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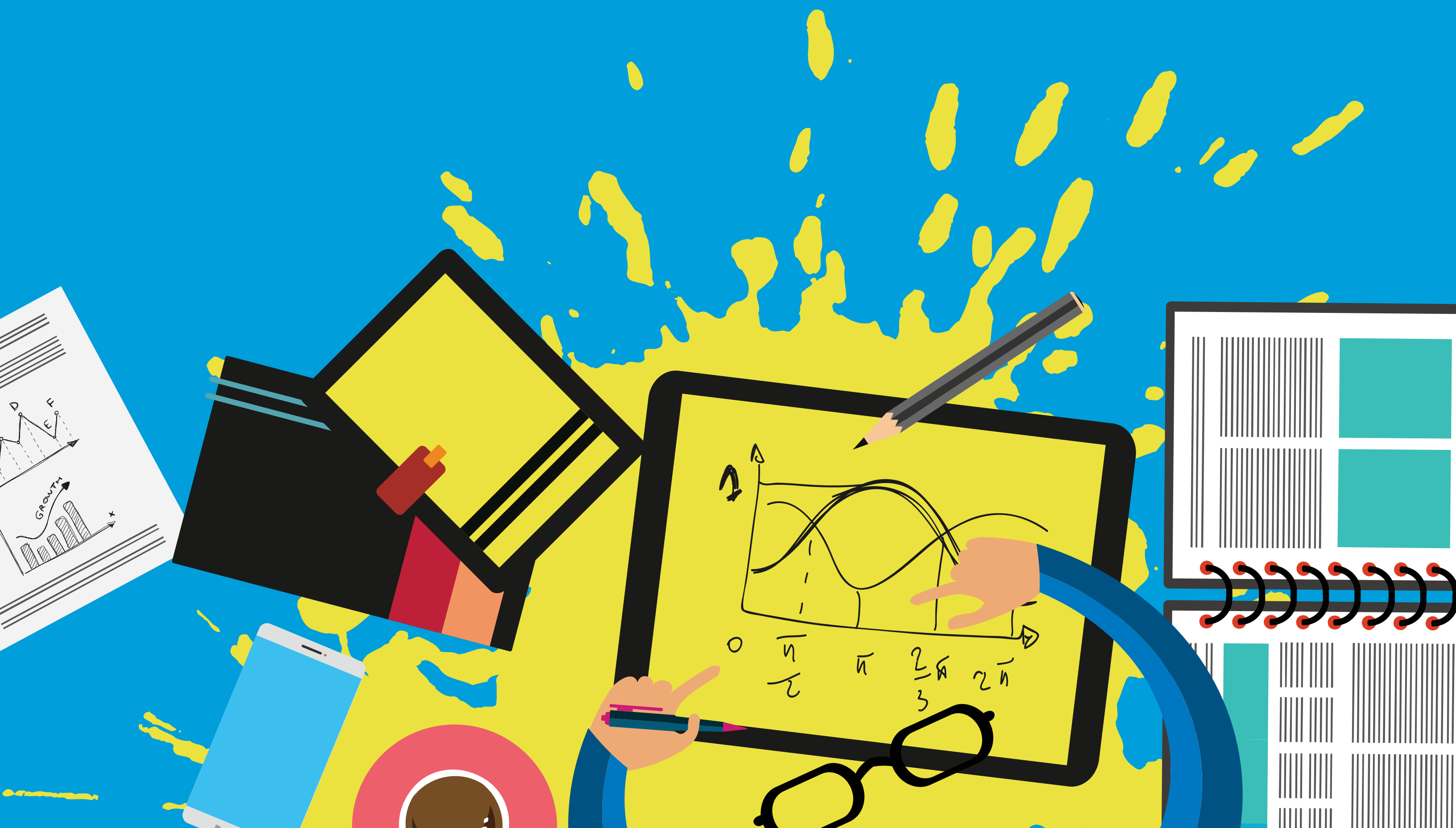
BEYOND PRICING: 10 WAYS TO MAKE YOUR STAFFING FIRM MORE PROFITABLE



BEYOND PRICING: 10 WAYS TO MAKE YOUR STAFFING FIRM MORE PROFITABLE

Making more profit in staffing is about more than just selling more of your services, or determining how much markup goes over your pay rate. Increased profitability involves ensuring that every level of your business is in line with your goals through careful planning, communication, and control.

