

WHEN CLIENTS ASK: What Goes Into Your Bill Rate?

Have your clients ever asked how you calculate your bill rate when placing temporary or contract employees on assignment with them? Inevitably, the suggestion is that the entire difference between what you charge a client and what you pay the employee is all profit to you—which, of course, is not accurate. ASA has the answers you need to help you skillfully answer this important question.

By Cynthia Davidson



The ASA research team often fields questions from members inquiring about average markups, bill rates, and profits for staffing companies. Complying with antitrust guidelines means the association is limited in the information it can share with the entire membership. However, ASA has developed a resource to help explain to clients—and others who may inquire—what goes into staffing company bill rates and the resulting profit. Here's a summary of each bill rate component and how they add up.

Understanding Staffing Profit

Isn't staffing company profit from placing a worker on assignment simply what a client is charged minus what the staffing company pays its temporary employee? Wouldn't that be ideal! Unfortunately, there are several other costs that must be factored in. Let's use the following example to step through each component of a bill rate.

When a staffing company pays the national **average hourly rate of \$17**, it would have to **mark up** that pay rate by **51.5%**, resulting in a **bill rate of \$25.76**, to cover

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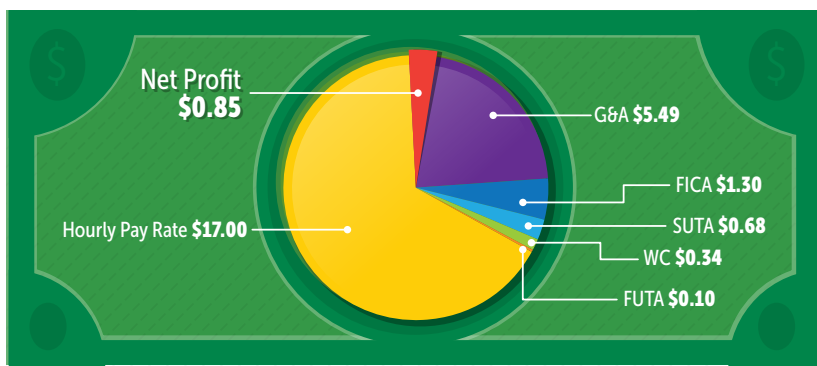
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Exclusive Industry Research & Data



This issue's research-focused article describes the latest fact sheet on understanding staffing profit, detailing the components of bill rates. As the industry's research and data leader, ASA reports on timely industry data in every issue of *Staffing Success*. Get up-to-the-minute data and research-related information when you follow @StaffingData on Twitter.



Bill Rate
\$25.76
 BASED ON AVERAGE
 HOURLY PAY RATE

operating expenses and legally mandated labor costs and achieve the industry's national average **net profit rate of 3.3%**—or \$0.85 per hour in this example.

Hourly Bill Rate. The hourly bill rate is straightforward—what the staffing company charges a client. More importantly, what are the components of the bill rate.

Hourly Pay Rate. The hourly pay rate is the amount paid directly to the temporary or contract worker employed by a staffing company. Pay rates often take into consideration the employee's experience, skills, assignment position, and industry sector. The average pay rate of \$17 used in this example is from the latest ASA Staffing Employee Survey.

Factoring in Mandated Costs

A staffing company must pay various fees—mandated by law—for all of its employees. These fees are often referred to as statutory expenses. It makes sense that at least four of these costs would be passed on to the client in the bill rate:

- **FICA (named for the Federal Insurance Contributions Act)** is the U.S. federal payroll tax that must be deducted from all employee paychecks that helps fund Social Security and Medicare programs, which provide benefits for retirees, the disabled, and children. This is a flat rate (7.65%) to all employers: 6.2% for Social Security and 1.45% for Medicare tax. FICA is capped at a salary of \$128,700 for each employee in 2018—the cap changes each year.
- **The Federal Unemployment Tax Act (FUTA)** is a payroll tax that businesses must pay to fund unemployment benefits for employees who lose their jobs. While the rate is 6.0%, it may be reduced by up to 5.4% through credits for contributions to state unemployment programs. The FUTA rate for most businesses is 0.6% of the first \$7,000 of employee wages. FUTA varies by state, with some paying higher rates due to debt to the federal government.
- **The State Unemployment Tax Act (SUTA)** is a state mandated counterpart to FUTA, designed to

finance the cost of state unemployment insurance benefits in the U.S. SUTA rates and wage limits vary significantly by state. The average based on U.S. Bureau of Labor Statistics data is 4%.

- **Workers' compensation** is a form of insurance providing wage replacement and medical benefits to employees experiencing work-related injuries or illness. Workers' comp rates vary based on skill, vendor, and state. The average based on BLS data is 1.99%.

Including Operating Costs

Enmeshed in all of the necessary bill rate calculations, of course, are operating expenses—which can vary greatly from company to company.

General and Administrative Expenses. G&A in this example is a catch-all for a myriad of operating expenses and overhead costs such as corporate employee payroll, taxes, and benefits; rent; equipment; and advertising and marketing. These expenses vary widely. The average G&A of 18.7% in this example is based on the ASA Staffing Operations Benchmarking Survey.

Net Profit. This is what's left after the staffing company pays its staffing employee directly and associated labor costs to the government as well as day-to-day business expenses. The average net profit of 3.3% in this example is based on the ASA Staffing Operations Benchmarking Survey.

There are so many options for data—so it's important to vet your sources, especially if you plan on making business decisions based on the information. Here are several reliable sources—all of which play a role in the information published by ASA.

- **ASA Research and Data, americanstaffing.net/research**
 - Temporary Help Wage Tool, americanstaffing.net/wage-tool
 - Staffing Operations Benchmarks, americanstaffing.net/operations
 - Staffing Industry Playbook, americanstaffing.net/playbook
- **U.S. Bureau of Labor Statistics, bls.gov/data**

ASA members are always welcome to contact the research team at 703-253-2020 with questions about this resource and other research designed to help members make informed decisions and, ultimately, help streamline operations and grow their businesses. ■

Cynthia Davidson is senior director of research for ASA. Send feedback on this article to success@americanstaffing.net. Engage with ASA on social media—go to americanstaffing.net/social.