and 1189, p. 1128-2 and p. 1189-2.

<sup>3</sup>. Dunn & Bradstreet, MarketPlace Analysis for SIC 7361,7363, and 8742, by state and U.S. wide, provided by the Business Research Library, Maui.

As the graph above demonstrates, sales for each segment grew between 1998 and 1999, with Help Supply registering a 8.05% growth rate, employment agencies 19.31% and Management Consulting 2.22%. The high growth rate registered by employment agencies is confirmed by industry analyses, which site factors such as the growth of the U.S. economy, the increased use of technology and subsequent need for highly skilled workers, and increased emphasis of these agencies to provide needed side services, such as contract negotiation, client analysis, and reference checking. These businesses are also called personnel placement, personnel consulting, executive search and head hunting firms.

What is interesting about these industries, however, is that through attrition and consolidation, the number of establishments has remained stable or decreased while sales have increased. This means that there is a higher average sales per establishment. For employment agencies, this increase was most remarked, with a single year increase of 16.63%. The graph below illustrates this growth.<sup>4</sup>



Overall, the staffing industry has registered a growth rate of 10 to 14 percent throughout the 1990s. Technology has become a hot field of outsourcing. The growing demand for skilled technology workers and the difficulty in retaining these workers, along with the explosion in the need for sophisticated technology resources in small and midsize businesses, have created a big cost problem for many companies. Companies are outsourcing more workers in the computer, health care, legal and finance operations as they continue to focus on job flexibility.<sup>5</sup> The U.S. economy, and especially the Hawaii economy, is moving inexorably away from agriculture and manufacturing and toward services (services now comprise 93 percent of Hawaii's non-agriculture jobs<sup>6</sup>) and this had made the selection of workers more important than ever to companies. Most temporary jobs are in services and the fastest growing specialty in the staffing industry is information technology. Research shows that five percent of the U.S. workplace is temporary workers and a full 30 percent of all jobs are either part-time, temporary, or outsourced.<sup>7</sup> The "executive-for-rent" concept is gaining in a workplace concerned with re-engineering, downsizing and rapid response to new developments. The distinction between permanent and temporary (or outsourced) employees is blurring and this trend is expected to continue.<sup>8</sup>

<sup>4</sup> Ibid.

<sup>5</sup> Encyclopedia of American Industries, Second Edition, Volume Two, Services and Non-Manufacturing Industries, Gale Research, 1998, Detroit, p. 1120 - 1134.

<sup>6</sup> Hawaii Department of Labor and Industrial Relations, "Non-Agricultural Wage and Salary Jobs Statewide", November, 1999.

<sup>7</sup> Ibid., p. 1122.

<sup>8</sup> "Outsourcing Trend Will Bring Profound Changes", Infoworld, June 7, 1999, p. 64.

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## **BENEFITS & ADVANTAGES**

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There are many reasons why companies use employment agencies and employee leasing (help supply) firms. In the case of permanent employment using an employment agency or executive search firm, the employer benefits by:<sup>9</sup>

- Saving time and money on advertising, screening, verifying, testing and interviewing potential employees;
- Receiving highly qualified candidates from a larger pool known only to the agency;
- Reducing the risk of employment litigation from improperly conducted searches;
- Receiving expert advice from employment professionals who are independent from the internal politics / idiosyncrasies of the employing company, and;
- Reducing the time-to-employ, usually by half, from the usual time consumed to find and recruit a new employee.

In the case of temporary placement, leasing or outsourcing, the client benefits by:<sup>10</sup>

- Eliminating many of the costs and functions of an employer, including payroll taxes and benefits;
- Improving flexibility and cost in the hiring and firing process;
- Reducing risk of litigation from the employer-employee relationship;
- Improving management focus on the core-functions, instead of support services, and;
- Allowing companies to “try” a temporary employee before taking a permanent job.

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## **ORGANIZATION AND STRUCTURE**

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Technology has had a profound impact on the staffing industry, not just as described above to foster its growth, but also in the manner in which personnel placement is conducted. The use of databases and the Internet is now widespread. These databases and Internet sites are used to track potential employees and job openings, to provide a communication bridge between the two, and to reach out to new employers and employees who may not have used a staffing firm before. The Internet is bringing vendors, distributors, suppliers and business partners of all kinds together.

One of the megatrends of the modern workplace central to the staffing industry has been the shift from product sales to service delivery; rather than selling the widget, companies are more concentrated today on selling the services of the widget. Personalization and scalability are key to providing better value than an in-house function can offer. For example, Compaq will now provide the hardware, software, regular updates and provide support using remote diagnostics and management, all for a fixed fee.<sup>11</sup>

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<sup>9</sup> . See, for example, “Advantages of Using Recruiters”, *Purchasing Magazine*, February 11, 1999, p. 146.

<sup>10</sup> . See, for example, “Temp Firms Turn Up the Heat”, *Work Force Magazine*, April 1999, p. 50-54.