In this guide, we are looking beyond sales and pricing structures and taking a deep dive into what you should know in order to make a better profit. In our years of experience helping staffing firms grow, we have seen what it takes to be successful – and also where staffing firms make the most missteps! You will learn ten key ways to control costs, analyze your business, and improve processes in order to take your staffing firm to the next level.

JUMP TO SECTION

1 IMPROVING YOUR GROSS MARGIN

When we think about ways to increase profits, we usually think about lowering operating expenses or increasing sales. In fact, for many staffing firms the fastest path to higher profits is higher gross margins – and many staffing firms leave gross margin on the table by paying temporary employees above market and/or charging customers below market rates.

Consider, for example, a staffing firm earning 4% net operating profits. They can increase net operating profits by 25% (to 5%) by raising gross margins by merely 100 basis points (1%).

FOCUS ON THE BILL RATE AND THE PAY RATE

When we think about increasing gross margins, we often focus on either charging more to the customer (bill rate) or not overcharging our workers (pay rate). Incremental gross margin gains require both. Your incentive structure, workflows, and management controls should work together to maximize gross margins.

HELPING YOUR TEAM

Traditionally in staffing, salespeople and recruiters are not focused on maximizing gross margins because they only receive a tiny fraction of the incremental gains as commissions. However, these incremental gains can dramatically increase operating profits. So it is in your interest as a firm owner to express the importance of negotiating an optimal bill rate and pay rate. Some ideas on how to accomplish this through:

- Bonus incentives
- Extra training
- "Gamification" – aka integrating game mechanics into sales to motivate participation, engagement, and loyalty

QUICK DEFINITIONS

Gross profit: bill rate minus the pay rate.

Gross margin: is the amount of money a staffing firm gets to keep after paying the temporary workers payroll, benefits and payroll taxes (also called statutory expenses).

For more information on staffing firm financial reporting, download download our [Understanding Financial Document quick guides] that cover the Income Statement and Balance Sheet.

2 UNCOVERING HIDDEN COSTS IN CONTRACTS

Profitability begins in the details because when your margins are tight, dollars and cents add up! When reviewing a contract of a potential customer, it is not enough to skim it over. "Hidden" costs in contracts can add up and ultimately impact your bottom line in ways you might not expect. Here are a few hidden costs to look out for in staffing contracts:

- A large quantity of holidays or unpaid days
- You pay extra for background checks
- Unreasonable additional insurance requirements such as very high general liability coverage
- The requirements for your workers are extreme
- Tight overtime restrictions
- Discounts in VMS contracts

Bottom line, review your contract very carefully before agreeing to anything! Little costs can add up and affect your profit margin.

REAL LIFE EXAMPLE

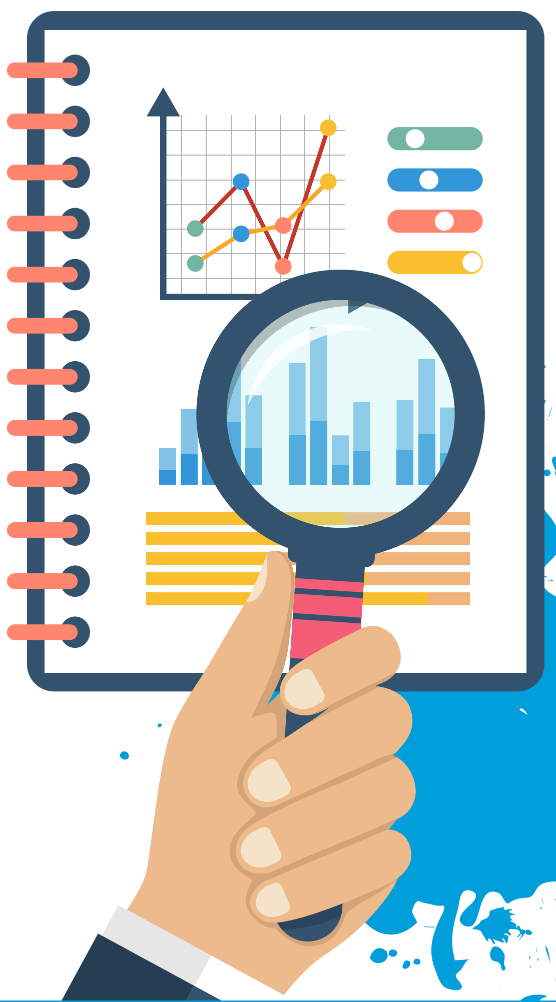
Understanding Gross Margin Gross Profit report and how to take fast corrective action when things don't add up.

