

Forecasting Headcount

Oct 05, 2024

Mar 08, 2022

Jul 26, 2023

Jul 26, 2023

Apr 14, 2022



**Josh Aharonoff &
Nicolas Boucher**

About this guide



This guide will cover

everything you need to
know about forecasting
your headcount spend

Josh Aharonoff & Nicolas Boucher

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Why you need to forecast your headcount spend

1



Your headcount spend will often account for

50-80%

of your cash burn each month


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The salary costs are
the main driver of
structure costs.



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A good forecast can help determine what is the **breakeven point** for the company to cover the structure costs.

It helps know the volume it needs to reach to be profitable.



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Your headcount spend can also be one of the most challenging costs to reduce, with a number of challenges ensuing from **lay offs**



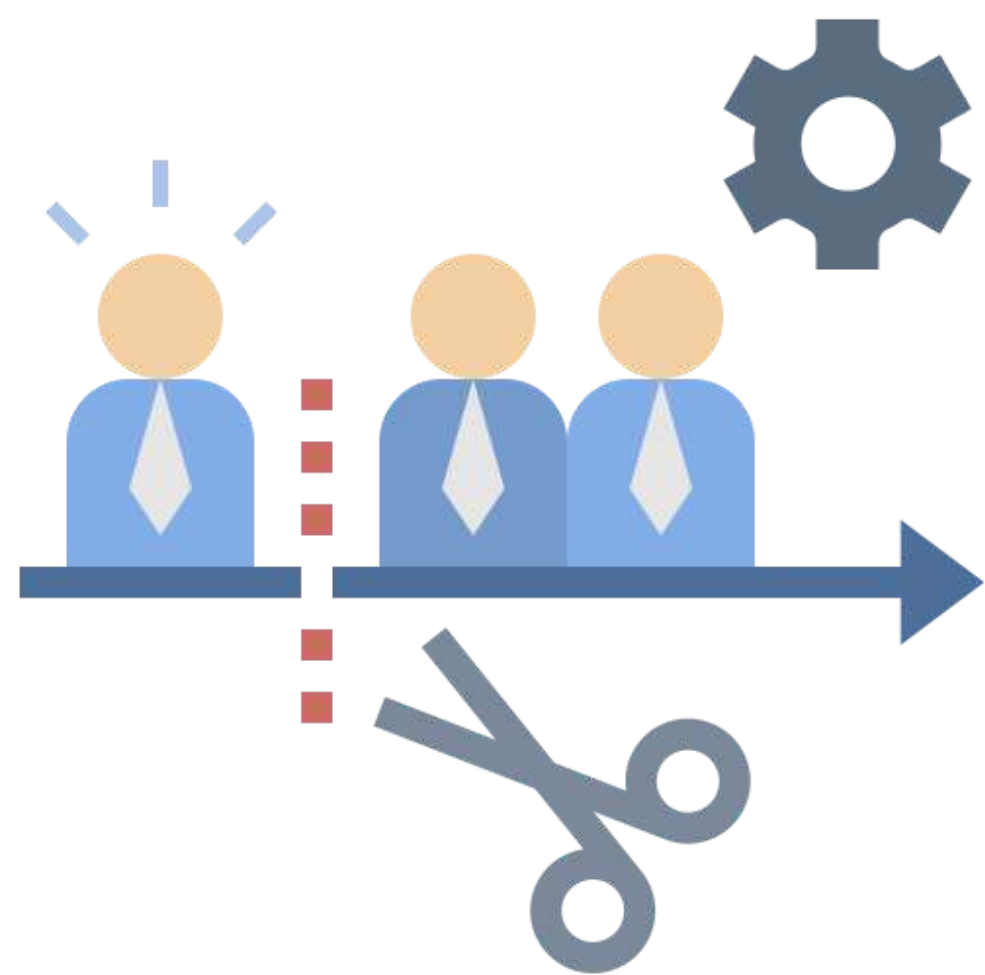
Severance



Lawsuits



Decreased work morale





**Foremost define your
needs for the next**

12 to 24 months

**depending on your backlog
and sales projections**

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2 How to Forecast your headcount spend

1



Start by collecting **information** on your existing hires from your **payroll platform**, and entering it into a spreadsheet:

Employee List

Search...

