

Handling Temp

Crisis and Stress

By Michael Needle

It is an understatement to say that running a temp business can be very stressful. It also goes without saying that one does not always make the best decisions when under stress. Poor decision leads to problems and crisis. Here are some thoughts on avoiding crisis and stress. We are likely entering a down business cycle now, as perm hiring starts to fall and temp growth is flat.

Proactive Management

Management has to deal with all types of issues, by definition if management does not, who will? As management, we have to make decisions all the time, some easy, some complex. Stress develops from not knowing what to do. The problem may be as mundane as determining what mark-up to charge, or as complex as defending oneself in a lawsuit that if we lose may destroy the company. How successful one is in dealing with these problems can often be attributed to proactive management. Proactive management is anticipating situations before they become crises and resolving them before they take on crisis proportions. Proactive management is thinking the situation through while you have the luxury of time to consider your alternatives. The alternative to proactive management is reactive management. That is, reacting without all of the facts or when you are under pressure and are not able to fully consider the ramifications of your decisions.

Some people bury their heads in the sand to avoid dealing with a problem hoping that they will just fade away or don't want to deal with unpleasant situations. This seldom happens. More often they become much harder to resolve. It is like income taxes. We may wait until April 14th to file because we simply don't want to deal with Uncle Sam, but with proactive tax planning we know we would be better off.

Keeping Your Cool

The temp business requires a quick response time. Some people even work best under the gun. This is very different from perm, which is geared to a more methodical approach and longer time frames. This leads to different personality profiles for each side of the business. What kind of personality do you have? Can you change? To keep cool, try to follow these 3 rules.

- **Clients** - When getting an order, find out how urgent the need is. Get the full job specs so you don't have to call back. Work with a checklist to make sure you cover all your bases.
- **Temps** - If a temp is unavailable for assignment, try to get something out of your call. Find out if they know someone who might be available, or when they expect to be available for assignment next.
- **Staff** - Your staff's time is valuable, don't waste it. Help them out by buffering them from stress. This might mean not telling them about a complaint so that they can be most effective.

Getting a Handle on Your Operations

The key to avoiding stress is to know what is happening and why. As a pilot in an airplane, one must look at their gages to know if their plane is OK and if they will make it to their destination. They need to know which controls to turn on and off as needed. Our controls in the temp business are items like: margin and bill rates, weekly hour/staff, fixed costs, fill ratio, cash flow, duration of assignment, etc. Avoiding stress requires knowing what levels your gages should be at, monitoring your controls on a regular basis and making adjustments as required.



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when business conditions do not warrant. *"If you fail, you fail . . . but you can be replaced"*.

Your Sales Force

If your employees are compensated based on volume not margin or profits, be careful, as it is not important to them if you make a profit. Fortunately this is less common than it used to be and most incentive plans are based on gross profit. Make your decisions based on your bottom, not top line. *"If you fail, you fail . . . but they can get another job"*.

Your Vendors

Many vendors will try to sell you anything, whether you need it or not, with the idea that it will somehow make you money. In fact, spending money may reduce your ability to make a profit. If the cost benefit ratio is not in your favor don't buy. Spend your money wisely. *"If you fail, you fail . . . but they can get another customer"*.

Your Customers

Be careful regarding promises of future business if you can meet competitive prices now. It is easy to be whip-sawed into price reductions that you can't justify and will not translate into anything. Determine what business you really need to go after and establish limits as to how far you are willing to go and what specific commitments must follow. *"If you fail, you fail . . . but they can use another temp service"*.

YOU DON'T NEED TO BE AN ACCOUNTANT, BUT . . .

You certainly neither want nor need to be an accountant to make the right pricing decisions. But here is the minimum you need to know.

Match Revenues With Expenses

You need to match *billing revenues* with expenses for the same time frame to compare apples with apples. This is the accrual basis and is how to look at your business for pricing decisions. Many services are on a cash basis for taxes. That is fine for taxes, but not for decision making. The problem is that on a cash basis, one is comparing apples to bananas. That is, comparing *prior* period billings (today's cash receipts) with *current* period temporary payroll costs, which is the primary component of viable cost. This leads to poor decisions.

Segregate Variable and Fixed Costs

Variable costs vary directly with volume and includes: temporary payroll, related payroll taxes, workers' compensation, financing costs, fringe benefits and any franchise fees. Sales less variable costs, divided by sales, is the definition of margin rate. Fixed costs includes everything else normally expensed. In making pricing decisions for jobs, one should be concerned with margin rates and those fixed costs which will be incurred as result of that job, as opposed to allocating fixed cost to the job. Margins can be further broken down by customer.

Sales and Margin Reports

Each office should separate sales, hours and variable costs by customer. This will yield not only sales by customer, but various critical values, these include: margin \$, margin %, bill \$/hour, pay \$/hour, mark-up and payroll tax as a % of payroll. These items are critical for making pricing decisions by customer and by line of business. Obviously, one wants to expand high profitable areas, minimize low profit ones and eliminate unprofitable ones. There are various tools to do this, but the first step is to separate the winners from the losers and a sales and margin report helps.

HOW TO PRICE

Based on the above, you should use pricing decision tools, either one of your own design or a commercially available model. Make sure to factor in all of the above items to arrive at the best pricing decision. Commercial tools range from very simple models to more complicated ones for evaluating alternative proposals and then selecting the best combination of factors. Remember that *optimal profit* does not just happen, it takes a decided effort. ■

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