Our client, *Lisa, from Smith Staffing, had just begun working with a large new, and complex customer. At the same time, she added two additional in-house support staff. Between recruiting, training, and filling the new customer positions, and acclimating her new staff to office routine and processes, Lisa's review of her weekly Gross Margin Gross Profit report got buried at the bottom of her very long 'to do' list. When she finally surfaced to focus on her weekly reports, two weeks had gone by and she realized something didn't add up. She knew she should be more profitable on the new account, but numbers don't lie.

Closer scrutiny revealed that, while her new contract prohibited billing for overtime labor, her temporary workers were actually working overtime hours that she was obligated to pay. This one discrepancy was eating up every bit of profit on the account.

Lisa immediately scheduled a site visit where she spotted several opportunities for increased efficiencies. Implementing small on site productivity changes resulted in her workforce completing their tasks within a regularly scheduled shift. Moreover, her customer was so impressed with her actions, they agreed to a contract amendment, adding an on-site supervisor to ensure top efficiency moving forward, which also increased her overall bill rate.

* Real Advance Partners' clients – real stories. Individual and company names changed to protect confidentiality.



3 CONTROLLING WORKER'S COMPENSATION CLAIMS

One way to impact your profitability is to control what you can when it comes to Workers' Compensation claims that come right off your bottom line. Not everything is in your control, because ultimately the safety of your worker depends on your customer. However, there are steps you can take to protect your workers and your firm.

1. **Have Worker's Compensation insurance.** Because you are considered the primary employer of your temporary employee, it is your Workers' Compensation insurance policy that will cover the claim
2. **Training and preparation.** While the bulk of the safety training will be in the hands of your customer, you may provide general safety and health training, and host employers provide specific training tailored to the particular workplace equipment/hazards. This is also a recruiting tool because it tells candidates that you're on top of it and that you want them to work.
3. **Have a process.** When a Workers' Compensation claim is filed, have a process for reporting and follow through. Staffing firms should aggressively monitor and manage open claims and institute measures to minimize future claims. This can include timely reporting to insurance, ongoing communication with claimant and insurance adjuster, and putting the claimant back to work in a different capacity.

4 HANDLING BREAKAGE AND WASTE

Accidents and injuries happen on the job and outside of work – that's just a part of life! But if you take some measures to handle and control "breakage and waste" of your temporary employees, ultimately it will help control costs and impact your profitability. Here are some questions to ask yourself:

DO YOU HAVE A SAFETY PROGRAM?

If not, you should consider one. Our Safety Guide for Staffing Firms discusses this in depth.

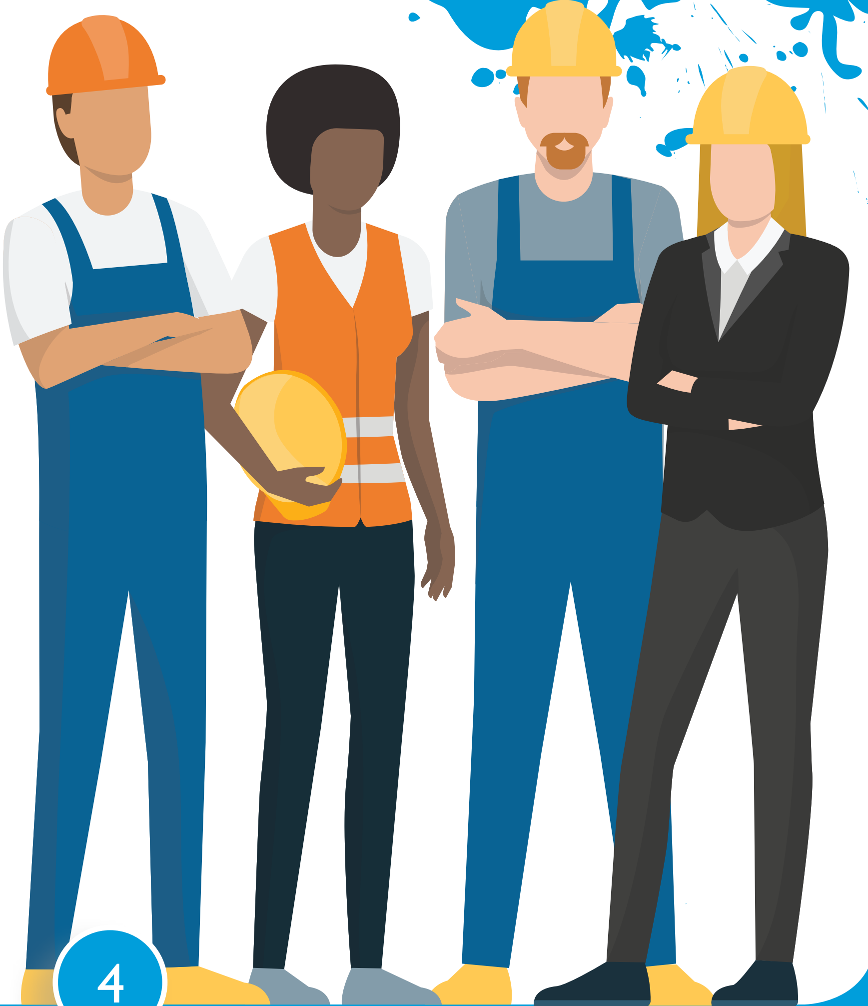
DO YOU OFFER LIGHT DUTY?