<sup>11</sup> . “IT Shifts From Multi-Vendor to Multi-Service Environment”, *Business Communications Review*, August 1999, p. 22-24.

In addition to seeking contingent employees, companies now seek to outsource whole sections of their operations. They are turning to staffing professionals for a wide range of services, for corporate accounting, payroll, and information management, to name the most common.<sup>12</sup> According to management guru Peter Drucker, "in 10 to 15 years organizations may be outsourcing all work that is 'support' rather than revenue producing, and all activities that do not offer career opportunities into senior management".<sup>13</sup>

With a predictable monthly payment, a company can solve all of the problems of running a business unit. Outsourcing can be a strategic move, involving alliances, partnering, and management decisions to concentrate on core value added services, or it can be a simple cost cutting measure. In either event, staffing companies are no longer providing just 'staff': they are providing solutions. It is not just a matter of employing or not employing individuals, but of matching the worker to the customers' needs.

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### PRICING

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Executive placement and employment agencies make money by receiving a fee from the hiring company, either in advance or following a hire. The former method is called a retainer fee and the latter is commonly called a contingency fee.

Contingency firms receive a portion (typically 30-35 percent) of the employee's first year of salary, but the fee is paid only when the employee is hired and remains in the job for a certain period of time (usually 1-3 months). Under this arrangement, the employer pays only if the search is successful and may have several agencies looking for candidates.

Retainer firms also receive a portion (typically 30-35 percent) of the employee's first year of salary, but the fee is paid regardless of whether the agency is successful in placing an employee. Typically, the employer pays the fee in three monthly installments beginning with the commencement of the search.

Retainer searches typically take three to six months to perform, while contingency searches usually last two to four months. Contingency firms comprise more than 50 percent of the staffing market. Contingency firms are known to be less focused and client oriented than retainer-based ones. In addition, contingency firms usually work with salaries of \$70,000 per year and less, while the average salary level for retainer firms is \$100,000. However, contingency firms typically have a larger volume of candidates and placements.<sup>14</sup>

Temporary and employee leasing firms (both of which are forms of outsourcing) make money by charging an hourly rate to the employer which is 20 to 50 percent more than what they pay to the worker.<sup>15</sup> The difference covers recruitment, payroll, skills verification, training, and profit to the agency. The key in these agencies is good cash flow, as workers are typically paid every week or every two weeks but employers are only charged monthly. A solid temporary firm needs at least three months working capital to assure it can meet payroll. Research shows that taxes and benefits

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<sup>12</sup>. "Webware for Rent", Fortune Magazine, September 6, 1999, p. 215-224.

<sup>13</sup>. "ERP Outsourcing", Internet Weekly, September 6, 1999, p. 38.

<sup>14</sup>. "Executive Recruiting", Entrepreneur Magazine Group, Entrepreneur Business Guide No. 1228.

<sup>15</sup>. See "Encyclopedia of American Industries", op. cit., p. 1128.

typically cost a company 30 – 33 percent of payroll<sup>16</sup> and employment administration expenses cost an additional eight to 12 percent.<sup>17</sup> A whopping 40 to 45 percent of payroll in taxes, benefits, and administration is a onerous burden on any small business.

The initial key to selling outsourcing is costs savings to the employer. Despite the 20 to 50 percent markup, it is still cheaper. This is because taxes and benefits are eliminated, as are hiring and firing costs, the bureaucracy of employment and its attendant headaches, not to mention the litigious nature of the American workplace. The outsourcing firm, meanwhile, makes a profit because it is a more efficient employer than the client company, handling payroll, recruiting, and contracting on a volume basis.

Initially, employers approach outsourcing as a tactical move to save money. The management of the outsourcing contract is sometimes viewed as an adversarial rather than cooperative arrangement. Yet increasingly, companies are using outsourcing as a strategic move, used to increase management's focus on core value-adding activities in-house and seeking a partner relationship.<sup>18</sup>

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## TRENDS

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The fastest changing segment of professional staffing industry is unquestionably the information technology sector. There is a whole alphabet soup of new kinds of service providers that do away with portions of costs and operations that have traditionally been considered necessary for each company to do alone. These include Application Service Providers (ASPs), Business Service Providers (BSPs) and Computer Service Providers (CSPs). In addition, computer portals, which allow companies to meld internal and Internet information into a single secure point of access, are exploding and companies are outsourcing the work of building and maintaining these portals.<sup>19</sup>

These new businesses are just the beginning of what experts predict is an explosion in outsourcing. For example, airlines now outsource engineering work, baggage handling, ground transportation, food service and telephone reservations to other companies who can provide the work more efficiently and at less cost. Other areas where outsourcing is becoming prevalent are facilities management, employee benefits administration, and legal services.<sup>20</sup> Even computer manufacturers are outsourcing a growing percentage of their parts, assembly, testing and packaging.<sup>21</sup>

*“We will outsource anything that another company can do better. It makes a lot of sense when you think about it: an airline that actually concentrates on flying planes.”*

Michael Conway, CEO, National Airlines (Las Vegas)<sup>22</sup>

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<sup>16</sup>. Encyclopedia of American Industries, Second Edition, Volume Two: Service & Non-Manufacturing Industries, *Help Supply Services*, p. 1128.

