

**HR & Payroll**

# Planning and Budgeting



Where to invest for growth and success in 2021

# Make plans for growth, not just survival.

For small and mid-sized businesses (SMBs), 2020 was a roller coaster of unanticipated business chaos caused by the COVID-19 pandemic. Some industries suffered much deeper economic impacts than others, but all businesses experienced disruption.

As 2021 begins, vaccine programs are being implemented and the business community is looking forward to a return to more normal operating conditions, hopefully by 2022. For most SMBs, the focus in 2020 was on survival. Now, it's time to work on returning to growth. Managing human capital will be a key factor determining success.

Business leaders need to spend extra time with 2021 HR and payroll planning and budgeting. Continued uncertainties include the timing of vaccine programs and any future business lockdowns, how quickly the economy and consumers will rebound, and how to balance remote vs. in-person work going forward. This eBook walks through the processes involved in planning and budgeting for human capital in small to mid-sized businesses (SMBs).

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# Planning for Growth

The U.S. economy rebounded strongly in Q3 2020 and continued growth is expected in 2021.

Although 2020 was a rough ride for businesses and families alike, the economic damage of the pandemic was already starting its repair by the third quarter. In the U.S., Q3 2020 GDP growth (331%) was the strongest in history, indicating a booming V-shaped recovery.<sup>1</sup> Unemployment improved substantially. Venture Capital (VC) investments to US-based, VC-backed companies hit a seven-quarter high in Q3 2020 at \$36.5B, up 22% year-over-year.<sup>2</sup>

## Applications to form brand new businesses rose 77% during Q3 2020.

Source: U.S. Census Bureau

When successful vaccines rollouts were announced in the fourth quarter, business optimism rebounded and the stock market started climbing. If all continues to go well, many economic forecasts anticipate continued strong recovery for businesses in 2021. As small and mid-sized business owners and management teams prepare for 2021, they must plan how to seize opportunities for growth. As always, your workforce will be a dominant theme in your company's growth story.

## Human Capital Is Not Just a Cost Center

In most businesses, the workforce is the highest cost. It's also the biggest driver of opportunity, innovation, and profits. As companies transform through technology and more corporate assets become digital, the value of the workforce as a growth and profit driver has become more obvious.

The rapid expansion of the knowledge-based economy resulted in a value shift for corporations. Globally, the value of human capital, defined as people, labor, and knowledge now exceeds the value of physical capital such as product inventory, corporate real estate and IT assets. In the U.S., human capital—valued at \$244 trillion—is 3.92 times more valuable than physical capital.<sup>4</sup>

## Every \$1 invested in human capital generates more than \$11 in economic output.

Source: Korn Ferry & Centre for Economic and Business Research

**“Globally, human capital—people, labor, knowledge—will be worth as much as \$1.2 quadrillion over the next five years. In contrast, physical capital—inventory, real estate and technology—will be worth an estimated \$521 trillion. Human talent and intelligence is 2.33 times more valuable than everything else put together.”<sup>3</sup>**

– Korn Ferry



1 CNBC, “U.S. GDP booms at 33.1% in Q3, better than expected,” Jeff Cox, October 29, 2020.

2 PwC and CB Insights, “Venture Capital Funding Report Q3 2020,” 2020.

3 Korn Ferry, “2030: The Very Human Future of Work,” accessed December 23, 2020.

4 Korn Ferry, “2030: The Very Human Future of Work,” accessed December 23, 2020.





## The HR Planning Process

Start 2021 off right by creating an HR plan. If you have a small business, your plan doesn't need to be complicated. But it is good to formally define what you want to accomplish and to get your team on the same page. Here are the basic steps for HR planning:

- 1** Define your company's objectives for the upcoming year. Determine how you will measure success in each objective.
- 2** Consider the current business environment and any macro trends you expect to play out over the next year(s).
- 3** Define HR goals to recruit, retain, and develop the best workforce to achieve your business objectives.



- 4** Create a staffing plan that defines existing roles in your organization and any new roles needed. Define skills needed for each role and record skills that already exist within your team. Look for skills gaps between the workforce you need and the one you have. Decide whether to fill gaps with new hires or reskill existing staff.

- 5** Review your HR technology for effectiveness.

- 6** Update or develop HR policies.



