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The Case for Contracting

The Case for Contracting is an ongoing issue for companies - especially for those dealing with industries that are highly cyclical. How do you balance the costs and benefits of hiring direct employees versus outsourcing work to a contract company like **Pivotal Designs**? How do you maintain a satisfied, motivated workforce that is productive but not overworked? The answer lies somewhere between hiring 100% directly hired technical employees and outsourcing 100% of your technical work. There are considerable risks to both of these extremes. You either end up with excess talent that you are carrying through the valleys of the cycles, or you run the risk of losing direct control over the technical aspects of your business.

The cost of maintaining direct hire employees is increasing with the increasing costs of benefits like healthcare costs and retirement benefits. The option of hiring on-site contractors is becoming increasingly risky due to the high hourly rates that are often charged and the risk that the person you are hiring does not have the expertise that you are expecting.

Benefits of outsourcing to Pivotal Designs:

- High Level of Expertise in the Engineering Field
- Years of Experience in the Engineering of Mechanical Parts and Systems
- Excellence at using Pro/Engineer Software
- No need to pay for software and hardware expenses that you may not need indefinitely
- No need to pay for employee benefits

Please look over the hypothetical case study on the next page to see a breakdown of the relative costs of whether to hire a direct employee or an on-site contractor versus hiring a contracting company.

Case Study: One month project estimated at 450 hours = 2.60 employees for 173 hours per month

	Direct Employees			Contract Onsite Employees			Contract Company - Off Site		
	Rate	# Empl.	Cost	Rate	# Empl.	Cost	Rate	Hours	Cost
Salary	\$27.50	3.00	\$14,272.50	\$52.00	3.00	\$26,988.00	\$50.00 *	450.00	\$22,250.00
			\$14,272.50			\$26,988.00			\$22,250.00
Taxes									
Social Security	\$290.00	3.00	\$870.00	\$0.00	3.00	\$0.00			\$0.00
Unemployment	\$165.00	3.00	\$495.00	\$0.00	3.00	\$0.00			\$0.00
Medicare	\$68.00	3.00	\$204.00	\$0.00	3.00	\$0.00			\$0.00
Worker's Comp.	\$14.00	3.00	\$42.00	\$14.00	3.00	\$42.00			\$0.00
			\$1,611.00			\$42.00			\$0.00
Benefits									
Health Coverage	\$325.00	3.00	\$975.00	\$0.00	3.00	\$0.00			\$0.00
Retirement Plan / Pension	\$650.00	3.00	\$1,950.00	\$0.00	3.00	\$0.00			\$0.00
Life Insurance	\$12.00	3.00	\$36.00	\$0.00	3.00	\$0.00			\$0.00
Long Term Disability	\$20.00	3.00	\$60.00	\$0.00	3.00	\$0.00			\$0.00
Dental Plan	\$30.00	3.00	\$90.00	\$0.00	3.00	\$0.00			\$0.00
Vacation Time / Pay	\$182.80	3.00	\$548.40	\$0.00	3.00	\$0.00			\$0.00
Food Accomodation Per Diem	\$0.00		\$0.00	\$1,100.00	3.00	\$3,300.00			\$0.00
			\$3,659.40			\$3,300.00			\$0.00
Workspace / Technology									
Floor Space	\$250.00	3.00	\$750.00	\$250.00	3.00	\$750.00			\$0.00
Workstation	\$250.00	3.00	\$750.00	\$250.00	3.00	\$750.00			\$0.00
Office Software	\$41.67	3.00	\$125.00	\$41.67	3.00	\$125.00			\$0.00
Pro Engineer License	\$1,333.33	3.00	\$4,000.00	\$1,333.33	3.00	\$4,000.00			\$0.00
I.T. Support	\$150.00	3.00	\$450.00	\$150.00	3.00	\$450.00			\$0.00
			\$6,075.00			\$6,075.00			\$0.00
note: Software costs amortized over 12 months, hardware over 24 months									
Administration Costs									
HR Costs	\$20.00	3.00	\$60.00	\$20.00	3.00	\$60.00			\$0.00
Records Keeping	\$20.00	3.00	\$60.00	\$20.00	3.00	\$60.00			\$0.00
			\$120.00			\$120.00			\$0.00
Additional One Time Costs									
Recruiting Costs	\$200.00	3.00	\$600.00	\$200.00	3.00	\$600.00			\$0.00
Relocation Costs	\$1,250.00	3.00	\$3,750.00			\$0.00			\$0.00
Training	\$200.00	3.00	\$600.00	\$200.00	3.00	\$600.00			\$0.00
			\$4,950.00			\$1,200.00			\$0.00
note: one time costs amortized over 24 months									
			\$30,687.90			\$37,725.00			\$22,250.00
Alternative with 2 employees and overtime			\$29,700.00			\$42,075.00			

* Rate is shown as an example and will vary with the type of work.