

Sturgeon Insights (19 July 2021)

Blue Collar HRm – Digitalising the frontier workforce

Across frontier markets, blue collar workers are the backbone of economic growth and the lifeblood of restaurants, bars, retail, pharmacies, manufacturers, logistics, hotels, and offices. In India there are 450 million blue collar workers, while in Southeast Asia the informal labour sector accounts for more than half of the region's workforce, with about \$200 billion paid in wages to informal workers per year. Yet, blue collar workers are poorly served by technology, with both employers and workers relying on traditional, offline options to solve their hiring and workforce management needs. The size of the opportunity and the archaic/non-existent state of current technology has led several start-ups to develop digital solutions designed to increase efficiency and reduce friction for both sides. This edition of the Sturgeon Insights series looks at several of these start-ups, the solutions they have developed, and the challenges they face.

The Status Quo

To understand why there is an opportunity for these start-ups, we should first take a step back to look at the existing solutions and why they are sub-optimal. There are several unique challenges in a blue collar workforce that white collar workers do not face. Most workers are paid on an hourly basis, meaning that it is vital for both sides to be able to accurately track when workers clock in and out. Manual recording of this is inefficient, time consuming, and prone to error or abuse. Shift scheduling is also fluid and dynamic, with employer demands changing and workers calling in sick at the last minute. Frantically calling the company's database of workers rarely works. As a result, managing payrolls is difficult, especially when many workers are without bank accounts and cash is the preferred form of payment.

The most significant challenge for the blue collar market is recruitment. Today most businesses in frontier markets (particularly SMEs but also enterprises) rely on paper or Excel to manage their HRm needs. To find workers, employers can post on job boards, classifieds, Telegram/WhatsApp groups, or physically go to a location where workers wait for an opportunity. On the other side of the equation, blue collar workers have limited ways to sift through the large number of job postings to find one that is appropriate for them. Once an employer has a list of candidates, the screening process is laborious and can take several days – this is no good when employers need workers and workers need employment immediately. The screening also fails to capture important information such as experience, salary expectations, and worker location. As a result, blue collar turnover is very high, up to 30% per month, which comes at great cost to both employers and workers. It is possible for employers to go through agencies, but issues with reliability, quality, and churn remain, and workers receive a lower salary due to fees.



New Kids on the Block

A growing number of start-ups have entered this battlefield of inefficiency, providing a range of solutions to solve recruitment and other problems for the blue collar market. Some start-ups have built a full stack solution that solves all the HRm needs of the customer. Betterplace, founded in India in 2015, now boasts more than 1,000 customers including Amazon, Zomato, Flipkart, and Accenture. This is one example. Its software-as-a-service (SaaS) platform helps companies to manage the entire life cycle of their blue collar workforce by providing them with services such as hiring, background verification, training, attendance management, and payroll services. In a similar vein, Kazakh-based Clockster's solution allows companies to automate functions like payroll and timesheets and simplifies and manages staff scheduling. The company is currently expanding into SEA and building out a recruitment product. Others include Workmate, operating in Indonesia and Thailand, that differentiates itself with a network of pre-vetted and qualified workers that can be hired on demand, and Peopleforce, operating in Ukraine, Russia, and Kazakhstan, which provides a scalable, agile, and robust solution for companies in the CIS region.

Others have begun trying to solve the recruitment problem before cross-selling additional software for the HRm processes. Singapore-based Sampingan and Workclass – both graduates of the Antler accelerator program – connect blue collar job seekers with employers via a digital platform. Founded in 2018, Sampingan claims to have 850k workers registered in its platform. Its Manpower and Solutions products are, in essence, digital versions of traditional agencies, coupled with Systems which allow enterprises to manage their HR processes and source workers. Two years its junior and with 70k workers registered, Workclass promises employers that vacancies will be filled within 24 hours and that workers will find a job in the same timeframe. It uses WhatsApp and Telegram to connect with workers, gathering information to pre-screen them and then connect them with the best opportunities.