## Dealing with Pandemic Uncertainty

Planning and forecasting will be more difficult in 2021, because no one knows exactly what will happen or when recovery milestones will be reached. Given these challenges, consider multiple scenarios.<sup>5</sup> As you forecast cash flow, create a downside forecast and an upside forecast, in addition to your primary forecast. As you plan and budget around your primary forecast, consider how you will respond if either alternate scenario takes place. What expenses could you reduce quickly? What's on your wish-list for additional hiring or training?

**36% of organizations said they practiced enterprise workforce planning in 2020.**

SOURCE: SAPIENT INSIGHTS GROUP



# Budgeting for Human Capital Management

Every business owner should create an HR and Payroll budget to stay on top of their largest expense category.

One of the most common causes of business failure is out-of-control labor costs. The right ratio of revenues to workforce expenses varies based on the industry and type of business you own. But whether that sweet spot is under 30% (manufacturing, restaurants) or even as high as 50% (service businesses), you definitely need to plan for this major expense category.<sup>6</sup> That means creating and maintaining a human capital budget.

Before you create an HR budget, you should choose your budgeting approach. There are two primary methods to consider—incremental budgeting and zero-based budgeting.

## Incremental Budgeting

In many SMBs, creating the budget involves taking last year's budget and adjusting it up or down based on reasonable expectations about business conditions, revenue, and expenses. This is known as incremental budgeting.

Typically, you arrive at the new cost-based budget by adding to the existing expense categories incrementally. For example, you might plan for a 3% increase for workforce costs across the board, with the HR professional or business owner determining how that increase gets distributed across HR budget categories such as salaries and training.

## Zero-Based Budgeting

There's another approach to budgeting, known as the zero-based budgeting (ZBB) or zero-basing.<sup>7</sup> ZBB begins with a clean slate each budgeting period. Past budgets do not drive the future budget. Instead, each item added to a ZBB is considered as if it was a brand new expense. Each expense must add value in terms of achieving your company's objectives. Value should be measured and considered whenever you adjust your ZBB. In this way, spending decisions become more thoughtful and better aligned with growth objectives.<sup>8</sup>

Zero-basing is harder to do, but the resulting budget can be more accurate and more flexible than incremental budgeting. And it's completely targeted to the things that matter most for growth in SMBs.<sup>9</sup> ZBB often helps lower costs by avoiding a blanket approach to budget increases or decreases.

Using a ZBB for HR may help you refocus and position people to create their highest value for the company—perhaps by automating routine manual tasks and freeing up employees' time for more strategic contributions. According to McKinsey, ZBB can improve performance such that it “often produces a new operating model, empowers employees, and enables the reallocation of up to 20 to 40 percent of staff spending to other areas.”<sup>10</sup>



**74% of small business owners surveyed (with 1 to 10 employees) did not create an official budget.**

Source: Clutch

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# **Budgeting Tips for Small & Mid-sized Businesses**





1

**Budget with cash flow in mind**

Think about seasonal patterns in revenue and expenses and forecast your cash flow. Then build your budget to accommodate objectives while maintaining adequate cash flow in each month.

2

**Find benchmarks for your industry**

It will be difficult to remain competitive if your company spends significantly more in labor costs than others in your industry.



3

**Revisit the budget every month**

Remember, your budget is a living document—a plan to be adapted as business conditions change. Every month, review your budget versus actual revenue and expenses to determine whether your cash flow forecast or budget need revision.

4

**Expect the unexpected**

SMBs need to factor something into the budget for emergencies. In the same way your business carries insurance against disasters, you need some cash in the bank for the unexpected. 2020 was a prime example of this.

5

**Underspending is also a risk**

Most small business owners are familiar with the pain caused by cash flow crunches. While it's important to avoid blowing up your budget, it is also easy for business owners to become too focused on cost-cutting. Remember that not spending enough to compete can be as detrimental to long term performance as overspending.

6

**Measure & track workforce data**

It is easy enough to quantify the cost of salaries, bonuses and benefits packages. But SMBs need to become more intentional about collecting workforce data that helps leaders measure employee lifetime value, productivity, engagement, and the true cost of turnover.<sup>11</sup>



**Build Your  
Budget:  
Compensation  
& Bonuses**



# Build Your Budget: Compensation & Bonuses

Employee pay and benefits are the big ticket items in any company's HR budget. Before planning for compensation, try to perform salary benchmarking your industry and your top competitors. Keep your pay scale in line with competitors to avoid losing top talent over salary concerns. On average, about 70% of a private employer's compensation costs are from wages and salaries.<sup>12</sup>

One of the biggest contributing factors to labor cost growth is overtime pay. SMBs should carefully track the cost of regular payroll as well as overtime, in order to analyze trends and create an accurate budget.

