

Grow Your Business by Increasing Your Client's Profits

By Michael Neidle

Overview

Running your company during these demanding times takes both skill and luck (see graphs on page 20 of the Summer issue of the Monitor for an historical perspective). Your company can develop new skills and enter new markets and make your own luck. For example, Kforce has shifted its business model into the burgeoning health and life science staffing area, which now represents 21% of their sales vs. 10% in 1999. Other staffing companies have moved into outsourcing and project management to try to shore up their sales and profits. Spherion's revenue in these areas has grown from 7% to 14% of their total over the last 3 years and stands at 16% for the first half of 2002. Their related gross profit distribution rose from 7% to 14% to 16% of the total for the same period. CDI took a substantial restructuring charge to reposition itself in IT and engineering project management.

Improving Client Profit

To achieve success in today's highly competitive IT staffing market your company has to do much more than recruit. With tight business budgets, you must justify your services and demonstrate how they can increase your client's profits, or be viewed as a cost to be eliminated. It is imperative to document results and not assume that the economics will be readily apparent. In this regard communicate with someone having profit responsibility and avoid being forced to simply bid the lowest price. Getting through to HR on this count may be difficult, as the consequences of negotiating the lowest price may not be readily apparent to them. Dealing with an operations manager connects you with a person who understands the company's problems and opportunities and who understands that price is but one component. The result is a better outcome to the company. The object of the staffing company is to design and deliver a cost-effective solution.

Example

An IT staffing company was building its project solutions practice, but did not have the reputation required to charge a consulting fee to their client. The IT staffing firm needed a solution that absorbed consulting costs but still allowed them to make a profit.

Their client was a software firm with a staff of 400 IT employees. The client was scheduled to develop a new release of one of their products, which required 20 people, which was also the number of free workstations available. The options were to reassign people from elsewhere in the

company or go outside for staff. The client had downsized three times during the last 2 years, but it now had stabilized its workforce. Making further reductions, which would preclude them from hiring directly, would only result in releasing them after the project was over.

The client's existing IT staff pay averaged \$46/hour, or \$60/hour with payroll taxes and benefits. Only part of the staff was familiar with the product, which was estimated to take 6 months and 20,000 man-hours to complete. This translates to a cost of \$1,200,000. The department manager confided that by taking people off assignment elsewhere in the company they would not be able to perform product maintenance and customer support. This was estimated to cost them \$200,000 from an internal audit the last time they had done something similar (lost business, staff turnover, overtime premiums, inefficiencies, poor product performance, returned goods). The client's total direct cost was thus \$1,400,000. Lastly, the client's manager noted that the sales of this product were estimated to be \$50 million with a 40% margin.

Traditional Staffing Solution

The company calculated that given the current poor IT market, they could recruit from a large pool of IT professionals who could do the job. The company planned on hiring 20 people at \$40/hour for a total cost of \$896,000 (including 12% for payroll taxes and workers comp). At a 1.45 markup this would translate to \$1,160,000 in client billings with a 23% margin, or \$264,000 for a \$58.00/hour bill rate. The client would save \$240,000. You would expect that other staffing companies would provide a similar proposal.

Value Added Project Solution

The company decided to provide a value-added project solution that would be a better alternative to the client and increase the company's probability of getting the job. The key was to find someone familiar with the client's product and who would be able to provide a better solution to the problem and function as the team leader. They in fact knew someone who worked for the client a year ago and they previously placed on contract. After discussing the situation with him, they decided upon an approach that would win the contract and make a profit.

The team leader committed to doing the job with 18 people and in 900 hours or 16,200 man-hours. This translated

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to a direct cost of \$725,800. But the company needed to minimize the risk of losing the team before the completion of the project by providing a completion bonus and guarantee to complete the project on time. They set aside a bonus of \$7,500/contractor, bringing their hourly wage to \$48.30 (more than they would earn on the client's payroll), with \$25,000 for the team leader, with over 40% of his compensation tied to results if the project was completed on time and within specs. This brought the contractor cost up by \$170,800 to \$896,600 or what the client would spend via a traditional staffing approach, but without guarantees.

The company would bill the client \$1,256,000, less \$96,000 in savings represented by delivering the product 100 hours early, for a net cost to the client of \$1,160,000. The company guaranteed the client a cost savings of \$240,000. The company's margin was projected at 23% or \$263,400 (\$1,160,000 - \$896,600) including contingencies, or the same as the traditional staffing approach. This could however increase to a 31% margin or \$363,400 if contingencies did not materialize.

| <u>Proposal Summary</u> | <u>Net Project Cost</u> | <u>Client Savings</u> | <u>Client Guarantee</u> |
|-------------------------|-------------------------|-----------------------|-------------------------|
| In house staffing | \$1.40 million | - | No |
| Traditional staffing | \$1.16 million | \$240K | No |
| Project solution | \$1.16 million | \$240K | Yes |

The project solution was the best, as it completed the job the fastest, with the lowest cost to the client and was the only one with a guarantee. ♦



Michael Neidle is President of Optimal Management, a leading edge management consulting company acting as mentors to owners and managers since 1994. Phone 650-655-2190, www.optimal-mgt.com. He will be speaking at the November NACCB Convention on "Managing Your Company from Recession to Recovery."

