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How Businesses Can Save by Hiring Contractors



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When you want to grow a business, sometimes the first thought is, “Let’s find a full-time worker to join our team.” **Full-time employees can certainly be a valuable asset to a wide variety of organizations, especially when they stick around long-term and make significant contributions. But often, there’s an even better solution for your hiring needs: contractors.**

Today’s professional climate has seen an explosion of record-setting contract work, creating ripple effects throughout diverse industries. One of the significant effects of the pandemic has been professionals’ growing desire to retain more control of their work schedules and work environments. That’s led many people to pursue more flexible positions as contractors.

You may not be aware of how contractors can help your business. Or, you might be hesitant to hire contractors for various reasons, with a potentially higher hourly or day rate being one of them.

We’re here to dispel myths about contractors, specifically related to how much they cost your company when you work with them. Contractors can help you scale your business, meet important deadlines, get extra support for pressure-filled projects, complete tasks more quickly and drive innovation at your business.

Plus, they can help you stay lean and keep costs low as you grow, so you’re in better control of your budget. This whitepaper explains how contractors can help you save money while making your business more productive and efficient.

First: What Are Contractors?

Contractors are employees who are hired for a specific amount of time to complete specific tasks or work on specific projects. Their contracts typically last anywhere from a few months to around a year.

Once hired, contractors can seamlessly transition to work on what you need them to without much training. They're hired for the exact skills you need for the projects they're working on.

They become another part of the team and can start collaborating with their coworkers. Just like full-time employees, they can be added to company communication channels, assigned a company email, join team meetings, and work alongside full-time staff in an office or virtually during regular business hours.

Once the contractor's timeline terms are over, they're released from the contract and end working for your company. Sometimes, employers choose to offer a subsequent contract after a job is well done or even hire the contractor as a full-time employee.

As you can see, contractors provide employers with a flexible "try-before-you-buy" option. If the contractor's a great fit, you can pursue them as a full-time worker. If not, you can cut ties once the contract ends and still gain production from their work.



Contractors vs. Full-Time Employees

To compare contractors vs. full-time employees, look at the below table to see the major ways these roles differ at an organization.

Contractor - (C)

Full-Time Employee - (FTE)

- (C) Hired with the intention to work for a short, set period of time – generally 3 months to ~1 years
- (FTE) Hired with the intention of being a full-time employee
- (C) Requires little onboarding and can quickly get to work on assigned tasks
- (FTE) Typically requires extensive onboarding, which could include pre-hire drug screens, sexual harassment training, training on diversity, equity and inclusion, corporate training and more
- (C) May work on their own equipment
- (FTE) Works on company-assigned equipment
- (C) Benefits (health insurance, paid time off, 401[k] match, etc.) aren't required
- (FTE) Benefits, if available, are typically offered to all full-time staff
- (C) Covers own liability insurance
- (FTE) Requires liability insurance coverage
- (C) Immediate time-to-hire, based on matching candidate skill sets with job requirements
- (FTE) Average time to hire takes 36 days, according to LinkedIn
- (C) No annual bonuses/raises required
- (FTE) Annual bonuses/raises typically offered

Various types of contract work have become a more popular option with today's professionals. **In 2020, Statista reported there were 13.6 million temporary/contract staffing employment workers in the U.S.**

Another type of contract work, independent contracting, was even more popular. Statista reports there were 51.1 million independent contractors in the U.S. in 2021, an increase from 40.9 million in 2017.

More people are trying out contract work these days. **Coupled with the fact 44% of workers identified as “job seekers” in 2022, expect contract work, in general, to continue to rise in popularity.** Contract work offers the benefit to professionals of being able to try out different types of work, industries and companies. The flexibility contract work provides employees makes it an attractive option for many professionals.

Contractors can contribute to your company culture and be a part of the team, but their main focus is the work and getting the job done. If you sense a contractor could harm your business in terms of sentiment, there’s no need to retain them beyond the contract terms. You can release them quickly with less financial risk to your company.

The True Cost of a Full-Time Employee

Contractors may request a higher hourly rate than a full-time employee, but don’t compare hourly rates until you calculate the actual cost of a full-time employee. According to the U.S. Small Business Administration (SBA), new full-time hires typically cost between 1.25 to 1.4 times the employee’s salary. That means someone making \$75,000 a year really costs a company \$93,750 to \$105,000 a year.