JOB TITLE	FIRST NAME	LAST NAME	STATUS	DEPARTMENT	LOCATION	TYPE	SALARY	START DATE	END DATE
<input type="checkbox"/> Software Engineer	Mark	William	Active	Design	Egypt	FTE	\$5000	Mar 12,2020	Apr 17,2021
<input type="checkbox"/> UX/UI Designer	Mark	William	Active	Design	USA	FTE	\$5000	Mar 12,2020	Jul 13,2022
<input type="checkbox"/> Web Developer	Mark	William	Terminated	Design	Gemany	FTE	\$5000	Mar 12,2020	-
<input type="checkbox"/> Computer Systems Analyst	Mark	William	Projected	Design	Egypt	FTE	\$5000	Mar 12,2020	-
<input type="checkbox"/> Systems Administrator	Mark	William	Active	Design	Egypt	FTE	\$5000	Mar 12,2020	Jul 13,2022
<input type="checkbox"/> Computer Support Specialists	Mark	William	Active	Design	Egypt	FTE	\$5000	Mar 12,2020	Apr 17,2021
<input type="checkbox"/> Software Developer	Mark	William	Projected	Design	Egypt	FTE	\$5000	Mar 12,2020	Apr 17,2021
<input type="checkbox"/> Full Stack Developer	Mark	William	Terminated	Design	Egypt	FTE	\$5000	Mar 12,2020	Jul 13,2022
<input type="checkbox"/> Front-End Developer	Mark	William	Terminated	Design	Egypt	FTE	\$5000	Mar 12,2020	Jul 13,2022
<input type="checkbox"/> Graphic Designer	Mark	William	Active	Design	Egypt	FTE	\$5000	Mar 12,2020	Jul 13,2022

< 1 2 3 ... 10 > 10 Entries per page

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2



Next, begin adding your projected hires...one by one

Location
Select ▼

Type*
Select ▼

Payment method*
Salary ▼

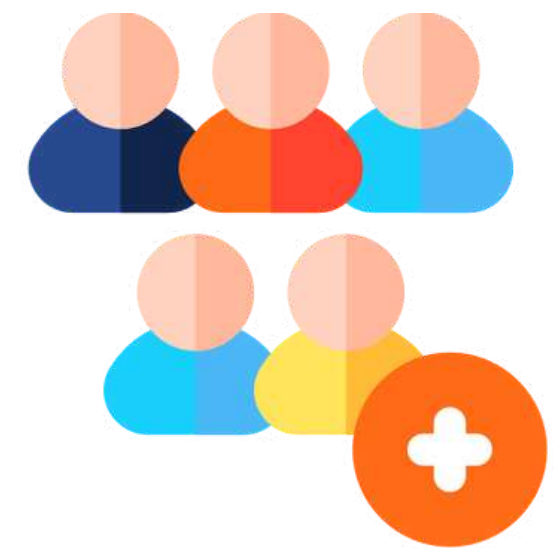
Salary per year*
EX. 5000 USD ▼

Start Date
Select

End Date
Select

Note ⓘ
Write here...

3

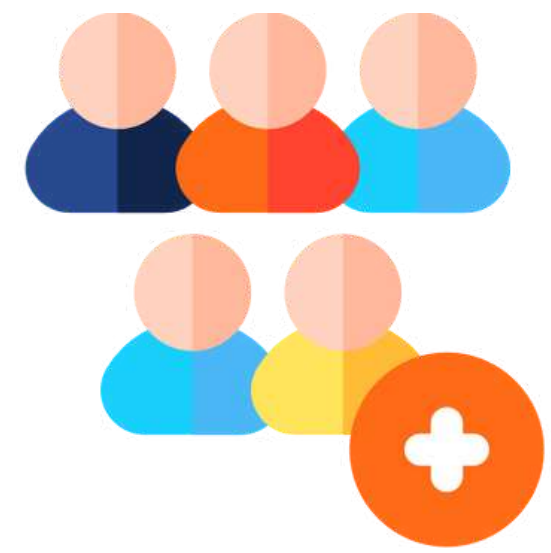


For a long range forecast (12 months or more into the future), **add roles in bulk**

