Why Aren't You Doing IT Contracting?

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The IT contracting market is not only for Silicon Valley. Almost every major market is doing IT contracting in one way or another and IT makes up some 10% of the GDP. IT is involved in the operations of every business, mobile devices, gaming, the internet, IT support, social networking, computer apps, programming, database administrators, etc. This year IT contracting will represent a $20 billion market vs. $5 billion a decade ago. On top of this the bill rate averages close to $75/hour vs. light industrial, the other major segment of temp, runs about $13/hour; the duration of assignment is about 25 weeks for IT vs. eight weeks and the margin rate is about 23% compared to a 17% rate for LI.

Taking all of this into account, we have a relative difference of some 24:1 for IT vs. LI. That is every IT person on assignment has 24 times the margin dollar impact as light industrial. That is, to get the same margin dollar, one has to have 24 times more LI people on assignment as IT. And for every seven IT contractors on assignment, one generates $1 million in revenue; that is a pretty good way to grow. On top of this, IT does not have to contend with high workers' comp rates and the P/E multiple when selling your IT company is higher than commercial staffing.

A typical IT contracting team consists of one sales rep and two recruiters and each recruiter should be able to stabilize at 15 contractors on assignment which translates to $4.7 million per team, or pod and at a 23% margin rate would generate approx. $1.1 million/year in margin. Assuming each recruiter earns about $75K and the sales rep $100K, plus a 20% burden (including healthcare), this yields a contribution of three quarters of a million/year. The ramp up time is usually about one contractor/month/recruiter. But the larger your client, generally the lower your margin rate, but you can counteract this with more contractors and payrollees on assignment.

One can determine the distribution of IT contracting services for their local market, for the greater Boston area for example here is the 2010 market distribution estimate.

So why don't more staffing companies enter this market? The answer is two fold. First is their comfort zone, if they are familiar with commercial staffing they may think that IT jargon is beyond them and are uncomfortable with the unknown. And an owner does not need to be a techie to speak intelligently, and after interviewing enough people one gets familiar enough with the acronyms and who does what to manage an IT staffing team. The second reason is that one does really need to hire competent IT staffing professionals to do the heavy lifting and there is no substitute for good people vs. marginal people here. In commercial staffing one can get by, but not in IT so through interviewing, monitoring of metrics and experience is very important. We have been through this process with our clients whom have taken short cuts in hiring or saved a few thousand dollars in compensation hiring not the good, but the bad or the ugly and you don't want to settle for the latter two. It takes time and effort to put together the right team, but it is worth the effort. One can't al-

Computer and Information Systems Managers	$46,285,101
Computer and Information Scientists, Research	13,622,629
Computer Programmers	57,595,732
Computer Software Engineers, Applications	185,466,661
Computer Software Engineers, Systems Software	203,318,968
Computer Support Specialists	71,674,410
Computer Systems Analysts	107,957,687
Database Administrators	20,086,087
Network and Computer Systems Administrators	53,579,664
Network Systems and Data Communications Analysts	33,664,270
Computer Specialists, All Other	18,435,610
Operations Research Analysts	13,077,502
Computer Hardware Engineers	36,492,583
Total	$861,256,906

ways make good hires and that is where metrics come in so that you can catch your mistakes early and correct flaws by tracking production and efficiency and either correcting the problem or terminating a bad hire earlier rather then later.

So what do you need to do to get into IT? Determine if you want to move into a new field and have the capital or borrowing capacity to invest. Determine if you can attract IT staff. Investigate if your market has a decent IT potential. If the answers to these questions are yes, find someone to help you to develop a game plan. ∎

Mike Neidle is president of Optimal Management Inc., started in 1994 (www.optimal-mgt.com), (650) 655-2190, mentoring staffing owners and managers to maximize sales, profits and company value. He was senior, executive VP for two national staffing firms; CEO, CFO, director of planning/M&A and marketing director from start-ups to Fortune 500 corporations. He has an MBA and a chemical engineering undergraduate.