Plump Profits

Increase Your Client's Bottom Line With Value-Added Services and Project Solutions

By Michael Neidle

The U.S. economy has remained in the doldrums longer then most would have expected, but that is actually pretty typical of an economic downturn.

Although forecasting the economy is at best only an educated guess, staffing professionals should not expect hiring to rebound overnight, and staffing firm clients should not stop worrying about their bottom lines anytime soon.

A good strategy during all economic periods is to focus on your clients' bottom lines and help them make money. Although traditional recruiting and staffing may be sufficient to support a staffing firm's core business, it is often not enough in today's economic climate.

Profits Drive Decisions

Most companies measure performance by profits. To your client, staffing, like any other service, is a means to an end. And that end is making money. There are basically two ways you can increase your client's bottom line. ➤

Table 1: Profit Improvement for Client

	Current Operation	Project Solution	Change
Production speed, feet/minute (+5%)	100	105	5
Labor rate, $/hour	20.00	24.00	4.00
Number of temporary employees	30	28	–2
Supervisor, $/hour	37.00	40.00	3.00
Labor cost, $/hour	21.23	25.43	4.20
Material cost, $1/foot,$/hour	6,000	6,300	300
Other direct cost, $/hour	33.97	40.69	6.71
Subtotal direct cost, $/hour	6,055	6,366	311
Subtotal direct cost, $/foot	60.55	60.63	0.08
Scrap cost, $/hour (reduced 33%)	182	127	–54
Total direct cost, $/hour	**6,237**	**6,493**	257
Annual direct cost, $	12,972,675	13,506,345	533,671
Total direct cost, $/foot	**62.37**	**61.84**	–0.53
Gross sales, $/hour	10,000	10,500	500
Returned goods, $ (reduced 25%)	200	158	–43
Net sales, $/hour	9,800	10,343	543
Annual net sales, $	20,384,000	21,512,400	1,128,400
Gross profit, $/hour	3,563	3,849	286
Gross profit, %	36.4	37.2	0.9
Annual gross profit, $	7,411,325	8,006,055	**594,729**
Profit improvement, %			**8.0**

Option A is to just reduce your bill rate, which has an obvious shortcoming—the detriment to *your* bottom line. Working through a client's human resources or purchasing department often limits your firm's ability to provide benefits through improved quality, services, and value. And you typically have to compete on price alone to get the business.

Option B offers a better way to increase your client's profits, without sacrificing quality and performance. This option may take the form of value-added services or project solutions, where the economics go beyond the lowest bill rate. And it also can improve your own profits, for a classical win–win solution.

To provide a value-added service or project solution, you will need to work with a person at the client company who is not just charged with getting the lowest price, but who has responsibility for profit and loss.

Moving to a New Model

Value-added services and project solutions are similar in concept. The former defines the benefits provided to the client beyond traditional staffing, and the latter usually goes further in taking responsibility for the outcome, sometimes with fixed prices, management of the process, and guarantees.

The important factor is that these approaches go beyond traditional recruiting. They enable your staffing firm to become an integral part of the client's business and differentiate your company from the competition.

Profit Improvement Example

Let's consider an example of a project solution for a light industrial company. In this example, the client is selling all of the product that it is able to produce and is using its own internal labor. It would like to increase profits, but cannot do so on its own. So it turns to a staffing firm

Table 2: Profit Improvement for Staffing Firm

	Current Operation	Project Solution	Change
Labor bill rate, $/hour	20.00	24.00	4.00
Number of temporary employees	30	28	–2
Supervisor bill rate, $/hour	37.00	40.00	3.00
Labor pay rate, $/hour	14.00	16.00	2.00
Payroll tax, workers' comp, $/hour (17%)	2.38	2.72	0.34
Labor margin, $/hour	3.62	5.28	1.66
Labor margin, %	18.1	22.0	3.9
Supervisor pay rate, $/hour	–	26.00	26.00
Payroll tax, workers' comp, $/hour	–	4.42	4.42
Supervisor margin, $/hour	–	9.58	9.58
Supervisor margin, %	–	23.95	23.95
Total annual billings, $	1,248,000	1,480,960	232,960
Total annual margin, $	225,888	327,434	101,546
Margin rate, %	18.1	22.1	4.0
Retention bonus	–	33,000	33,000
$1,000/temporary employee, $5,000/supervisor			
Annual gross profit, $	225,888	294,434	68,546
Gross profit %, improvement	18.1	19.9	1.8

to provide high-caliber workers and an experienced manufacturing supervisor. The client is looking for a solution with three elements: a production line run with fewer, but better skilled, workers; increased production speed, with greater attention to detail and less downtime; and improved product quality, with less scrap and returned goods.

Table 1 shows the client's current operation, from production speed to gross profit, as a typical manufacturing company would look at it. The project solution would increase total direct costs some 4 percent (from $6,237 to $6,493), but because of an increase in production speed, direct costs per foot would actually fall almost 1 percent (from $62.37 to $61.84).

Because of improved quality control, the client would be expensing less scrap and returned goods and would see its annual profits rise 8 percent, or $594,729. This improvement would occur even though it would be paying $4 per hour more for direct labor, as well as $3 per hour more for supervision.

Table 2 shows the profit for the staffing firm. Annual billings for this client would rise close to 19 percent to $232,960, with margins improving by $101,546 and the margin rate increasing 4 points (18.1 percent to 22.1 percent). To aid retention, the staffing company provided a performance incentive of $1,000 per employee and $5,000 for the supervisor if they stayed on the assignment a year, for a total payout of $33,000. Even with these costs included, gross profits rose $68,546 (18.1 percent to 19.9 percent).

Selling Profit Improvement

The key to selling value-added services is demonstrating to your client the savings and profits that it will realize (as shown in Table 1 of the example). The stronger your partnership with your client and the better your knowledge of its operations, challenges, and opportunities, the better your position to design value-added services and project solutions.

Risk and Reward

If you choose to structure a project solution as a profit-sharing arrangement with performance guarantees, be aware of the increased opportunity for both risk and reward. In the example in this article, a 10 percent profit sharing arrangement would add $59,473 to the staffing company's bottom line and almost double its profit potential. But there is risk in this kind of arrangement, and if your costs are high, you could lose money. Project solutions should begin small and evolve into more challenging work over time. ■

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