<sup>17</sup>. “Outsourcing Offers Alternative to Regular Employment”, *Building Industry Magazine* (Honolulu), November 1998, p. 28 – 29.

<sup>18</sup>. See for example, “How to Engage in a Strategic Sourcing Relationship” by Les Blumberg, Principal, The Warren Company, or “Managing the Outsourcing Relationship”, by Simon Tarsh, Managing Consultant, P.A. Consulting Group, London, both printed on The Outsourcing Institute, URL [www.outsourcing.com](http://www.outsourcing.com).

<sup>19</sup>. “Outsourced Portals Loom”, *Infoworld*, August 23, 1999, p. 27

<sup>20</sup>. “Insurers Outsource More Functions”, *Business Insurance*, August 23, 1999, p. 12.

<sup>21</sup>. “Technology Transfer”, *Far Eastern Economic Review*, April 22, 1999, p. 32.

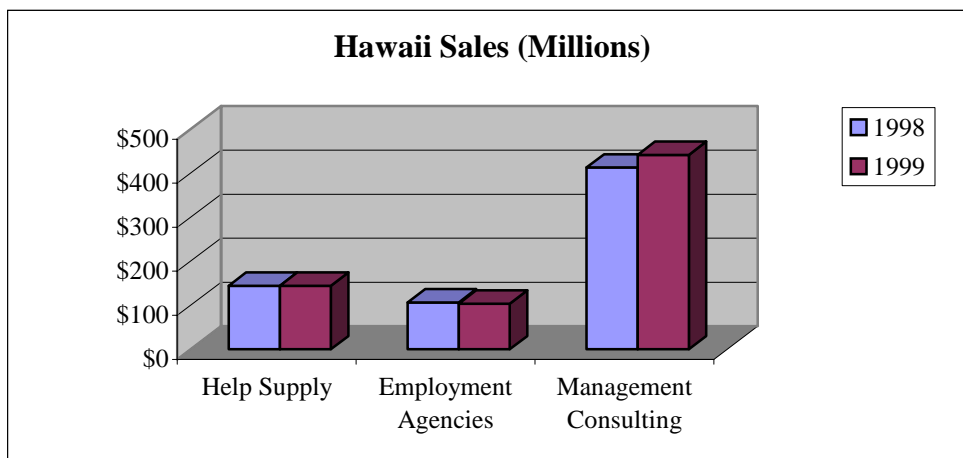
<sup>22</sup>. “The Web Boosts an Upstart Airline”, *Fortune Magazine*, September 6, 1999, p. 218.

# HAWAII MARKET

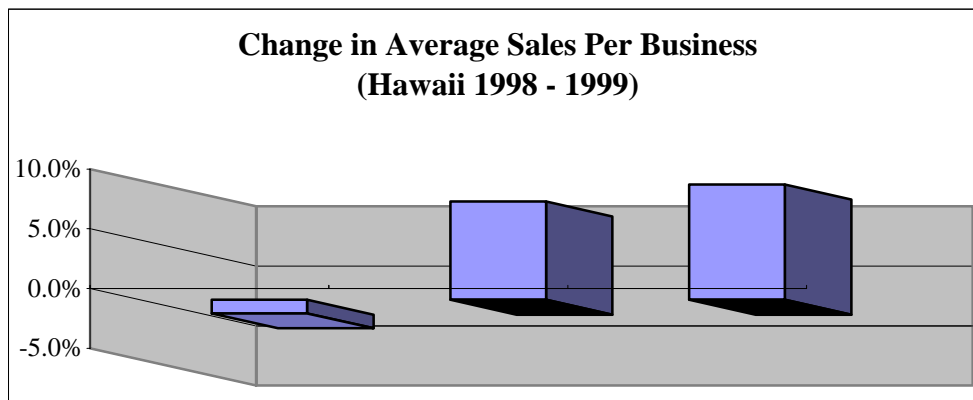
## BREAKDOWN AND TRENDS

### PROFESSIONAL STAFFING INDUSTRY

According to Dunn & Bradstreet, there are 94 Help Supply companies, 50 Employment Agencies<sup>23</sup> and 554 Management Consulting firms in Hawaii as of December 1999.<sup>24</sup> These industries had combined sales of \$690.3 million, an increase of 3.9 percent over 1998. The largest growth was in Management Consulting, which grew by seven percent over the one-year period.