					Actual	Actual	Actual
					May-21	Jun-21	Jul-21
Bulk New Hires							
Title	Department	Salary	Type				
Business Development Rep	Sales & Marketing	\$ 150,000	FTE		-	-	-
SDR	Sales & Marketing	\$ 80,000	FTE		-	1	1
Engineer	Research & Development	\$ 70,000	FTE		-	-	2
Customer Success	Sales & Marketing	\$ 70,000	FTE		-	-	-
Operations Associate	General & Administrative	\$ 80,000	FTE		-	-	-
General Support	General & Administrative	\$ 40,000	FTE		-	-	-
R&D General Low	General & Administrative	\$ 50,000	FTE		-	-	-

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4



If you have **department heads**, it is suggested to check with each on their upcoming **hiring plan**

Mighty Digits Headcount

Monthly

Actual
Jan-21

Actual
Feb-21

Actual
Mar-21

Hires by Department

General & Administrative

1

1

1

Sales & Marketing

0

1

1

Tech

1

2

2

Total

2

4

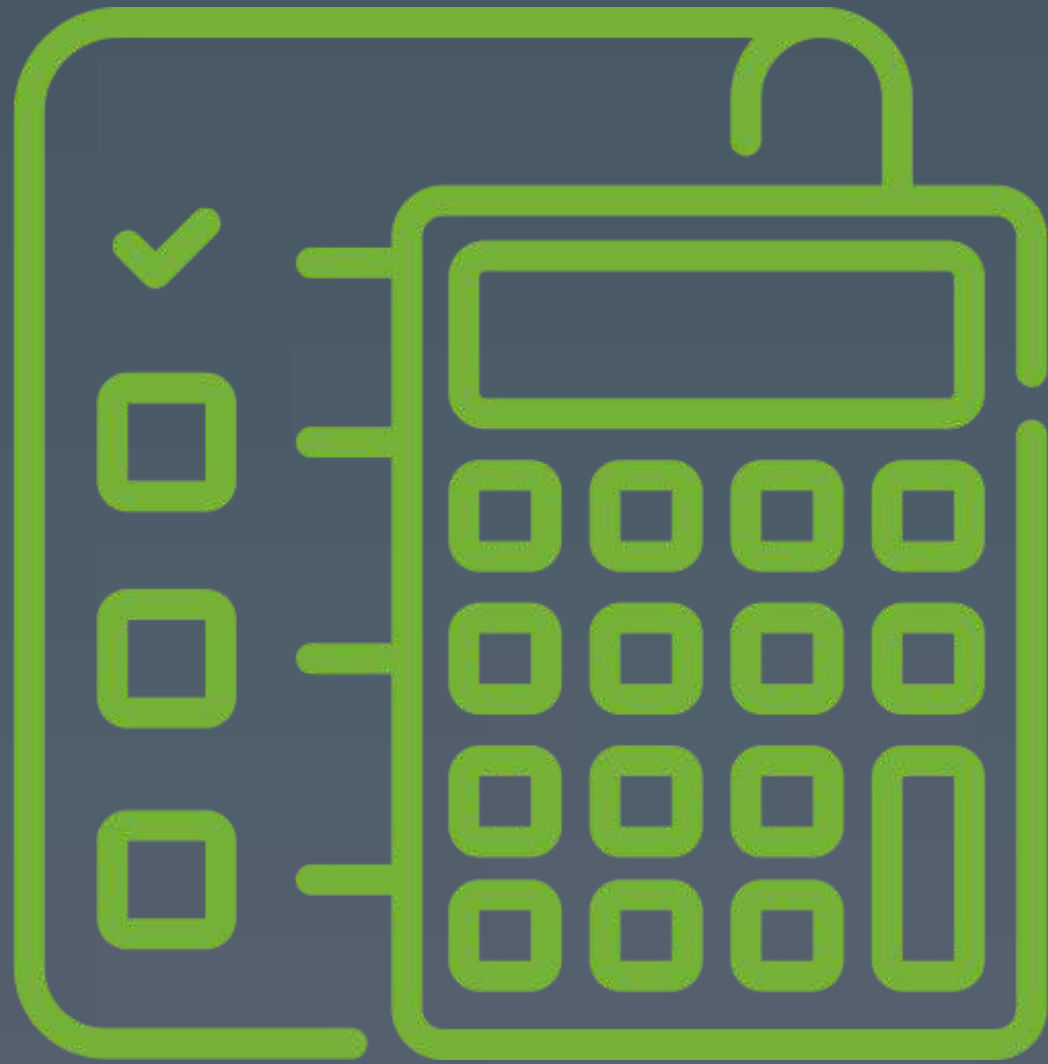
