Optimize Your Firm's Profitability With Modern Business Tools

By Michael Neidle

Did you know that one of the worst things your company can do for business is fill too many orders or interview too many temps? Did you know that simply having your staff doing their job may not be in your best interest? Did you know that if your firm is growing at 10% per year, it typically will be at a significant disadvantage?

In this era of rapid staffing industry growth, the focus on sales has predictably and properly taken precedence over the development of modern business tools to run and monitor the business, according to management consultant Michael Neidle of San Mateo CA-based Optimal Management. But higher sales won't take care of everything, and, in fact, may lead your firm down a path that is less profitable than it could be. In fact, without the insight that tools and analysis can provide, many staffing firms pursue strategies that are actually counterproductive to their ultimate goal of profitability. "Anyone can sell a product, but it takes a businessperson to make money at it," says Neidle.

The modern business tools that Neidle utilizes are a series of computer-based models, utilized by *Fortune 500* companies, that allow ongoing and in-depth analysis of an operating business. By feeding the right data into various computer spreadsheets, you can take a look at the trends your own business is following and trends in the staffing industry as a whole, then use that information to plan a course for your firm. With ongoing tracking of your firm's data, you can better monitor your progress against your plan.

If your firm is filling too many orders at a low price, you may be following a typical commodity strategy to beat competition dropping prices in order to increase volume. But is this strategy correct? The answer is that there is a limit to the effectiveness of price reduction and there is an optimal price range to work within for best results.

Many firms may be inappropriately pricing temp-to-hire orders. If your firm charges a 15% permanent placement fee and a mark-up on temporary business of at least 1.5 on a $10 per hour assignment with no liquidation fee, you are better off filling the position as a temp-to-hire if the duration of the assignment is at least ten weeks. For perm placement, the margin would be $1,600, while the temp-to-hire margin would range from $1,650 for ten weeks to $2,800 for a 25-week assignment.

If your firm is growing by 10% per year and the market is growing at 20%, you are losing market share and will have competitive disadvantages over time in terms of pricing, flexibility, services, and image.

The temp-to-hire vs. perm placement decision, and many other management options, can be graphed using a break-even analysis. But how often are you using tools such as this to analyze whether your firm is really pricing its business properly or pursuing the optimal activities for your specific market?

OPTIMIZING RESULTS

By approaching your business from the perspective of productivity and efficiency, you can obtain results that are not simply good, but optimal, according to Neidle. You can do this by evaluating your options and selecting the best one before proceeding to the next step. Specifically, Optimal Management suggests a process for profit optimization utilizing the following steps:

- Data: Develop the data needed to solve problems and create opportunities.
- Information. Convert that data into information.
- Decisions. Select the option providing you with optimal results.
- Planning. Determine to achieve those results.
- Monitoring. Monitor your results to make sure you stay on track.

You can use the concept of optimization in the three time frames in which you operate:

1) In the day-to-day arena for pricing decisions.

2) For strategic business decisions such as restructuring, compensation plans and market share, expansion, and acquisition.

3) Using key operating ratios on a monthly basis to monitor your operations.

WHERE TO BEGIN?

Neidle emphasizes that the best way to analyze your firm's strategy is to use existing information which you may not yet have taken advantage of to analyze your profitability and lay plans to optimize that profitability. By examining your firm's information over time, you can determine where you are headed and can make plans to alter that direction when necessary.

PRICING DECISIONS

By looking at information that your firm already has for example, by tracking your orders by price level you can determine whether your business serves the commodity market or the specialty market. The commodity market is driven by price and typically includes the low end of the office services perm market and most of the light industrial temp market, says Neidle. Commodity services can be very profitable, provided that you can deliver the product as promised.

Specialty services, on the other hand, tend to have higher margins and lower volume. They attempt, through value-added services, to make price comparisons difficult. They have a staff that adds quality and believes in its benefits, and have built special customer relationships, says Neidle. Specialties are not sensitive to price changes; it takes a large drop in billing rates to yield a modest volume gain, he adds.

STRATEGIC DECISIONS

For strategic business decisions, your time frame and your sources of capital are crucial determinants of what growth rate is optimal for your firm, whether internal growth or acquisitions are best to accomplish that growth, and your firm's valuation. Using tools such as break-even analysis, cash flow analysis, and return on sales and a return on investment analysis, you can better determine whether you have adequate funding to open a new office and when you can expect that office to break even.

OPERATING DECISIONS

To assure, on a monthly basis, that your firm is headed in the right direction, you need to use existing information to determine whether your staff is engaging in the right activities to produce profitability. But you also need to use state-of-the-art monitoring and control systems to monitor staff performance in order to take corrective actions, according to the Optimal Management process. This involves using information that you likely already possess, but may not have pulled together in a way that is beneficial. We'll use this arena to give you some tangible numbers to demonstrate how these statistical analysis tools can work for your firm.

Different measurements must be used to make sure companies are optimizing profits in both the temp and perm divisions. There are three basic concepts useful in describing this process: productivity, which describes how hard you are working; efficiency, which is how smart you are working; and balance, which is how well you are coordinating your activities to get results, often among different functional areas.

HOW TO USE THESE TOOLS

The first step is to collect the data on these activities at your firm, then turn that data into useful information. Compare your firm's results with the industry standard described below to determine which areas need beefing up at your firm or which areas need to be de-emphasized.