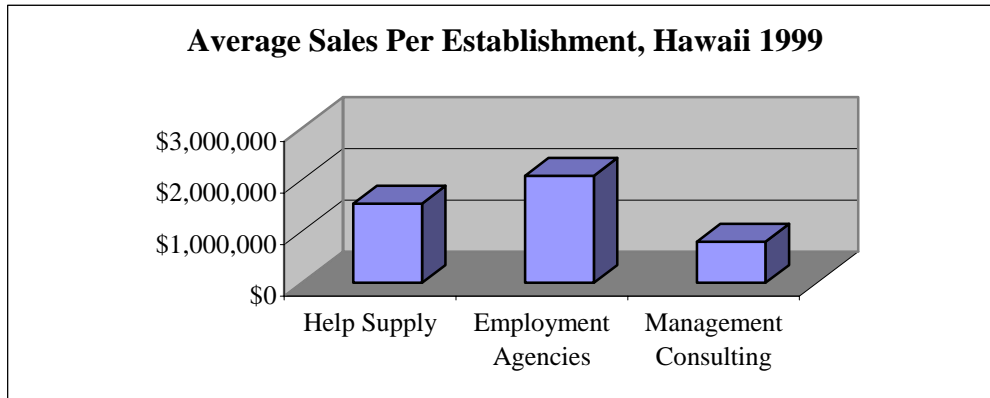
As on the national level, the number of establishments engaged in this industry has consolidated over the last year, leading to higher sales per establishment in two of the three segments.



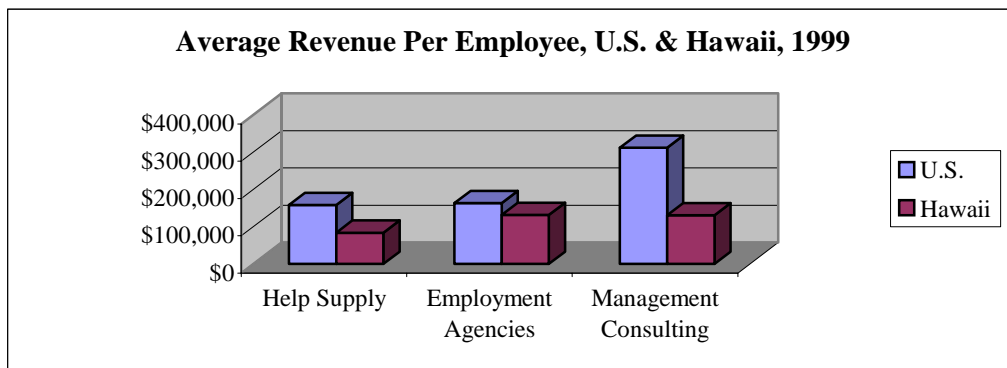
<sup>23</sup> . According to the Department of Commerce and Consumer Affairs, Vocational Licensing Division, there were 41 Employment Agencies licensed to do business in the state of Hawaii as of March 1999. Of these, 38 were on Oahu and 3 were on Maui.

<sup>24</sup> . Dunn & Bradstreet, MarketPlace Analysis for SIC 7361,7363, and 8742, by state and U.S. wide, provided by the Business Research Library, Maui. This is the source for all the figures give in this and following paragraphs and in the illustrations.

The average sales revenues per establishment are lower in Hawaii than on the mainland as a whole. This is to be expected in an economy which has been as depressed as Hawaii's in comparison to the mainland. Nonetheless, the average sales per establishment in Hawaii in 1999 are healthy, at \$1.55 million for help supply, \$1.9 million for employment agencies and \$0.797 million for management consulting firms.



Likewise, revenue per employee is lower in Hawaii than on the mainland. This is partially explained by the lower salaries in Hawaii than on the mainland, which allows for lower revenue per employee.<sup>25</sup> Again, however, these averages are healthy by Hawaii standards, at \$83.5 thousand per establishment for help supply, \$131.1 for employment agencies and \$130.2 for management consulting. Interestingly, the biggest discrepancy occurs in management consulting, which is the fastest growing segment of the three in Hawaii.<sup>26</sup> Note also that the smallest variance occurs in the employment agency segment, where Hawaii's lower salaries would predict a large variance. On average, over the three industry segments, the mainland averages \$248,481 in revenue per employee, while Hawaii averages \$116,644.



While this business seeks only to examine the professional staffing industry, these efficiency ratios are likely common for all business service segments in Hawaii versus the mainland.<sup>27</sup> This is

<sup>25</sup>. See, for example, "Paradise Found", Computer World Magazine, March 1, 1999, p. 56-57, where local IT salaries are estimated to be 20-30% below the mainland.

<sup>26</sup>. Ibid.

<sup>27</sup>. See, for example, "Graduate Daze", Honolulu Star Bulletin, August 2, 1999, p. B1, B5. Data is compiled from anecdotal stories as well as the state of Hawaii, Department of Labor and Industrial Relations, *Occupational Employment and Wage Estimates, 1997*.

exactly the reason Human Resources Inc. believes there is a market human resource management and placement in Hawaii.