4

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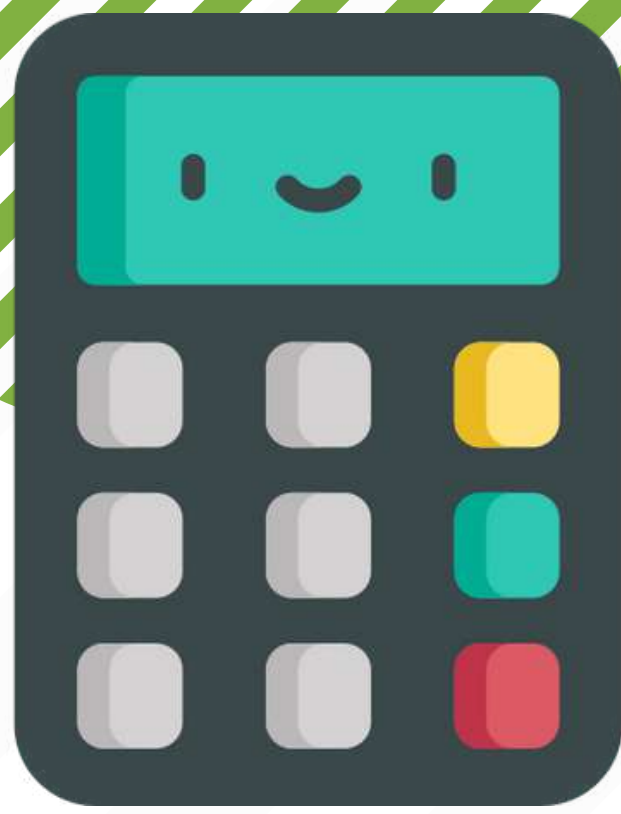
Consolidate and review the consistency of all headcount with the management team



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3 How to Calculate Projected Headcount Spend



Now that you have your inputs, it's time to **calculate** your projected spend for each month.

Here are some things to keep in mind



The Simple Method

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1

Determine the departments with **direct FTE** depending on the **business volume**



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2

Apply the business **growth** ratio to the direct FTE to calculate the additional **headcount**



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3

Use one salary **increase rate** across the board to calculate the salary costs of **next year**