Why is this? With full-time employees, you need to account for indirect expenses such as:

- Payroll tax costs
- Insurance coverage, including workers’ compensation, professional liability coverage and potentially a bond
- Health insurance coverage
- Retirement plans, such as 401(k) plans, and retirement plan matching
- Unpaid (and potentially paid) family and medical leave
- Recruitment costs, background checks and drug testing
- Initial and ongoing training and on-the-job development
- Work equipment, such as new computers and workstations

Those are just the individual expenses for a single employee. Consider the business costs you need to account for when you bring more people into the office and grow your business with additional full-time workers. You might end up paying more in rent, data and voice communications, shipping and office supplies, and accounting and legal fees.

Plus, more full-time employees means you'll likely need to increase the headcount in your administrative and human resources departments. As your company expands, you may also need to increase advertising budgets to increase product or service demand. If you grow too quickly without getting a return on the investment, that could result in laying off employees, which results in even more costs for your company.

When a full-time employee quits, Gallup reports a conservative estimate to replace that employee is between one-half to 2x the employee's annual salary. With contractors, replacement costs are lower drastically because you can hire them quickly.

Hiring contractors can help you keep both individual and corporate costs lower, and provide your business with flexibility and predictability that can help you scale at a sustainable rate.

How to calculate the true cost of a full-time employee

You can use the SBA's estimation of the true cost of an employee being 1.25 to 1.4 times the employee's salary to calculate a rough estimation, but keep in mind this is a simplified calculation. In many industries, the higher someone is up on the corporate ladder, the more financial resources they require, not including salary. How much your CEO costs your company, for example, will be much higher than how much an entry-level employee costs.

Since not all employees are created equal in terms of how much they cost your company, a more complex method to determine, your full-time employees' actual costs would be to consider the following.



1. Categorize indirect costs (expenses other than salaries) into groups

First, separate expenses for the major categories that cost your business money, excluding salaries. These are your indirect costs, which you can divide into:

- Benefits: Healthcare, paid time off, insurance like workers' compensation, retirement contributions, etc.
- Overhead: Business expenses such as rent, office supplies, furniture, computer equipment, hosting services, voice and data communication, etc.
- Administration: General business expenses, such as accounting fees, legal fees, etc.

2. Determine what % of each employee's salary indirect expenses cost

Look at your employees and compare their expenses against each category. **For example, your full-time office staff may add on 35% of overhead costs to their salaries, but your remote employees may only add on 15%.**

Ideally, look at each role and find this value throughout your company. Determine the median values for each group of indirect costs: benefits, overhead and administration. This will help you find a baseline cost multiplier to use to determine the true cost of a new full-time employee.

3. Add up the rates to find the cost multiplier

Once you've determined the median values of each category, add those totals up to multiply them against an employee's salary. For example, let's say:

- Benefits expenses tend to equal 30% of an employee's salary
- Overhead expenses tend to equal 25% of an employee's salary
- Administration expenses tend to equal 15% of an employee's salary

Adding those costs together would add 70% of each employee's salary to their true cost. The same person making \$75,000 a year would actually cost a company \$127,500. That's higher than the SBA's simple estimation depicted above. Rates will vary widely based on industry. Some businesses may find indirect costs amount to up to 2.5 times or more of an employee's salary.

The true cost of a contractor

With contractors, you can apply similar formulas to find their true cost. While contractors will likely require some administrative costs and may even use an office workstation, businesses can eliminate many benefits, expenses and overhead costs when working with contractors.

As you calculate the true cost of a contractor, you may find that the hourly or day rate does increase from what they're getting paid. It's still likely to be significantly less of an increase compared to how much a full-time employee's salary increases.

Depending on the contractor's work environment, onboarding and benefits, you may find that hiring contractors makes more financial sense when you compare the figures side-by-side. When you factor in other advantages contractors offer that can impact your bottom line, the cost savings may increase even more.