In the event that your temporary employee gets injured, the best way to eliminate wage loss claims is by bringing an injured worker back to the workplace as quickly as possible with a light duty job. This could include any or all of the following:

- Opening and sorting mail
- Watching safety videos
- Answering phones
- Office cleaning – trash, vacuum, dust
- Shredding documents
- Filing
- Taking online classes; may include English lessons, GED study, First Aid certification
- Making phone calls to follow up on past due invoices

DO YOU CONDUCT SITE VISITS?

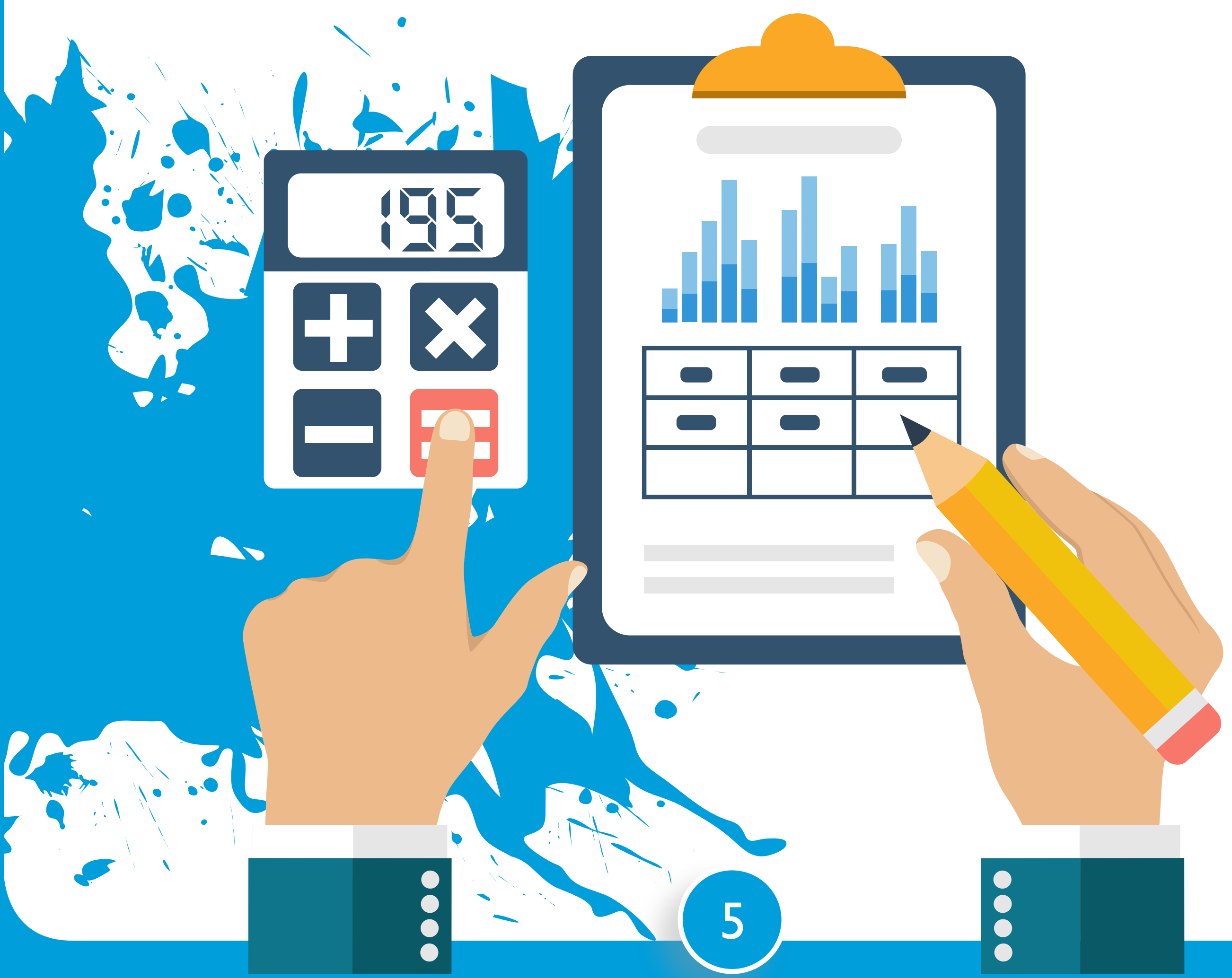
Site visits to your customers can help you understand and identify potential workplace safety issues. The more you know, the better!



