

Temp, Temp-to-Hire, and Direct-Hire Economics

Contract staffing, temp-to-hire, and direct-hire placement aren't three flavors of the same business, they're three different economic models with different cash timing, different risk, and different sensitivity to how long a placement lasts. Comparing them on gross margin alone hides most of what actually separates them.

Direct hire: one fee, real risk attached

Direct Hire Fee computes the fee itself, either forward from a rate you set or reverse-solved from a target margin against delivery cost. That fee looks like pure profit at a glance, a single payment with no ongoing servicing cost, but Direct Hire Placement Profitability nets out recruiter delivery cost, sourcing cost, commission, and expected guarantee cost to show what's actually left. The guarantee cost specifically is easy to underweight: Replacement Guarantee Economics computes the expected cost of your replacement and refund guarantee terms using your own historical rates, not a hopeful zero, and that expected cost belongs in the placement's real economics from the start, not discovered only when a placement actually falls through.

Temp-to-hire: two ways to be wrong about the conversion fee

A temp-to-hire conversion fee usually follows a contract schedule, stepping down the longer the worker has been on assignment before conversion. Temp-to-Hire Conversion Fee computes that scheduled fee, but also runs an economic-floor check: is the fee, even at whatever the schedule says, actually worth more than the ongoing economic contribution you'd keep earning if the assignment continued rather than converting. A contractually low late-stage conversion fee can still be a bad deal if it's below the assignment's remaining economic value, and the reverse is true too, a fee that looks small in isolation can be a perfectly good outcome if the alternative was losing the placement entirely.

Conversion Timing / Fee Decay extends this into a full curve across the assignment's timeline rather than a single point, showing how total economic value, fee plus GP already earned, changes week by week. This is the view worth having before quoting a conversion schedule to a client, since it shows whether your schedule's step-downs actually track the assignment's real economics or were set by convention.

Contract: the recurring model, valued differently

A contract or temp placement's value isn't fully captured by a single assignment's margin, because a strong contract assignment is often extendable, and Contract Extension Value compares the contribution from extending in place against the expected value of ending the assignment and redeploying the worker elsewhere, factoring in the probability of successfully replacing that revenue and the cost of a gap if you can't. See Redeployment Economics for the fuller treatment of that comparison.

Comparing all three honestly

Contract vs Direct-Hire Mix and, at the whole-portfolio level, Staffing Service Mix aggregate billings, GP, economic contribution, cash requirement, and recurring share across models side by side, and deliberately never rank purely by margin. That's not an oversight: a lower-margin recurring contract model can be worth more to the agency than a higher-margin one-off direct-hire placement, because recurring revenue is worth more for planning, cash predictability, and account stability than a single transaction, even a highly profitable one. Weigh margin, cash requirement, and how recurring the revenue is together, since optimizing for margin alone systematically undervalues the placement model that keeps paying you.

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