Big vs. Many

One of the key questions for these start-ups is whether to target the smaller in number but larger in size enterprise market, or the high-volume low margin SME sector. In most frontier markets the SME sector is far larger than enterprises, both in terms of employment and output. However, selling to this market is challenging, since SMEs are typically not tech savvy, and so require a high degree of education to onboard. Combined with low purchasing power, this means that products need to have a highly intuitive user experience enabling light touch onboarding for a start-up to be profitable.

At the other end of the spectrum, the sales process for enterprises is longer and more complicated, but once onboarded, their size and purchasing power make it easier for an early-stage company to establish a meaningful revenue stream. Sampingan, for example, has started with the enterprise market, which represents 8% of blue collar employment in Singapore and has ambitions to crack the remaining 92% in the SME market once the product is better developed. Alternatively, GreatDay HR, based in Indonesia and with operations in Thailand and the Philippines as well, has separate solutions for enterprise and SME, with the difference being the complexity of the options that are offered.



Financial Inclusion

By digitising the HRm process, whether for enterprises or SMEs, these start-ups can gather a level of data on blue collar workers that has not been possible before. Today these workers are often unbanked, with limited or no access to financial services due to their lack of credit history or salary data. By creating a digital profile of these workers, these start-ups have accurate data on their employment status and income levels which is transferable from one employer to the next. As such, platforms like Sampingan can act as the entry point and distribution channel for banks, insurers, and other service providers, which represents a significant monetisation opportunity for platform.

Access to financial services is particularly important for blue collar workers as they face a constant struggle between monthly pay cheques and weekly cash requirements. Existing lenders charge 1-1.5% per day for payday loans as larger financial institutions won't touch them. HRm providers can bridge this gap, providing access to "earned salary" in the form of early wage access loans where the probability of default is very low, such as GreatDay HR already does and much like others are planning to in the future. Betterplace goes a step further and provides workers with a bank account, so that they can receive their salary and build a financial record to access additional financial services in the longer term.

What next?

The past 18 months have accelerated the trend towards temporary and part-time work, and so demand for effective blue collar solutions will only increase. With a large population and dynamic economies, Southeast Asia is one of the more competitive regions for start-ups, and the size of the opportunity means that more are likely to enter the fray. Which one succeeds will largely depend on their ability to capture both the supply of blue collar workers and the demand from enterprises, SMEs, or both. The supply is easier to capture than the demand, and whether these start ups can crack the SME sector could play a large part in determining their success. An option could be to use the HRm software as a hook to build a base of employers and workers, then monetising through recruitment and financial services. This however requires significant capital upfront, and due to the heterogeneity of SMEs and different countries there is limited visibility on success. Either way, the increasing inflow of capital and start-ups will only benefit the employers and workers operating in the blue collar sector, which promises to be an exciting sector over the next 2-5 years.

For more details on Sturgeon Capital and their Fund offerings please contact the team:

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Appendix – Frontier Start-ups

Company	Founded	HQ	Operations	Round	Investors	Capital Raised
Workmate (formerly Helpster)	2015	Singapore	Indonesia, Thailand	Series A	Atlas Ventures, Beacon Venture Capital, Gobi Ventures, Mojo Partners, Wavemaker Partners, Convergence Ventures, Grab Ventures	\$19.80m
Sampingan	2018	Singapore	Singapore	Series A	Altara Ventures, Golden Gate Ventures, Antler, XA Network, Access Ventures	\$6.80m
Workclass	2020	Singapore	Singapore	Seed	Antler, 500 Start-ups	Undisc.
GreatDay HR	1999	Indonesia	Philippines, Thailand, Indonesia	Seed	Otium Ventures	\$2.50m
Clockster	2017	Kazakhstan	Kazakhstan	Series A	Quest Ventures, ABC-I2BF	\$0.75m
Betterplace	2015	India	India	Series B	Jungle Ventures, Unitus Ventures, Venture Highway, 3one4 Capital	\$17.79m
Peopleforce	2018	UK	Ukraine, Russia, Kazakhstan	Seed	SFC Capital	\$0.64m

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