In the current pandemic environment, businesses still face lots of uncertainty. That uncertainty, combined with little inflation to drive up employees' cost of living, has many companies holding off on employee raises. According to Korn Ferry's 2021 salary survey, organizations that plan to provide any salary increases to employees will offer smaller raises than last year. Expected salary increases are 2.5% for North America.<sup>13</sup>

Finally, this budget category should include your plans for using contingent workers. This includes outsourced HR services, independent contractors, consultants, gig workers and freelancers. It's estimated that 36% of U.S. workers, or 57 million people, take part in the gig economy—some of them in addition to holding traditional employment.<sup>14</sup>

## ***Trends to Consider for 2021:***

*Minimum wage increases; location-based pay for remote employees; pay equity, contingent workforce*

**One in three businesses plan to award salary increases to fewer than half of employees next year. Three times more organizations will skip increases in 2021 than did so in 2020.**

SOURCE: KORN FERRY

**A global shortage of more than 85 million skilled workers is expected by 2030, resulting in \$8.45 trillion in lost revenue opportunities.**

SOURCE: KORN FERRY

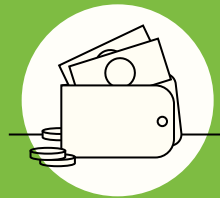




# Build Your Budget: Benefits & Wellness

Benefits are the next largest labor expense. On average, about 30% of a private employer's compensation costs come from benefits. Health insurance and retirement benefits consume the majority of total benefits costs for companies that offer both benefits.

During the pandemic, employees have placed high priority on having the health insurance and other benefits to protect themselves and their families. Expect concerns to continue into 2021. On top of that, employees dealing with the stress, anxiety and isolation of the pandemic are showing a greater need for mental health benefits.



**Private industry worker hourly compensation includes \$10.72, on average, in benefits costs.**

SOURCE: BLS

**Employer healthcare costs will rise by 4.4% in 2021.**

SOURCE: MERCER

Mercer, PwC, and Willis Towers Watson all predict spending increases for healthcare in 2021.

Nearly half of employers considered adjusting benefits for 2021 that included adding telehealth programs, enhancing mental health benefits, expanding voluntary benefits, and improving pharmacy claims costs.

**Trends to Consider for 2021:**  
*Employee fatigue and burnout; mental wellness benefits; tailored voluntary benefits; PTO use during pandemic*

# Build Your Budget: Recruiting & Talent Management

A decade-long study by Harvard Business School revealed companies that build an effective culture enjoy 4X greater revenue growth than those that don't.

SOURCE: FORBES

## 52%

of high-growth companies said one of the greatest risks to their workforce was the excessive time it takes to fill open positions.

SOURCE: MERCER

## 49%

of employees are seriously considering leaving their employer in the next three months.

SOURCE: HAYS 2021 SALARY GUIDE

It would be difficult to overstate the importance of recruiting, hiring, and retaining talented employees. Simply put, **bringing the right people into your team is integral to business success.**

Recruiting and onboarding is not an area of the HR budget you want to skimp on. You need the best talent to help your business grow, whether you

find those workers yourself, or outsource recruiting and hiring to an independent recruiter or agency. SHRM benchmarking found businesses spend \$4,129 per hire on average. And it takes an average of 42 days to fill a position.

This category of your budget should also include expenses for programs that keep your

employees engaged with the business and performing at the top of their ability. This should include initiatives to build corporate culture, improve employee satisfaction and retention, and recognize employees.

