

best practices: Can You Afford to Hire?

best practices

## Can You Afford to Hire?

August 13, 2009

By **Diana Ransom**

### Read/Post Comments

**MANY SMALL** businesses got lean over the last few months. They scrapped fruitless projects, renegotiated costly contracts, introduced more efficient policies and laid off workers. But after the latest employment report revealed that job losses moderated in July, some owners may be thinking about hiring.

"Thanks to layoffs, there are some real talented people out there," says Ken Esch, a partner with PricewaterhouseCoopers' private company services practice in Chicago. "A lot of small-to-medium-sized businesses see this as an opportunity to trade up and make additional investments to help the business move forward."

And although many business owners are deferring their hiring plans -- aiming to squeeze more productivity out of their existing staffs -- aggressive companies attempting to position themselves for future success are bolstering their work forces now, Esch says.

The decision to add staff should be weighed seriously because overall economic activity is expected to continue to decline, albeit modestly, for next several months, says Joel Prakken, chairman of Macroeconomic Advisers, an economic forecasting and advisory firm in St. Louis.

Here's how to calculate whether or not you can afford to add workers:

### Estimate future sales

Before thinking about hiring more workers, estimate your company's future sales. Sit down with customers and ask them how much they plan to buy from your company, says Chris Carey, a small-business pricing consultant in New York. The longer the time period you can project, the better, he says. "Most companies know month by month how much they'll need for the next 12 months." If you're counting on reeling in new customers or you have several promising projects on deck, estimate how much those activities will return.

### Pinpoint jobs to add

Identify which jobs to fill based on your company's needs, says Gregg Landers, the director of growth management at the accounting firm CBIZ MHM in San Diego. This can be relatively easy. For example, if your firm recently experienced a surge in product orders, you may consider adding manufacturing personnel. However, if you're trying to drive demand, brining on more salespeople may be the way to go, Landers says.

### Project added revenues

Estimate how much those workers will contribute to the company, Carey says. If they're helping build products or performing services, estimate how many products they can build or services they can perform in a given period. For an easier way to gauge their contribution, think in terms of units per hour, Carey says. If one worker can build five units per hour and you can sell a single unit for \$40, that worker will add about \$52,000 of revenue a year.

### **Add up expenses**

Add up the costs associated with those new workers. Factor in their salaries, recruiting and training costs, as well as the cost of providing benefits, Esch says. In addition, estimate how much added employees impact your company's variable and direct costs, Carey says. If you need to purchase more manufacturing materials or computer equipment to accommodate added workers, factor in those costs as well, he says.

### **Figure your profits**

Based on your firm's projected cash flow, determine whether your profit margins can support hiring more employees, Landers says. Let's say it costs \$40,000 a year to employ that worker who can build five \$40 units an hour. Because your company estimates that it's able to generate \$52,000 in sales as a result of that person's work, you can dust off your help-wanted sign confidently.

On the other hand, if you're looking to add sales staff, the equation is a bit foggier, Esch says. In this case, estimate at what point your investment in these workers likely will return a profit. "Many businesses these days are going to want an immediate, one- to two-year payback on this investment," he says. So, if it costs you roughly \$65,000 to add a salesperson, you should plan to be able to recoup your investment in a year or two, Esch says.

### **Get temp help**

If your company's projected profit margins don't leave you enough wiggle room to hire more full-time workers, you'll have to find another way to meet demand, Landers says. He recommends looking into temporary workers or outsourcing certain tasks. This way, "you can avoid laying someone off if the work ends up disappearing in the next few months," he says. "But if you keep those temporary employees around for two to three months, working more than three days a week, you should seriously consider hiring full time." (For our story on outsourcing business tasks cheaply, click [here](#).)

-- Write to Diana Ransom at [dransom@smartmoney.com](mailto:dransom@smartmoney.com)