5 COLLECTING YOUR PAYMENTS FASTER

Collecting on outstanding invoices faster is one way to increase your cash flow and ultimately affect your profitability. Here are a few tips on how to speed up the process.

- **Set (or negotiate for) favorable payment terms.** If you are waiting 45, 60, 90 days for invoices to be paid, it might be time to consider reworking your A/R structure so you reduce the days until you get paid. If your customer is unwilling to negotiate terms, you may be able to suggest implementing a late fee if they pay past their scheduled term.
- **Invoice your customers promptly.** The sooner they get the bill, the sooner they pay you!
- **Be consistent.** If you expect to get billed regularly, you need to invoice your customers regularly. Maintain the same, consistent calendar.
- **Outsource your collection calls.** If you have a full service partner, let them do the work for you when it comes to collecting overdue payments.
- **Gently remind clients that temp payroll is still payroll.** Payroll is always paid first as an expense for any company. Why should your invoice for temp payroll be treated any differently?



6 REVIEWING YOUR CURRENT PORTFOLIO

When it comes to profitability, a diverse client portfolio is one way to mitigate risk and strengthen your margin. When reviewing your client portfolio, ask yourself these questions:

- Is your revenue concentrated in 1-2 big clients?
- What industry do they come from?
- What is their revenue?
- What is the breakout of their direct hire vs contract/temp spend?
- Where are they located?

REAL LIFE EXAMPLE

Purposefully underpricing to gain volume or a 'name' customer will never result in long-term, solid success.

Our client, *Paul, from Portfolio Staffing, was going through a seasonal lull. He learned that a Fortune 100 company that had been on his target list for years was set to issue a Request for Proposal. He knew the incumbent firm was already providing services at a rate lower than his typical markup, but he wanted that contract.

Sharpening his pencil, Paul decided this would be just the ticket. He could add a prestigious Fortune 100 name to his portfolio and pump up his volume during the lull, all in the hopes of "making it up in volume." He also thought he could negotiate a better rate once he dazzled the customer with his performance.

Reality check! If you're providing your staffing services at a losing rate it does not matter how many positions you fill, it's still a loss. Also, corporate buyers are looking to pay less year over year, not more. They expect more value and less expense once you're in the door. There is nothing wrong with walking away from an unprofitable opportunity.

Paul reevaluated the value of his services and bid a rate that would earn him a fare profit. It turned out that the Fortune 100 company liked his confidence and value proposition, realizing that their original expectations were not sustainable.

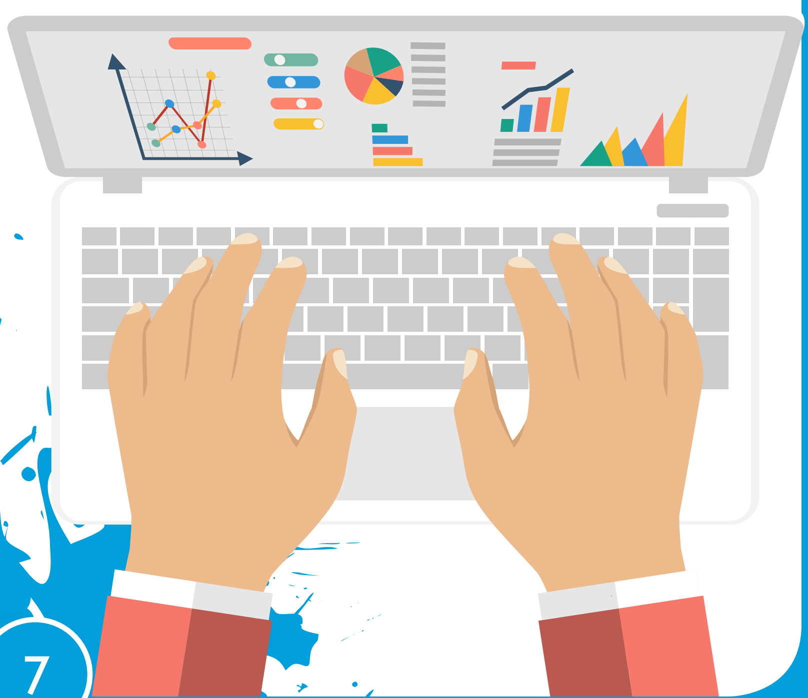
* Real Advance Partners' clients – real stories. Individual and company names changed to protect confidentiality.