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### LOCAL TRENDS

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Outsourcing has made big news in Hawaii in 1999. Pacific Century, the parent of Bank of Hawaii, Hawaiian Electric Industry, the parent of Hawaiian Electric Company and American Savings Bank, Central Pacific Bank, Queen's Medical Center and Straub Clinic and Hospital have all made headlines in the last year with notices of layoffs, many of which were connected with outsourcing arrangements.<sup>28</sup> These companies have outsourced computer services, credit card processing, accounting services, food service and laundry services. Other business units are being considered for outsourcing, but corporate management is reticent to speak about it. Bank of Hawaii went so far as to hire an outside public relations specialist to augment its already significant PR and marketing resources to buffer the publicity on corporate reorganization plans.<sup>29</sup>

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### HAWAII'S BRAIN DRAIN AND SHORTAGE OF IT PROFESSIONALS

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There is no shortage of articles documenting Hawaii's "brain drain" and the attendant dearth of IT professionals.<sup>30</sup> The Maui Research and Technology Park regularly reports a 20 percent vacancy rate for technology positions. Frank Fukunaga, Executive Director of the Hawaii High Technology Development Corporation, a state government agency, estimates that there are 10,000 jobs in high tech firms in Hawaii.<sup>31</sup> In the same article, an executive at Adtech, a local telecommunications diagnostics firm, said it had 80 openings for technical workers, but had to recruit on the mainland.

Hawaii IT salaries are lower than on the mainland. The midrange pay for Computer programmers on the mainland is \$34,200 to \$65,500, while \$29,200 - \$45,200 in Hawaii.<sup>32</sup> In addition, there is little room for growth in Hawaii and fewer opportunities to work on large projects. The growth rate for computer programmer jobs on the mainland is 23 percent, while only 15 percent in Hawaii. For these, as well as additional cultural, environmental, geographic, and educational reasons, it is difficult to recruit and retain highly skilled workers in Hawaii.

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### LEGAL REQUIREMENTS

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Commercial employment agencies, which includes (temporary / outsourcing?), are a regulated industry in the state of Hawaii. The Department of Commerce and Consumer Affairs, a branch of the state government, licenses all agencies. Licensing requires passage of a written test covering interviewing, job descriptions and specifications, placement procedures, aids for applicants, agency

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<sup>28</sup>. See, for example, "High Performance", Internal Auditor Magazine, August 1998, p. 62-67; "Stirrings at Bankoh Foretell Change", Pacific Business News, August 23, 1999, p. 1.; "Straub Restructures to Find Balance After Difficult 1998", Pacific Business News, January 25, 1999, p. 1; "CPB Opts for Restructuring Despite Positive Earnings", Pacific Business News, November 8, 1999, p. 1; "Queen's Closing Laundry Division", Honolulu Advertiser, October 30, 1999, p. B1.

<sup>29</sup>. "Stirrings at Bankoh Foretell Change", op. cit.

<sup>30</sup>. See, for example, "Small Budge for Tech Workers Lead to Labor Shortage for City", Pacific Business News, June 7, 1999, p. 1; "The Hawaii Brain Drain", Honolulu Star Bulletin, December 12, 1998, p. B1, "Brain Drain", Honolulu Star Bulletin, April 15, 1999, p. A12-A13; "Brain Drain Leaves Isle High-Tech Jobs Empty", Honolulu Advertiser, May 23, 1999, p. A29.

<sup>31</sup>. "Brain Drain Leaves Isle High Tech Jobs Empty", Honolulu Advertiser, May 23, 1999, p. A29.

<sup>32</sup>. Bureau of Labor Statistics, 1996, Hawaii Department of Labor and Industrial Relations, Research and Statistics Office, see also [www.asinet.org](http://www.asinet.org) (American Career Infonet).

management, business law, and Hawaii Statutes and Rules. The exam is offered every other month. In addition, applicants must show proof of insurance.<sup>33</sup>

In addition, all companies in Hawaii must have a General Excise Tax (GET) Number. All companies with employees or C-Corporations also must have a Federal Identification Number.

Human Resources Inc. has already obtain their Hawaii Commercial Employment Agency License, GET number and Federal Identification Number. These licenses are available upon request.

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#### HAWAII'S ECONOMY

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Hawaii has been in an economic recession since 1991. Economic analysts are now all predicting an upswing; they point to a growing work force, declining unemployment, growth in construction, and other encouraging trends.<sup>34</sup> Human Resources Inc. believes that this is a propitious time to launch their enterprise in Hawaii. The company believes that low efficiency ratios and high costs for employees will encourage local companies to seek new ways of employing workers and managing employees. The company also believes that Hawaii is several years behind the mainland in the outsourcing trend and that the new economic revitalization of the islands will encourage companies to look for new management methods and procedures.

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<sup>33</sup>. See, Hawaii State Department of Commerce and Consumer Affairs, Vocational Licensing Division, Commercial Employment Agencies, Candidate Information Bulletin and Requirements for License. Available at 1010 Richards Street, Honolulu, 96813, Telephone (808) 586-3000. License fees are \$205 every two years. The test costs \$50.

<sup>34</sup>. See, for example, "Tax Cuts' Benefits Uncertain", Honolulu Advertiser, January 23, 2000, p. A1, A5. See also, "Economic Outlook", at [www.boh.com](http://www.boh.com).

