

Sample Budget: Mears and Associates
(a one-person consultancy)

Item	Cost	Annual Total (for year one)
Start-up Costs: security deposit (\$500); furniture (\$1,500); computer, software, printer, and phone (\$3,000); paint (\$200); miscellaneous (\$300)	\$5,500	\$5,500
Overhead	\$660/mo.	\$7,920
Payroll (starting salary)	\$45,000/yr.	\$45,000
Benefits (health insurance, 401[k] "matching")	\$550/mo.	\$6,600
Cost of Goods Sold	n/a	\$0
Capital Expenses (replacing equipment as needed)	\$800/yr.	\$800
Professional Services (tax preparation)	\$250/yr.	\$250
Sales Tax	n/a (no sales tax required on consulting services)	\$0
Corporate Taxes	n/a (company is a sole proprietorship, so all income is taxed as owner's personal income)	\$0
Memberships and Subscriptions	\$500/yr.	\$500
Total		\$66,570

Sample Budget: Carried Away, Inc.
 (a two-person bag manufacturing company and retailer)

Item	Cost	Annual Cost
Start-up Costs: (secondhand sewing machine, minor renos for store, raw materials, incorporation)	\$16,200	\$16,200
Overhead	\$1,800/mo.	\$21,600
Payroll (starting salary x 2)	\$80,000/yr.	\$80,000
Benefits (health insurance, 401[k] "matching")	\$1,000/mo.	\$12,000
Capital Expenses	\$3,000/yr.	\$3,000
Professional Services (incorporation, tax preparation, trademarking)	\$3,250/yr.	\$3,250
Sales Taxes	n/a (taxes will be added to all prices and kept aside)	\$0
Corporate Taxes	n/a (company is a limited partnership, so all income is taxed as owners' personal income)	\$0
Memberships and Subscriptions	\$700/yr.	\$700
Total		\$136,750

✿ *The Pros and Cons of Both*

There are definite benefits to both sides of the hiring coin. Contractors can place less strain on your business, but are less predictable. Staff can be more reliable, but come with their own costs. Here are some comparisons of the relative merits of each:

	Contractor	Staff
Reliability	Contractors aren't all totally unreliable flakes (though we've met our share of those), but by nature of your relationship with them they can be less predictable. They likely don't (and shouldn't) work on-site, so you aren't able to manage their time/attention too closely. Depending on your agreement with them, their level of responsibility for getting the job done on your terms can be limited.	Accounting for sick time, and unexpected emergencies, staff are generally pretty reliable. You can plan what work you need them to take on, and once you get a sense of their work style and competencies you'll be able to predict how much work they can take on. As your employees they are highly accountable to your needs.
Availability	Availability will really vary dramatically from contractor to contractor, but a common problem with relying on excellent contract workers is that they get busy, and not just with the work you give them. Unless you have a really predictable contract with your contractor, and open communication about their other workloads, you might not be able to count on them for short-notice work.	While employees always have the right to quit, you can generally get a pretty solid sense of how much work you can take on and what your ongoing capacity is when you have employees to rely on.

	Contractor	Staff
Overhead Cost	Not having to worry about payroll costs (income tax, Social Security, Medicare, vacation pay, etc.), benefits, and the overhead involved in keeping an employee makes contractors very appealing. No matter how big your business grows, you will likely find that sometimes it makes more financial sense to hire contractors for certain tasks.	There's no doubt about it, employees are expensive. Often they are a necessary and important expense to pay (like rent and the phone bill), but they will increase your operating budget. Wages are often the largest expense of a business.
Predictable Expenses	While contractors can certainly be less of a drain on your overhead costs, they can be hard to predict, budgeting-wise. Just because you had someone do a similar job for one price doesn't mean that someone else (or that same person) may not charge more next time around.	You will need to account for raises, and unexpected expenses always seem to arise in business, but when you have a salaried staff person, you can get a pretty solid sense of your labor costs.
Multitasking	In most cases, you can't hire a contractor to take on multiple tasks. Typically they are assigned one big task or one major piece of the puzzle to complete.	While you need to have a solid job description for any employee, that outline can cover a lot of ground, having them help you with everything from minding the shop to doing some small production work on slow days.

	Contractor	Staff
Varied Skill Sets	While we're all out there searching for that Jill-of-all-trades who can manage client/customer relations, balance the books, and design your fall line, she likely doesn't exist. The beauty of contractors is that you can take that same budget you would use to hire one salaried employee and split it up among a few expert contractors.	You will probably require your staff people to do a fair bit of multitasking (as described above), but you can't expect them to sprout new skills overnight, and as the needs of your business evolve, you may find your staff resources coming up short in meeting some of your needs.

If you're not careful, contractors can cost you money—above and beyond their fees. This is particularly relevant to service-based organizations and consultancies like ours, but can be true for retail/product-based businesses. If contractors deliver their work late, it can end up costing you more of your time in managing them, fee penalties with the client, or in some cases—like if you are trying to get a product ready to sell—an inability to earn any money at all. This is a hard lesson to learn, and one that you will likely need to learn through experience, but you always need to either pad the cost of a contractor's fees by simply increasing them when you quote a client, or increasing the final cost of your product. In worst-case scenarios, you may even need to fire a contractor who is not performing and hire someone else to finish the job—doubling your costs—so try to give yourself some padding in the budget for mistakes to happen.