Plan extra communication and recognition for your remote workforce during the pandemic. Although many employees enjoy

the flexibility of remote work, a recent survey demonstrated that employees who do not work in the same location as their manager are less likely to say someone at work cares about them.<sup>16</sup> **Remote workers also are 10% less likely to feel recognized for their contributions.**

Finally, turnover is both costly

and disruptive, so it's worth investing in employee retention. Benchmarking revealed an average of 8% annual involuntary turnover and overall turnover of 19%.<sup>17</sup> It costs as much as 33% of an employee's annual salary to replace them.<sup>18</sup>

### Trends to Consider for 2021:

*Remote recruiting; remote onboarding; continuous performance management; gig workers.*





# Build Your Budget: Training & Development

We live in a knowledge- and skills-based economy. To outcompete, your business will need to retain an ever-evolving set of skills within your workforce. That is going to require constant learning and development for your employees.

Professional development and upskilling is not only vital for the success of your business, it is also perceived as an important benefit by employees. In fact, recent surveys show that Millennial and Generation Z employees care more about career development than most other perks or benefits.

Right now, many employees have been working from home for nearly a year. So if your company hasn't offered any training or development during 2020, do not be tempted to eliminate it from your budget in 2021 as well. Instead, think of this year as a good time to develop stronger skills in your workforce.

One area to invest in training—if you haven't done so already—is teaching remote employees how to best work and collaborate remotely. It is important to actively train employees on how to use instant communication tools, like Slack, and video conferencing platforms, like Zoom. It might also be a good time to help employees learn how to overcome digital distractions during work and implement time and attention management ideas.

## **Trends to Consider for 2021:**

*Training for remote workers; upskilling and reskilling*

## 93% of employees say it is important for their company to help them build skills for their job

SOURCE: CLUTCH




**77% of companies offer employees opportunities for training and skills development.**

SOURCE: CLUTCH

**In May 2020, 35% of all employees worked from home. In November, 22% of all employees were still remote.**

SOURCE: BUREAU OF LABOR STATISTICS



60% of organizations will use inefficiencies revealed during the pandemic to drive technology investments in the future.

SOURCE: 451 RESEARCH

# Build Your Budget:

## Compliance, Administration & Technology

Managing the workforce requires a lot of administration and work to meet compliance requirements. Compliance violations can result in penalties and fines that SMBs will want to avoid. As you budget for 2021, be mindful that labor regulations and compliance requirements are likely to increase over the next four years during the Biden administration.

Expenses in the compliance, administration and technology category include everything from the cost of collecting I9 and W4 forms to delivering sexual harassment training to purchasing mandatory compliance posters. Include the costs associated with any and all reports you send to the government and tax filings associated with your payroll. Compliance also includes the expense of consulting with outside legal counsel about labor-related issues, such as employee complaints or lawsuits and government investigations or actions.

### Technology Eases Compliance and Administration

If your business feels bogged down by the cost and time involved in HR administration and compliance tasks, there are two ways to relieve the pressure: Technology and outsourcing. When budgeting for 2021, consider whether your organization would benefit from technology and service investments:

- **Cloud-based Human Capital Management (HCM)** automates HR administration processes, improving accuracy and completeness of recordkeeping for compliance with local, state and federal labor laws. HCM allows businesses to save time and improve efficiency while gaining an accurate, single source of truth about the workforce. Asure HR automates

administrative tasks for HR and Talent Management, including recruiting, applicant tracking, onboarding, benefits elections, performance reviews, and more.

- **Cloud-based Time & Attendance** enables both onsite and remote employees to clock in and out from any work location. Asure Time & Attendance streamlines processes for managing time collection, accruals, and employee schedules while staying compliant with FLSA and overtime laws. Time and attendance automation also helps eliminate common types of time theft, such as buddy punching.
- **Cloud-based Payroll** services automate one of the most compliance-heavy, time-intensive tasks in a small or mid-sized business. Payroll tasks require someone to spend time keying payroll data, figuring overtime, filing taxes, creating payroll and ACA compliance reports, creating W2s, and managing deductions and garnishments. Asure Payroll & Tax automates all these complex moving parts with easy-to-use, subscription cloud software that keeps you in control while letting you focus on business growth.
- **HR as a Service** provides a cost-effective way to achieve better compliance and reduce the administrative burden without having to hire extra HR professionals. Get compliance help from experts in human resources and labor laws. Asure HR Services provides three levels of support, from self-service compliance tools up through fully outsourced HR.

### Trends to Consider for 2021:

*Impacts of 2020 election on compliance; Cloud automation; HR as a Service*



Asure can help your business develop Human Capital to get to the next level, stay compliant, and allocate your time, money and technology toward growth.

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at human  
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ment.**