7 CONTROLLING SELLING, GENERAL, AND ADMINISTRATIVE (SG&A) EXPENSES

Selling, general, and administrative expense (SG&A) is the sum of all direct and indirect selling expenses and all general and administrative expenses of a company. It includes all the costs not directly tied to making a product or performing a service.

For a staffing firm, this includes in-house expenses like office furniture, computers, and phone systems. In order to control these costs, you should have a process in place to monitor them closely. Here are some best practices for controlling overhead costs:

1. **Watch your travel costs.** Per diem limits for meals, teleconferencing when possible, and booking months in advance can help you save money. Defining your travel policy early on is key.
2. **Skype is your friend.** Internal communications services such as Skype or Google Voice can greatly reduce your phone bill. Do some research on communication alternatives.
3. **Negotiate rent.** Rent is often one of the highest costs for businesses. Negotiate with your landlord often, or, depending on the size and location of your firm, co-working spaces might be an alternative option.
4. **Save your energy.** Consider switching to LED bulbs over incandescent bulbs, or plugging computers and other electronics into power strips and turning them all completely shutting them off at the end of the workday.
5. **Make purchasing a process.** Assign one person to review and approve purchases so that they can monitor all expenses before they are paid. Also set policies for spending, such as requiring competitive bids for purchases over a certain dollar amount.



8 AUTOMATING PROCESSES AND EXPLORING TECHNOLOGY

One way to control costs and improve your bottom line is to consider adopting new technology or automating certain processes. Many technologies now exist to automate processes like selecting, screening, or nurturing candidates. Beyond making your recruiters more efficient, the right solutions can give you a strategic advantage against the competition.

Here are some examples of technology being used and explored in the staffing industry:

ROUTINE TASK AUTOMATION

- Automation transforms staffing so recruiters spend less time on administrative tasks and more time ensuring client satisfaction, recruiting new workers, and building lasting relationships. Screening, scheduling, onboarding, and many other tasks can now be automated through technology.

ARTIFICIAL INTELLIGENCE AND MACHINE LEARNING

- AI and machine learning are hot topics in many areas of business, including staffing! AI is becoming pervasive throughout the staffing technology stack.

CONVERSATIONAL SYSTEMS, CHATBOTS, AND TEXTING TECHNOLOGY

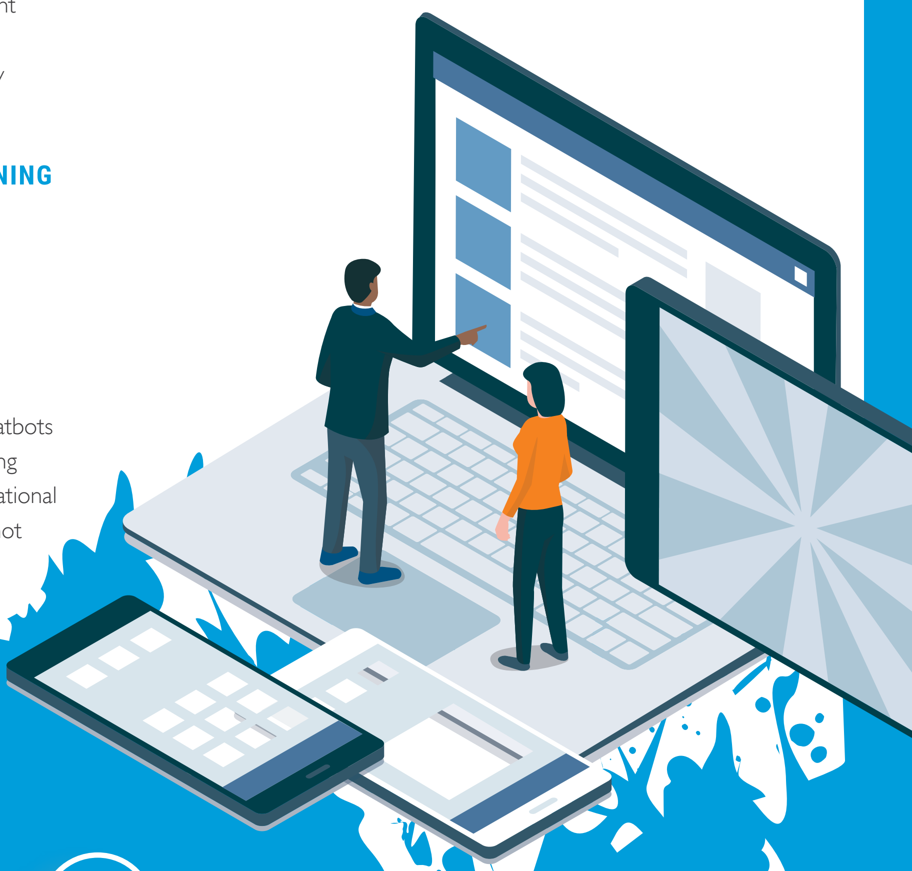
- Conversational systems including texting systems and chatbots are highly effective ways of engaging with candidates, hiring managers and field employees. Next generation conversational systems are evolving rapidly, yet, many staffing firms are not using them or taking full advantage yet.

