

Full Cost of Hiring an Employee

“Everyone talks about building a relationship with your customer. I think you build one with your employees first.” Angela Ahrendts

There are “hard” and “soft” costs of hiring, training and retaining employees. We believe all costs must be included in your Human Resource (HR) budgeting. When does each employee start contributing to the overall profit of your company?

There are eight main employee costs that must be considered in your calculations. They are recruiting and hiring; salary; employment taxes; employee benefits; training; physical space and equipment as well as integration into your company’s culture.

Recruiting and Hiring

Finding talent and getting them on board can be tremendously expensive. These costs include the recruiter’s time and expenses for reviewing resumes, conducting interviews and administering background and skill assessment tests. The total cost can be well over \$3,500 per employee.

Salary

Depending on the position, salaries can range from the minimum hourly wage to over \$250,000 for chief executives. Salary expenses are an example of “hard” costs. They are generally the easiest costs to predict.

Employment Taxes

There is a multitude of employment taxes both federal and state that must be calculated as well as Workmen’s Compensation. These costs are a percentage of the total salary amount.

Employee Benefits

Benefits can range from free coffee to funding retirement plans. The most common benefits are shown below:

- Travel Expenses
- Tuition Reimbursement
- Retirement Plan Funding
- Vacation and Paid-time-off
- Dependent Care Expenses
- Business Expense Reimbursements
- Life, Long-term, Disability, Health and Dental Insurance

Current estimates for total benefits are anywhere from one and a half to twice the base salary amount depending on the position.

Training

In order to fully account for all your employee training costs, you must include the expenses for training materials, the time of your staff and trainer compensation. The objective is to provide your employees the necessary training to be fully profitable in their jobs. This cost can be over \$1,200 per employee per year. For our recommendations on training requirements, please see "[How to Train a New Employee.](#)"

Physical Space and Equipment

It is the employer's responsibility to provide each employee with a safe and productive work space as well as the equipment they need to be successful. Space (cost per square foot) and equipment (examples include a computer, software, telephone or headset) can be significant depending on the location. A minimum estimate is approximately \$3,000 for each employee per year. This does not include upgrades or changes to your existing phone and Internet systems if they are required.

Integration into Your Company's Culture

Employee integration is an example of a "soft" cost because it is more difficult to measure. We feel it is critical that an understanding and commitment to the company's culture including its long-term vision, mission, goals and strategies are agreed to and practiced by every employee from the first day to their last day.

Break-Even Point

We highly recommend employers have metrics in place to do a cost-benefit-analysis of their total employee expenses. This must start with the break-even point for each employee.

According to a survey of six-hundred-ten Chief Executive Officers (CEO) by the Harvard Business School, it can take up to five months for a staff-level employee to reach full productivity. Managers can take over six months. The complete cost of a new hire including all the expenses discussed above can range from one-half to three times their base salary.

How We Can Help You

[Pacific Crest Group](#) (PCG) provides professional services that keep your business focused on your critical objectives. We provide strategic Accounting and Human Resource (HR) services created specifically to help you meet your goals. Through exemplary customer service, clearly defined policies and procedures as well as a forward looking perspective, we provide the outsourced

Pacific Crest Group

Back Office Solutions for Bay Area Businesses

<http://www.pcg-services.com>

solutions your business needs to grow. A Pacific Crest Group professional is happy to meet with you to discuss solutions for your unique requirements designed to maximize all of your business opportunities.