# DESCRIPTION OF HUMAN RESOURCES INC.

## HUMAN RESOURCE MANAGEMENT

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### OPERATIONS

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Initially, Human Resources Inc. expects to emphasize the employee recruitment and outsourcing work equally, with little management consulting work. As the company builds a reputation, and the economy improves, HRI expects to spend more time on outsourcing and less on employee recruiting.

	Help Supply/ Outsourcing	Employment Recruiting	Management Consulting
2000	45%	45%	10%
2001	50%	40%	10%
2002	55%	35%	10%

Harvard Business Review has identified outsourcing as one of the most important management ideas and practices of the past 75 years. Outsourcing's growth is nothing short of phenomenal. The 1998 Dunn and Bradstreet Barometer of Global Outsourcing reports that spending on outsourcing will increase by 27 percent in 1999. The U.S. market is projected to more than triple to \$300 billion by the year 2001. Further, Dunn & Bradstreet's study found that growth rates in other industrial countries are even faster than the U.S.<sup>35</sup>

Despite this incredible growth, small businesses have not taken advantage of outsourcing as much as their numbers indicate they should. According to Arthur Andersen Enterprise Group, only 42 percent of all small businesses outsource a portion of their work. When asked why, 52 percent of small business owners cited fear of losing control as the main reason.<sup>36</sup>

Human Resources Inc. believes that it can show small Hawaii businesses the benefits of outsourcing and train them in creating contractual relationships which simply require effective management in order to be successful. The company's number one target will be small businesses in the professional services industries. HRI believes that small business owners can be convinced that while they provide their own services very well, they do not have to take care of everything. Some of the services which HRI believes will be easiest to convince small business owners to outsource are the non-core activities used to support the company, such as payroll, accounting / bookkeeping, employment benefits, and computer maintenance and support. HRI will begin by emphasizing cost savings, but will also show companies how focusing on their specialty is to their advantage.<sup>37</sup>

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<sup>35</sup>. "Outsourcing a Valuable Tool for Businesses of All Sizes", San Jose Business Journal, May 24, 1999. See also, [www.arthurandersen.com](http://www.arthurandersen.com).

<sup>36</sup>. "If You Can't Do It Better, Turn to Outsourcing", Washington Business Journal, October 4, 1999.

<sup>37</sup>. "Delegate the Details", Washington Business Journal, February 8, 1999.

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**PERSONNEL AND SIGNIFICANT ADVISORS**

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Human Resources will employ one secretary / receptionist at a salary of \$20,000 per year to begin operations. Additional help will be needed as the company grows, such as recruiters and interviewers to help process applicants.

Although not partners with the company, Mr. Lee has arrangements with two local businessmen to help him start up the company. The first, Mr. Glenn Wong, has a background in sales and marketing and will help Mr. Lee to promote HRI. The second, Mr. Robert Nakamura, has a background in venture capital and telecommunications and will help Mr. Lee to secure financing and provide introductions to corporate human resource managers in Honolulu.

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**MARKETING**

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Human Resources will develop a website to advertise its services and job openings. The website will be graphically beautiful, depicting Hawaii's sun and surf. HRI will emphasize lifestyle choices for moving to the islands and concentrate on the Hawaii expatriate community, especially those ex-Hawaii residents now on the West Coast. Interviews with this group consistently reveal that there is a large contingent of well-educated ex-Hawaii residents who would deeply like to return to the islands if they can obtain well-paid positions in their fields.<sup>38</sup> These ex-residents need to be enticed by opportunities in the high technology area with salaries comparable to those on the mainland. Human Resources Inc. will post openings and articles on living and working in Hawaii. The articles will emphasize quality of life issues, such as the state's healthy environment, low violence, and family friendly attitudes.

In addition to creating a small website of its own, HRI intends to make collaborative relationships with existing job sites. There already exists several well known job sites for the Hawaii market and HRI will take advantage of them. These sites include:

<a href="http://www.jobshawaii.com">www.jobshawaii.com</a>	<a href="http://www.kamaiiana-careers.com">www.kamaiiana-careers.com</a>
<a href="http://www.lava.net/hijobs">www.lava.net/hijobs</a>	<a href="http://www.careermosaic.com">www.careermosaic.com</a>
<a href="http://www.surfhawaii.com">www.surfhawaii.com</a>	<a href="http://www.dlir.state.hi.us/wdd">www.dlir.state.hi.us/wdd</a>

To supplement the local job sites, HRI will also advertise on large, national job sites such as [www.monster.com](http://www.monster.com) or [www.jobtrak.com](http://www.jobtrak.com).

HRI intends to create two, high quality, three-panel brochures describing the company's services and operations. One will emphasize the benefits of using a professional staffing firm and be geared to potential employers. A second three-panel brochure will explain the services and benefits of using HRI from an employee's point of view.