SOURCING TECHNOLOGIES

- With low unemployment, sourcing great candidates has been a huge challenge. Recruiters today have a wide range of sourcing technologies available to find better candidates faster.

GAMIFICATION

- Gamification refers to taking an existing process – like sales or recruiting – and integrating game mechanics into it to motivate participation, engagement, and loyalty. It is quickly becoming one of the best ways to improve the performance of your staffing firm while lowering operational costs.



9 PLANNING FOR SUCCESS

Planning is an integral part of success in any level of staffing. Recently, Small Business Trends surveyed over 2,500 privately held businesses and discovered that companies that commit to planning outperformed those who did not at twice the pace. Another study of 11,000+ companies had similar results – planning helped companies grow 30% faster. Here are two business planning tools that will help your firm stay on track:

BUSINESS PLAN

Your business plan should be your road map and your vision of where you want to be. A business plan can and should change over time, but starting with one lays the groundwork you need to be successful.

Here are some key components:

- **Executive Summary** – a short one-page summary of your entire plan.
- **Company Description** – describe your company and products as well as your overall aim and goals for the company.
- **Market Analysis** – look at your target market, market valuation, targeted share, market trends, competitive advantage, and more.
- **In-House Staffing/Operations** – outline the intended structure of the company in terms of management, number of in-house employees, and the physical operational requirements to provide your service.

If you need a starting point, we have a free Business Plan Template download available that is catered directly to staffing firms.

SWOT ANALYSIS

Another useful tool beyond a business plan is a SWOT analysis. SWOT stands for Strengths, Weaknesses, Opportunities, and Threats.

Strengths: Start with outlining your business advantages. What do you bring to the table in terms of your unique skills, your industry knowledge, and your market experience. Factor in your work habits, your availability, and your support network.

Weaknesses: Consider those areas where you are more challenged, and how you can mitigate those potential difficulties. What is your biggest perceived weakness? Where do you lack resources? Where are you least profitable?

Opportunities: Do the research it takes to truly understand the many opportunities available to you. What is the overall business climate for the industries you serve? Niches that competitors are missing? New needs of customers?

Threats: Think about the biggest threats to your business, both internally and externally. What obstacles must be overcome? Is there a pricing/margin squeeze? Negative or uncertain economic conditions?

