How We Identify Profitability Drivers

- For more than 20 years, TechServe Alliance has produced the industry's most comprehensive performance benchmarking survey, the Operating Practices Report (OPR).

- While the OPR finds many key drivers of profitability remain constant, some can have an outsized impact on bottom-line performance in a given year.

- As TechServe data has demonstrated year in and year out, firms that achieve excellence around the top three profit drivers are businesses leading the industry in profitability.

About TechServe Alliance

TechServe Alliance is the national trade association of the IT & engineering staffing and solutions industry. We help member firms achieve business goals while advancing the interests of the industry through advocacy before policymakers, public relations and the promotion of ethics and performance standards.
Profitability Driver 1: Gross Margin

A Measure of a Staffing Firm’s Ability to Sell Higher Margin Business and Effectively Manage Direct Costs
Gross Margin for typical firms rose modestly from 25.3% to 25.7%. Gross profit among high profit businesses fell precipitously from 29.4% to 26.9%.

**Observation:**
While the ability to drive higher gross margin is often a key driver of bottom-line profitability, we saw a dramatic change this year. While managing gross margin was important, controlling costs was the single most important factor in achieving high profit status.
Profitability Driver 2: Operating Expense Percentage

A Measure of a Firm’s Commitment to Expense Control
High performing staffing firms are substantially more effective at keeping operating expense in check.

### Observation:

While high profit firms are successful at holding down costs across a range of expense categories, lower SG&A payroll expense is the dominant factor this year.
Profitability Driver 3: Personnel Productivity Ratio

The Portion of Gross Profits Committed to Total Payroll
### High performing staffing firms commit far less of their gross profits to payroll.

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<th>High Profit Firms</th>
<th>Typical Firms</th>
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<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>44.2%</td>
<td>61.1%</td>
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**Observation:**

A less frequently tracked metric, Personnel Productivity has an outsized impact on bottom-line profitability for IT & engineering staffing firms. Simply put, high profit firms spend far less on internal payroll costs to generate gross margin dollars. This critically important metric is one that every firm should track. It was the dominant factor in achieving high profit status this year.
How Big Is the Bottom-Line Advantage?

Measuring the Profitability Difference between High Profit Firms & Typical Firms
These pre-tax profit numbers demonstrate how high profit firms achieve excellence in driving higher gross profit margins, effectively manage operating expenses and command greater productivity from their teams, resulting in more than triple the pre-tax profits of typical firms.
As the leading source of operational, financial and market intelligence for IT & engineering staffing and solutions firms, TechServe Alliance knows the powerful impact data-driven management has on bottom-line success. It’s why a business that focuses on achieving excellence around the three drivers of profitability (gross profit margin, operating expense and personnel productivity) can triple its profitability.

As an authoritative source of industry performance data and insight, we invite you to discover the many research tools and resources TechServe Alliance provides its member companies. Explore the myriad of ways we help IT & engineering staffing and solutions firms achieve their business goals.
Have Critical Industry Questions?

- What **GROSS MARGINS** are other firms commanding?
- What is the typical **FILL RATIO** where there is no hiring manager contact?
- What is **SG&A** for firms in my peer group?
- What impact does **PERMANENT PLACEMENT REVENUE** have on profitability?
- What is typical profitability for **VMS PLACEMENTS**?
- What do **HIGH PROFIT FIRMS** do differently?

**WE HAVE ANSWERS:** techservealliance.org • 703.838.2050 x109