As part of its marketing plan, Human Resources will advertise in the Yellow Pages under "Employee Leasing", "Employment Agencies", "Employment, Temporary", "Executive Search Consultants", "Employment Consultants" and "Human Resource Consultants". Mr. Lee will join several local organizations to meet people and network, including the Society for Human Resources Management, the Chamber of Commerce of Hawaii, and the Hawaii Employers Council.

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<sup>38</sup>. See, for example, "I Want to Come Home", Honolulu Star Bulletin, April 15, 1999, p. A12-A13.

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## PRICING

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Initially, HRI will use the contingency method for pricing employment placement services. Although the national market supports a 30 to 35 percent fee, the local market charges only 25 percent.<sup>39</sup> As the company builds a reputation and record of accomplishment, it will move to the retainer based method for this portion of its work.

For outsourcing work, including temporary placement, HRI will charge a 35 to 50 percent mark-up over employers' costs, depending on the volume and salary levels.

Management Consulting will charge \$65 an hour unless it is part of a company's request for first time staffing services in which either employment or help supply work.

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## FURNITURE, EQUIPMENT, FACILITIES

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Human Resources Inc. has secured offices at Ali'i Place (1099 Alakea Street) in the Honolulu downtown business district. The space provides for two offices and a reception area. The company has purchased desks, chairs, computers, and installed a telephone system with two lines.

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## START-UP

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Human Resources Inc. estimates that it will require approximately three months and \$20,000 to begin operations, excluding the \$100,000 sought in short-term financing. The following table shows the company's start-up expenses.

<b>Item</b>	<b>Price</b>
Rent (Security Deposit and 3 Months)	\$3,000
Equipment and Supplies	\$8,500
Licenses, Tax Deposits	\$500
Utilities / Phone	\$500
Yellow Pages	\$2,000
<u>Professional Services</u>	<u>\$5,500</u>
<b>Total</b>	<b>\$20,000</b>

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<sup>39</sup>. Telephone interviews with two recruiting companies: Peter Glick & Associates and Maresca & Associates on January 12, 2000.

# COMPETITION ANALYSIS

## LONG TERM COMPETITIVE ADVANTAGE

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### PROFESSIONAL STAFFING INDUSTRY

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There are only two firms in town that offer outsourcing and employee leasing services in addition to traditional employment agency services. They are Altres and Adecco. Altres was formed in 1993 as the result of a merger between Employment Management Corporation and Labor Services Corporation. It is based in Salt Lake City, Utah. Adecco is an international firm, the largest employment agency in the U.S., with \$5.5 billion in revenues and headquarters in Paris. The local firm is a result of a merger with Olsten Corporation in 1999.<sup>40</sup> Both Altres and Adecco companies are private and the results of their local operations are not known. However, they say they are doing well in newspaper interviews and neither has been the target of any negative publicity as a result of Hawaii's slumped economy.<sup>41</sup>

Manpower, which is the world's largest temporary employment agency, has two offices on Oahu.

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<sup>40</sup>. "Adecco to Buy Olsten Staffing for \$1.6 Billion", Pacific Business News, September 6, 1999, p. A-1.

<sup>41</sup>. See, for example, "Providing Financial Alternatives", Honolulu Star Bulletin, March 6, 1998; or "Outsourcing Offers Alternative to Regular Employment", Building Industry (Honolulu), November 1998, p. 28-29.

# FINANCIAL STATEMENTS

## THREE-YEARS PROJECTED PROFIT AND LOSS

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### ASSUMPTIONS

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Each of these assumptions is based on reasonable outcomes as determined by market size, market growth rates and the best intentions of management. All assumptions reflect conservative outcomes based on management plans and capabilities.

#### **1. Income: Employment / Outsourcing, Management Consulting.**

In Year One, the company places five employees, in Year Two, six employees, and in Year Three, eight employees. Placements are averaged at \$75,000 with the company obtaining a 25 percent commission on each.

In each year, it is assumed that the company succeeds in placing outsourced employees. The projected salary levels achieved by the company are reflected in the Cost of Goods Sold, Outsourcing Salaries. It is assumed that People & Employment will charge a 40 percent markup on salaries.

It is assumed that each year the company will make 90 percent of its income from Employment Placements and Outsourcing. Management Consulting is calculated at ten percent of Employment and Outsourcing Income.

#### **2. Cost of Goods Sold: Outsourcing Salaries.**

<b>Year</b>	<b>Month</b>	<b>Total Salaries Outsourced</b>
<b>Year One</b>	March	\$0
	April – July	\$200,000
	August – November	\$300,000
	December – February	\$500,000
<b>Year Two</b>	March – May	\$500,000
	June – October	\$700,000
	November – February	\$1,000,000
<b>Year Three</b>	March – July	\$1,000,000
	August – February	\$1,500,000