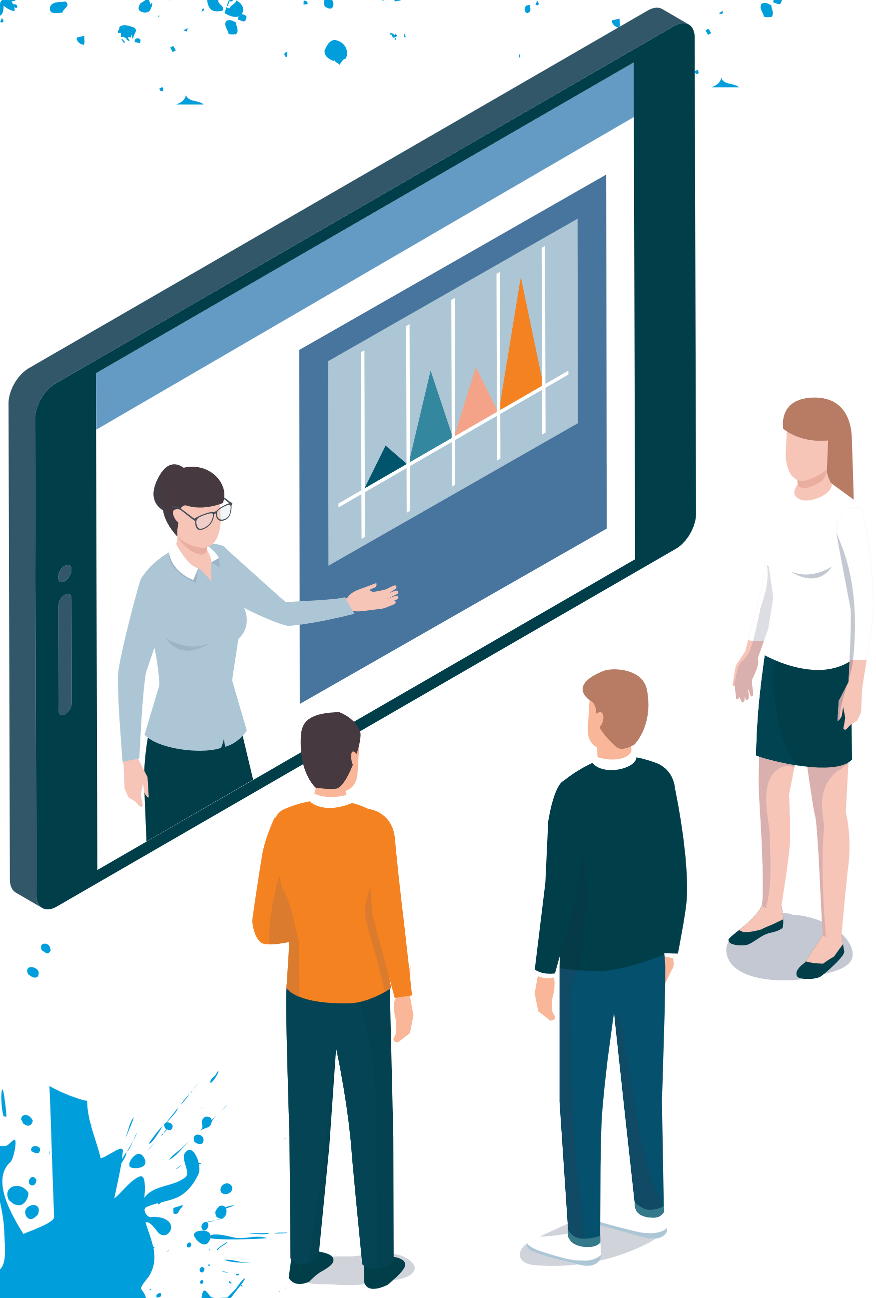
Download our free SWOT Analysis Template for staffing firms as a jumping off point.

10 COMMUNICATING WITH CANDIDATES AND CUSTOMERS

Communication with your customers and candidates is key in many ways, but in a specific way for improving your profitability: if temporary assignments change mid-assignment, you need to be aware of that in case the new duties require a **higher bill rate** or a **higher worker comp category**.

You could be missing out on more money simply because you did not communicate with your candidate! Here are some good communication practices for you and your staff:

- Have your recruiters check in with candidate after hours so that they have time to talk
- Don't just rely on email – pick up the phone, or meet in person
- Do frequent site visits, especially in a factory or other heavy machinery setting
- Set aside time on your calendar to communicate with both clients and candidates



Staffing is a great industry to get into because you have a lot of potential to make money while providing a needed service. We hope this guide on profitability was helpful to you. If you have any questions or want to know more about how our services can help you make more profit, contact us at www.advancepartners.com/get-in-touch or 866-653-1810. You can also live chat with us anytime by clicking this symbol on the bottom right of our website:

YOU MIGHT ALSO BE INTERESTED IN

- Understanding Financial Documents Series
- Safety Guide for Your Staffing Firm
- The Guide to Double Digit Staffing Growth
- The Essential Guide to Financing Your Staffing Firm

Barb Hammerberg, CCWP, is the Director of Client Development at Advance Partners. Barb has held almost every job that exists in staffing firms, including recruiter, branch manager and regional director at Robert Half and several director roles at the corporate level for Manpower. Her real-life experience with staffing companies gives her the unique ability to connect with and help clients in a very real way. If you have questions, email them to askbarb@advancepartners.com.

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