

Cost of Temporary Staffing vs. Cost of Full-time Employee

There are many benefits of leveraging temporary workers to augment your full-time, employed workforce. Utilizing a temporary workforce can:

- save money in the recruiting and hiring process
- offer protection against economic downturns
- increase profitability during seasonal upswings in demand
- eliminate the cost of bad hires
- offer resources for short term projects.

The fundamental decision to exclusively hire full-time employees or leverage a temporary workforce basically comes down to two issues – cost and time. Therefore, the first step in the decision making process is to compare costs. In many cases, clients find that the cost effective choice is to utilize temporary employees.

Cost of a Full Time Employee

When a company decides that their current workforce cannot handle production levels and/or consumer demand, they have two choices. They can increase their headcount—either full-time or part-time—or they can augment their current staff with temporary workers. Many managers reject the latter solution out-of-hand, believing that the fee paid for utilizing those temporary workers is too costly. However, this is simply not the case. The opposite is true, since the cost of a full-time employee consists of much more than just his/her salary. (i.e. benefits, taxes, insurance, etc.) These costs are tangible, but there are other costs involved that are less obvious and hard to quantify. Therefore to truly evaluate the best option for your organization, all factors contributing to the cost of hiring a new employee need to be explored; they are part of the total equation.

Up-Front Costs of Hiring

When a company uses their internal HR department to directly hire new employees, there are several obvious, up-front costs involved. Some of them are:

- **Recruiting Costs** – costs associated with creating and advertising a job description, culling through resumes, interviewing candidates, and selecting the new hire. These can include:
 - **Ads and job board posts** – newspaper ads can vary from \$250-\$3500 depending on the size and newspaper. Postings on job boards can cost over \$400, depending on the number of listings.
 - **Recruiting brochures and materials**—a standard recruitment brochure typically costs several hundred dollars to design, print and distribute.
 - **Other recruiting costs** – can include candidate interview travel, reference and background checking fees, drug screening fees, etc.
- **On-Boarding Costs** – costs associated with making an offer, processing the new hire through the orientation/probation period, and training.

- **Compensation Costs** – total compensation and administrative costs that include benefits (medical, vacation, holiday, sick etc.); salary; payroll expenses, wage garnishments, taxes, etc.

Hidden Costs of Hiring

Because of benefits and taxes, securing a temporary worker is often less expensive than bringing on a full-time staff member. However, the picture is not complete without taking into account many of the hidden costs found within the hiring process. A worker's time costs money. Therefore, the time investment of the worker used to recruit and process new hires can make the undertaking more expensive than leveraging a temporary workforce. However, many of these internal recruiting costs are not easily quantifiable, and therefore easily forgotten. They should not be, because they are still part of the overall internal hiring cost.

- **Employer's Time** – many of the hidden costs of handling the hiring process in-house are wrapped up in quantifying the employer's time spent recruiting and hiring. By breaking down the internal recruiters' salary per hour and then applying that hourly charge to time spent on the following activities:
 - a. *Preparing for interview*
 - b. *New hire planning*
 - c. *Preparing and placing ads and job posts*
 - d. *Preparing recruiting materials*
 - e. *Screening 1st round of applicants*
 - f. *Conducting phone interviews*
 - g. *Setting up, preparing and conducting 1st round of interviews*
 - h. *Selecting candidates for 2nd round of interviews*
 - i. *Setting up, preparing and conducting 2nd round of interviews*
 - j. *Selecting final candidates*
 - k. *Checking references*

It is possible to quantify these hidden costs into hard dollars.

- **Bad Hires** – A hiring mistake can cost from 1.5x to 3.5x (or more) of that person's annual salary
- **Productivity Loss** – New employees are rarely fully productive when they are first hired. A decrease in productivity may be experienced during the initial training phase. For example, charges left off of invoices or miscommunication leading to the loss of a client can add up to huge sums of money.

Cost of Temporary Workforce

When utilizing the services of a temporary employee, there are costs involved as well, but they are minimal by comparison.

- **Recruiting** – Occasionally, clients will review a few resume or interview a couple of temporary candidates. More often though, clients take complete advantage of their temporary staffing firm’s professional expertise to conduct the recruiting process.
- **Time card and Invoice Processing** – Clients will have to (at some level) process time cards/invoices
- **Wages for the employee** – Clients still pay the salary of the temporary worker, even though they do not process and pass out the paycheck.
- **Markup for the staffing firm** – There is margin included in the employee’s salary by the staffing firm to offset the taxes, insurance and administrative fees the employer would otherwise have to pay for their employees. So, even though the employer pays this markup, they are not paying many payroll taxes and expenses, including workers’ compensation and benefits.

What Does This Mean?

It is important to remember that the total compensation package of an employee includes costs such as benefits, insurance, taxes and administrative fees. The employer is always responsible for covering these costs; this means that when a company independently hires an employee they are required to absorb those costs. In the case with temporary workers, the staffing firm absorbs them.

This post-recession economy is the “new” economy. To be profitable and successful, companies must maximize all their resources, including materials and staff. In the vast majority of cases, choosing to leverage a temporary workforce allows companies to reach a new level of competitiveness by freeing up resources that might have been consumed in the hiring/dismissal process.