The Cost of Full-Time Employees						The Cost of a Contract Employee	
Conservative Model (perSBA)		Standard Model		Aggressive Model			
Base Salary	\$75,000	Base Salary	\$75,000	Base Salary	\$75,000	Base Salary	\$75,000
Overhead (40%)	\$30,000	Benefits (30%)	\$22,500	Indirect Costs (2.5x salary)	\$187,500	Pay Rate Equivalent	\$36.06/hr
		Overhead (25%)	\$18,750			Bill Rate (Depending on Skillset)	\$59.50/hr
		Administration (15%)	\$11,250				
Total	\$105,000	Total	\$127,500	Total	\$262,500	Total Cost Annualized	\$123,760

Why Contractors Are a Cost-Effective Solution

Calculating the true cost of your employees is complex, but it can help you save tremendously throughout your company's existence. As you evaluate the decision to hire full-time employees vs. contractors, consider how contractors can help you protect and grow your business with less expense.

1. Productivity = Revenue

Have you heard of the “quiet quitting” trend? It’s when employees cease behavior that goes “above and beyond” to shine at work and instead do the bare minimum that’s required of them for their job duties.

As the “Harvard Business Review” points out, an engaged workforce motivated to over-perform helps position businesses at a competitive advantage. Many companies hire full-time employees thinking the applicants will do just that. Applicants might even say they will do so during a job interview. But in the past year, Gallup reports that at least 50% of the U.S. workforce quit quietly.

Quiet quitting doesn’t apply as much in the contractor realm. Contractors know exactly what’s expected of them; if they don’t deliver, they’re out.

With full-time employees, quiet quitting may go undetected for months or longer. An organization may be reluctant to fire an employee who's been with a company for years and has previously delivered outstanding results.

If an organization does detect a full-time employee is quiet quitting or even full-out underperforming, the business might put the employee on probation first or go through a series of time-intensive, resource-requiring corrective actions. This process can take additional months and isn't guaranteed to turn things around. In the meantime, the employee could be looking for another job or at least be open to better offers from the competition.

With contractors, they need to do the work, or the organization can simply terminate the contract. Cutting ties with unproductive contractors is faster and simpler. You run less productivity risk since you can more easily let go of and replace contractors compared to a full-time employee.

Also, since contractors generally don't receive paid time off or time off benefits, you won't lose productivity like a full-time employee takes sick leave or goes on a 2-week vacation. Again, there's that predictability that the contractor will be working on the project you need them to work on in the agreed-upon timeframe.

That helps you plan better and deliver more realistic expectations to the rest of your staff and clients. Actions like these can help you generate more revenue and reduce expenses.



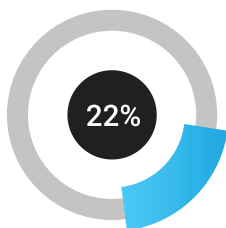
2. No Breaks in Business

Business owners know some opportunities need to be capitalized on quickly in order to transform a business. It might be a huge deal, expansion into a new market, or the opportunity to ramp up production during a busy season.

If you're unable to say "yes" to a great business opportunity, you could lose out to a competitor. That could cost you long-term business growth and affect the entire trajectory of your business momentum.

Contractors help you keep your business moving amid the opportunities you're presented with and the business climate you're working in. You can hire contractors more quickly rather than going through the time-consuming process of recruiting, interviewing and hiring full-time employees.

Businesses run the risk that all the time that went into hiring a full-time employee may not even result in someone coming to work. Plus, full-time hires aren't guaranteed to even show up to the job at all. According to CNBC,



of applicants have accepted a job offer and failed to show up for their first day of work.

Also, if you hire full-time employees to meet a sudden, urgent demand, you run the risk of being stuck with them if things slow down. That will end up costing you, whether you retain them or not. Quick turnover can diminish employee engagement and put your business at risk for your other employees looking elsewhere.

Since they help you maintain business with less investment, contractors help you save your business reputation in your industry and with your clients. If you make a promise to a client, meeting or exceeding their expectations could significantly impact your future deals with that client, as well as any referrals they may send your way.

Contractors can help you deliver, which makes business go more smoothly without you having to scramble and spend more. There's always the option to hire contractors full-time later if they're a great fit.

