

**CASE # 4b:****A Temporary Solution****Commodity Type: Service – Temporary Labor, USA**

---

David Sheppard is a procurement specialist for the Sprinkle Corporation, a large confectionary company based in Pittsburgh, PA. He had recently been given responsibility for purchasing administrative services for the company’s offices in the region and was reviewing the contract with Rossi Employment Services. Rossi provided Sprinkle with most of its temporary administrative personnel in the region (excluding executive secretaries).

Rossi had been a supplier to Sprinkle for 3 years and had performed extremely well during that time. As a result, over the years, Sprinkle had gradually reduced its own hiring of administrative personnel in favor of outsourcing to Rossi. Knowing that very little analysis had been done in the past, David suspected that Rossi might have been unreasonably increasing the contract rates each year. All his questions on the matter to Dawn Wright, the salesperson, were met with the same response: “costs have been increasing”. Rossi was unwilling to give David any cost breakdowns. He realized that he needed to build a cost model to develop an understanding of Rossi’s costs and prepare for his meeting with Dawn the following week.

Basic research has turned up the following information:

**INDUSTRY CODE:**            **NAICS CODE:** 561320, Temporary Help Services

**SERVICE/PRICE/VOLUME DATA:**

Year	Hourly Rate	No. of hours
Base year	\$ 35.00	1,000,000
New proposed	\$ 38.00	1,200,000

David developed the following Rossi Employment Services cost profile for temporary labor services using the annual report of Rossi Employment Services.

**TABLE 1: Rossi Employment Services Cost Profile**

	Cost Element	Base Year Industry Avg
1	Direct Labour	50.8%
2	Service OH	21.8%
3	Cost of Sales	72.6%
4	GSA & other exp.	20.0%
5	Profit before tax	7.5%
6	TOTAL (3+4+5)	100.0%

## **CASE # 4b: A Temporary Solution**

He then collected the following data from the Bureau of Labor Statistic ([www.bls.gov](http://www.bls.gov)) and other sources to make his adjustments:

### **Labor Cost Trends**

- Download the average hourly earnings of all employees for office administrative services from the Current Employment Statistics survey (National) from the Bureau of Labor Statistics ([www.bls.gov](http://www.bls.gov))

### **Overhead Information**

- To calculate the inflation, download the Consumer Price Index data (CPI-All Urban Consumers, Seasonally Adjusted) from January 2022 to January 2023 from the Bureau of Labor Statistics ([www.bls.gov](http://www.bls.gov)). This inflation rate may be applied to the overhead pool (both fixed and variable).
- Service Overhead is estimated at 20% fixed and 80% variable.
- GSA and other expenses are 90% fixed and 10% variable.
- All individuals provided are employees of Rossi. However, these individuals do not remain on Rossi's payroll if there is no vacancy to fill.

### **Additional Investments**

- Rossi will invest in a new database system for \$ 7,500,000 this year. Software is typically depreciated over 3 years.
- From Rossi's 10-K report David discovered that Sprinkle had, over the past 2 years, on average accounted for 10% of the revenue of the business unit that provides the services he purchases.

**CASE # 4b: A Temporary Solution**

**Worksheet 2: Calculation of Price adjustment factor for Direct Labor**

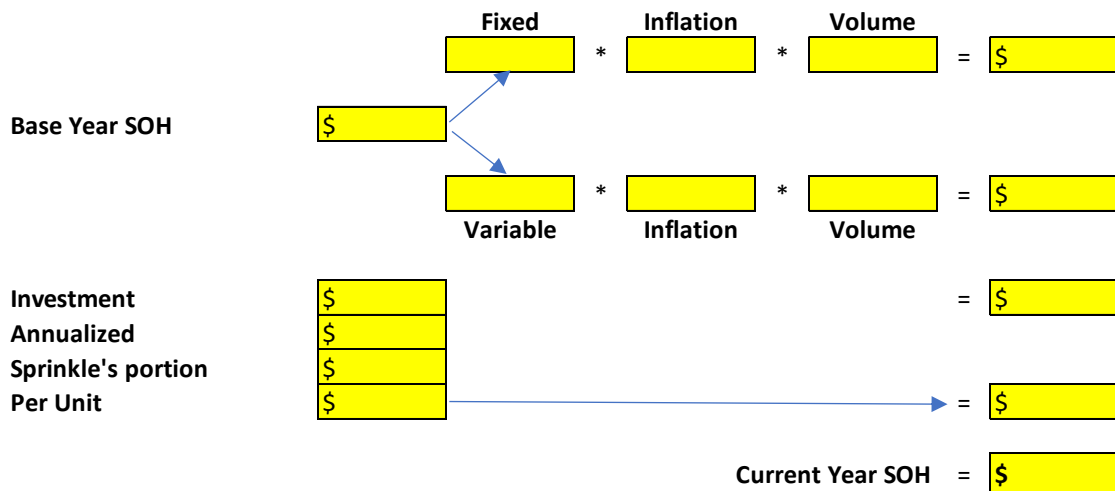
Cost Element	% change	Price Adjustment Factor
Direct Labor (wages)		

**Worksheet 3: Inflation Cost Element Calculations**

Price Adjustments	Cost Element % change	Price Adjustment Factor
Service Overhead		

**Worksheet 4: Price Adjustment Factor Calculation for SOH**

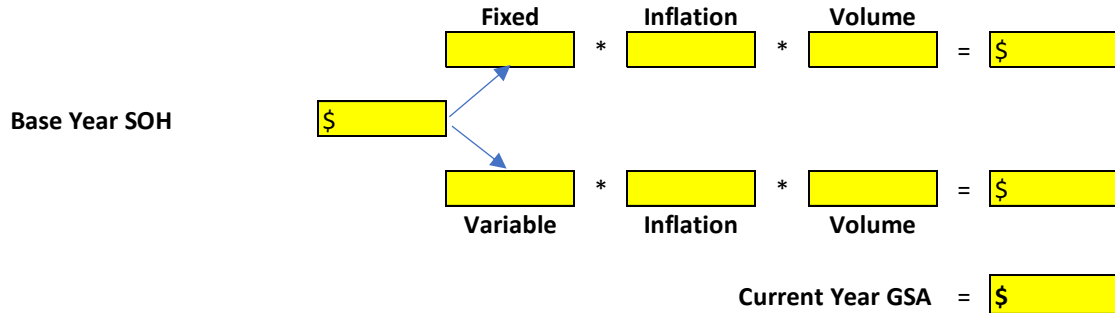
Service Overhead Calculation



**CASE # 4b: A Temporary Solution**

**Worksheet 5: Price Adjustment Factor Calculation for GSA**

**GSA & Other Expenses Overhead Calculation**



**Worksheet 6: Price Discipline (New Fair Price calculation)**

	Cost Element	Base Year (\$)	Price Discipline Estimate (A\$)	Adjusted for
1	Direct Labor			change in wage rates and productivity
2	Service OH			inflation, volume and investment
3	<i>Cost of Sales</i>			<b>1 + 2</b>
4	GSA & Other Exp.			inflation and volume
5	Profit Before Tax			use your discretion
6	<b>TOTAL (3+4+5)</b>	<b>\$ 35.00</b>		