Optimal Management collected these "industry standards" from surveying more than 200 temp and perm offices across the U.S. over a period of time that included both good and bad periods in the economy. "Good" performance is defined as matching or exceeding the 25% highest ranked companies. "Poor" represents the performance of the bottom 25% of lower quartile of companies. The "average" is what the typical company would show.

The definition of terms and the accuracy of data gathering are critical to the interpretation and use of this information. Since problems of definition exist, this information should be used for reference only and used with forethought, warns Neidle. For example, you may need a higher number of fills to be profitable in your market or you may already have a 95% fill rate and be in the upper quartile and be reluctant to let your staff see other companies' lower standards. For these and other reasons, industry standards should be used only until you replace them with a customized budget or plan developed for your firm, advises Neidle.

TEMPORARY PLACEMENT OPERATING RATIOS

The following ratios are weighted toward office services temporary help firms (see chart below):

- For the upper 25% of firms surveyed, 90% of assignments (job orders) received are filled; the average firm fills 80% of job orders received.

- It takes ten sales calls to get six assignments for firms in the upper quartile; the average firm receives just four assignments for every ten sales calls.

- On average, upper quartile firms receive twelve assignments from all sources per week per sales staff, while staff at average firms receive just five.

- Firms in the top 25% bill about 7,000 hours for each operations staff person; average firms bill just 4,000 per person.

TEMPORARY PLACEMENT OPERATING RATIOS*

	Upper	Average	Lower
Assignments filled to assignments received	.90	.80	.70
Assignments received per sales call	.60	.40	.15
Assignments received per week per sales staff	12	5	3
Cold sales calls to appointment sales calls	4	3	2
Hours billed per operations staff	7,000	4,000	2,000
Hours billed per assignment filled	150	120	70
New orders received per prospect sales call	.150	.085	.025
Prospect sales calls to client sales calls	6	4	2
Prospect telemarketing calls to prospect sales calls	5	3	.5
Sales calls per week per sales staff	50	30	15
Telemarketing calls per week per sales staff	100	70	35
Telemarketing calls to sales calls	3	2	1
Temps interviewed per assignment filled	2.0	1.3	0.7
Temps interviewed per week per operations staff	20	15	10

*weighted toward office services　　*Source: Optimal Management, Foster City CA*

- An upper quartile firm bills about 150 hours per assignment filled per week.

- Upper quartile firms receive about 15 new orders for every 100 prospect sales calls made; that number drops to 8.5 per 100 at typical firms.

Sales reps make an average of six prospect calls for every client sales call at upper quartile firms.

Upper quartile firms make about five telemarketing calls to prospects for each sales call to a prospect.

The average number of sales calls made per salesperson per week at upper quartile firms is 50, versus 30 at the average firm.

Each sales staff person makes about 100 telemarketing calls per week at upper quartile firms, while average firms' reps make about 70.

At upper quartile firms, about two temps are interviewed for each assignment filled, while typical firms average 1.3. Each operations staff person at upper quartile firms interviews about 20 temps per week.

PERMANENT PLACEMENT OPERATING RATIOS

The following ratios are weighted toward office services and administration placement firms (see chart below):

Upper quartile firms collect about 95% of billed dollars; typical firms collect about 88%.

Average placement fees are 24% at upper quarter firms and 17% at average firms.

At upper quartile firms, consultants arrange an average of three interviews with clients (send outs) for each job order. It takes an average of eleven send outs to make a placement, and each staff person averages 4.5 send outs per week.

At upper quartile firms, each staff person averages 20 in-house interviews per week, and it takes an average of 25 in-house interviews to make a placement.

PERMANENT PLACEMENT OPERATING RATIOS*

	Upper	Average	Lower
Cash collected to billings	.95	.88	.83
Send outs per job order	3.0	2.0	1.5
Send outs per placement	11	8	5
Send outs per week per consultant	4.5	3.0	2.0
In-house interviews per send out	3.0	2.4	1.5
In-house interviews per placement	25	15	7
In-house interviews per week per consultant	20	10	5
Job orders per placement	6	4	2
Job orders per week per consultant	2.5	1.5	1.0
Average placement fee	.24	.17	.13
Placements per week per consultant	.75	.30	.20
Telemarketing calls per week per consultant	125	75	40
Telemarketing calls per job order	100	70	25

** weighted toward office services and administration*

Source: Optimal Management, Foster City CA

Upper quartile firms average three in-house interviews of new candidates per send out.

- Upper quartile firms make a placement for every six job orders logged, and each staff person secures an average of 2.5 job orders per week.

- Each staff person averages 0.75 placements per week at upper quartile firms.

- It takes about 100 telemarketing calls to get a job order at an upper quartile firm, compared to about 70 at an average firm and 25 at a lower quartile firm.

- At upper quartile firms, each staff person makes about 125 telemarketing calls per week, while at average firms, each staff person makes about 75.

BE FLEXIBLE

You can use tools to analyze the profitability of your company, like these operating ratios, on either a project basis or a continuous basis. One of the biggest challenges is to balance the various factions within your company to obtain the greatest overall benefits for the firm. This includes balancing the competing interests of sales, accounting, operations, shareholders, employees, customers, and personal goals. This is not an easy task, says Neidle, and policies and procedures must be flexible enough to allow for exceptions.

But by utilizing these analytical tools, you'll be better able to direct your business according to what will optimize your firm's profit.