3. Save on Time to Hire

As mentioned earlier in this whitepaper, the average time to hire a full-time employee today is 36 days, according to a LinkedIn report. But keep in mind this varies widely based on industry and position.

Think about how much a month or more means to your business in terms of that position's productivity and how much it impacts the people hiring at your company. Add that to the indirect costs total for that position.

With contractors, you can build a talent pipeline to source workers. You know their exact skillset and can plug them in as needed without having to go through the time- and resource-intensive hiring process.

Working with contractors also helps you save money related to hiring because you can "try before you buy." You'll be able to see the quality of the contractor's work and learn about their skillset as they're working for you.

There's less guesswork involved with contractors. If you want to rehire them in a contract position or offer them a full-time position later on, you can cut down on most of the recruiting and interviewing steps that would normally be required with a full-time hire.



4. Engage Full-Time Employees

Let's talk about the business costs of failing to meet the expectations of your current full-time employees. Picture the following scenarios.

- You say yes to a big deal, but you're short-staffed. You place unrealistic expectations on full-time employees, which leads to frustration and burnout.
- Slow hiring processes force full-time employees to work on tasks that don't utilize their strengths. This leads to disengagement and turnover.
- Inadequate hiring overall causes resentment in employees. They're doing work they don't enjoy or taking on extra work that leaves them disgruntled.

Contract workers can help you engage and retain the full-time employees you value. That enables you to save on turnover costs and can improve sentiment for your business. That, in turn, can help you make better future hires more efficiently.

You can plug contractors in your workforce to:

- Do tasks that aren't suited for your full-time employees, so your full-time employees can use their strengths at work, which leads to higher productivity and increased engagement levels
- Support full-time workers who are overwhelmed with the duties they're responsible for, including during busy seasons
- Expand departments quickly at a pace that works for you without the risk of having to commit to full-time workers immediately
- "Try before you buy," to ensure any new full-time hires you make fit in well with the current team's company culture

Integrating full-time staff into your team takes time to be successful. Again, with contractors, there's less risk and more flexibility. The transition can be seamless if you decide to turn a contractor into a full-time team member later, or you can cut ties easily if they're not fitting in.

Either way, contractors provide a short-term solution that eases any burdens your full-time staff members are currently facing, so you can increase your workforce's engagement overall.

5. Make Better Hires

Speaking of trying before buying, bad hires can cost your company significantly. According to Northwestern University, the average cost of a bad hiring decision is at least 30% of the worker's first-year earnings. That's because bad hires can result in:

- Poor morale and stress
- Productivity drains
- Lack of work continuity
- Performance management costs
- Impact on customer service

Contractors are evaluating your business as a potential fit, too. If they're not happy working for you, they can move on from your company once the contract is over. A full-time hire, meanwhile, can sabotage your business.

Contractors who want to work for you full-time or get another contract with your company may put in extra effort to prove their worth. This can result in more efficiency and better results for lower costs. Moving on, you'll have a better understanding of the value they bring.

Also, any contractor you add to your team instantly adds a new perspective that can drive innovation and improve production and processes. **The unique perspectives contractors add to your organization can lead to unexpected cost savings, even if the contractors are only with your company for a short period of time.** For example, you might learn a better way of doing things from a competitor indirectly through the contractor.

Add Contractors to Your Hiring Mix

If you're a business, consider adding contractors to your hiring pool. Contractors:

1. Fill short-term hiring needs.
2. Provide flexible and predictable workforce solutions.
3. Typically cost less than hiring full-time employees.
4. Can help your company increase revenue by allowing you to scale and innovate quickly.
5. Can help you improve retention for your existing full-time workforce.

Overall, contractors can help you save money, even when their hourly or day rate is higher than your full-time employees. It's helpful to calculate the true cost of your full-time employees and the true cost of contractors, then compare those costs to see how much you can save.

AccruePartners specializes in hiring contractors for businesses, all the way up to Fortune 50 enterprises. We provide expert contract professionals for businesses that need talent in the following areas:

- Accounting & Finance
- Information Technology
- Marketing, Digital & Creative
- Human Resources
- Financial Services
- Corporate Support

To learn about our contractor solutions, contact us [online](#), call **(704) 632-9955** or email info@accruepartners.com

We'll be in touch and look forward to talking with you.

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