### **3. Expenses:**

- a. Advertising is estimated at \$2,500 per month for the first six months of Year One, \$2,000 per month in Year Two, and \$2,500 per month in Year Three. Advertising expenditures will primarily be Yellow Pages insertions. In addition, an open house is planned for the company's launch to which Honolulu companies with personnel managers will be invited.
- b. Bank Charges are estimated at \$50 per month in Year One, \$100 per month in Year Two, and \$150 per month in Year Three.
- c. Dues and Subscriptions are estimated at \$200 per month throughout the three years. This will cover membership and publications in the recruitment, outsourcing, and management consulting associations and publications.
- d. Insurance is estimated at \$200 per month throughout the three years. This will cover general liability insurance, errors and omissions, property and vehicle insurance.
- e. Loan Repayment is based on borrowing \$100,000 at nine percent interest for 36 months. This calculates to a payment of \$3,180 per month. Payment is estimated to begin in the second month of operations.
- f. Maintenance (Computers) is estimate at \$50 per month in Year One, and \$100 per month in Years Two and Three. This will cover normal maintenance and upkeep of the computers in the People & Employment offices, including software and small upgrades from time to time.
- g. Miscellaneous is estimated at \$100 per month throughout the three years. This is provided for unforeseen expenses.
- h. Office Expenses/ Equipments is estimated at \$50 per month in Year One, \$60 per month in Year Two, and \$70 per month in Year Three. In addition, \$4,000 is budgeted in month one of Year Three for the purchase of a new computer and printer.
- i. Operating Supplies is estimated at \$50 per month in Year One, \$100 per month in Year Two, and \$150 per month in Year Three. This will cover paper, pens and pencils, toner, and clips.
- j. Postage is estimated at estimated at \$50 per month in Year One, \$100 per month in Year Two, and \$150 per month in Year Three. As the company develops it expects to have an increasingly large clientele with lots of mailed documents, including the development of a company newsletter.
- k. Professional Fees are estimated at \$200 per month in Year One, \$250 per month in Year Two, and \$300 per month in Year Three. This is primarily to cover bookkeeping and accounting services. It will also cover legal costs.
- l. Rent is estimated to remain at \$575 per month throughout. This is the current rent at the Century Plaza building. Management does not plan expansion at this time.
- m. Salary Taxes are calculated at 8.1 percent of Wages. This will cover the 7.5 percent FUTA and .61 percent FICA taxes on the receptionist hired at \$20,000 per year.

- n. Telephone & Fax expenses are estimated at \$100 per month in Year One, \$150 per month in Year Two, and \$200 per month in Year Three.
  - o. Vehicle Expenses are estimated at \$100 per month in Year One, \$150 per month in Year Two, and \$200 per month in Year Three. This will cover the cost of validating parking for visitors to the People & Employment offices.
  - p. Wages & Benefits are calculated as a monthly salary for a receptionist/secretary/administrative assistant at \$20,000 per year (\$1,667 per month) plus 20 percent (\$333) per month for Benefits. Benefits include parking and medical coverage. In Year One there is one receptionist, in Year Two there are two and in Year Three there are three.
- 4. General Excise Tax is calculated at 4.166 percent on all revenues.
  - 5. Net Income is calculated as the remainder from Cost of Goods Sold and Expenses from total Operating Income, after subtracting General Excise Tax.

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**RESULTS OF OPERATIONS**

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Attached, for cosmetic reasons, are the monthly breakdowns of the results of operations from People & Employment for Years One, Two and Three and a Three Year Summary of Results.

# APPENDIX ONE

## HISTORICAL FINANCIALS

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**RESULTS OF OPERATIONS VSK LTD., 1997 - 1999**

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# APPENDIX TWO

## QUALIFICATIONS

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### RESUME OF BOB LEE

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## Bob Lee

<b>Education</b>	<b><i>Columbia University</i></b> Masters in Business Administration (MBA), Emphasis on Management.	<b><i>New York, New York</i></b> 1973
	<b><i>University of Hawaii</i></b> Bachelors of Art (BA) in Business Law.	<b><i>Honolulu, Hawaii</i></b> 1971
<b>Experience</b>	<b><i>VSK Ltd.</i></b> President, Chief Executive Officer  Responsible for sales and marketing of a Computer Services company specializing in IT consulting, software integration, hardware installation and application systems management, including Human Resource software and systems analysis. Worked to improve Outsourcing, Y2K solutions, and recruitment of IT professionals.	<b><i>Honolulu, Hawaii</i></b> 1983 - Present
	<b><i>IBM Corporation</i></b> Multiple Positions, Ending in Director of Communication Systems  Worked with International Business Machines (IBM) Corporation for 15 years in positions of increasing responsibility in New York, San Francisco and Seattle. Responsible for marketing hardware and software product lines in 45 international markets in the Americas and Asia.	<b><i>New York</i></b> <b><i>San Francisco</i></b> <b><i>Seattle</i></b> 1973 - 1983
<b>Languages</b>	Japanese: Working Knowledge	
<b>Computer Skills</b>	Extensive IBM software and hardware knowledge. Software proficiency includes word processing, spreadsheet, database, graphics and accounting software. Research databases include Dialog, Westlaw, Lexis, and the Internet.	