Salary

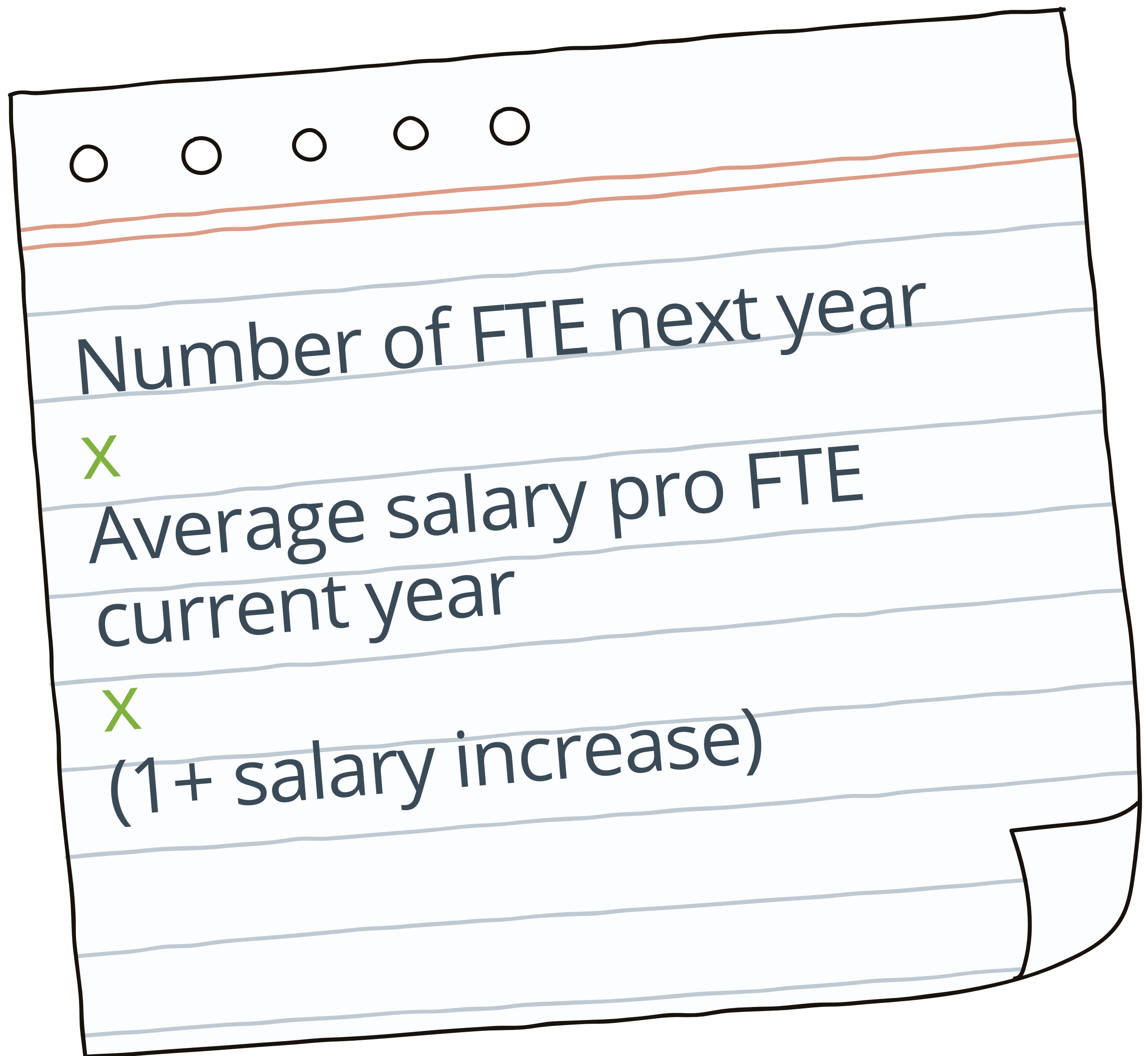


Next Year



4

Your salary costs of next year should be





The Detailed Method

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1

Prorate the salary for any hires who **joined** this month, or were **terminated**



\$120,000 / year

Hired on the 15th

Get's paid only \$5k in first month



\$120,000 / year

Terminated on the 15th

Get's paid only \$5k in last month



2

Full time employees have a number of other **incidental** costs:

\$ Employer Payroll taxes

Around 8–10% of salary

\$ Health Benefits

Around 8–10% of salary, or a fixed \$ amount per employee

\$ Payroll processing fees

Around 25% of salary, or a fixed \$ amount per employee

3

Other payroll costs to consider:

Bonuses

Commissions



Could be monthly, quarterly or annually

Recruiting fees



Often times a % of first year salary

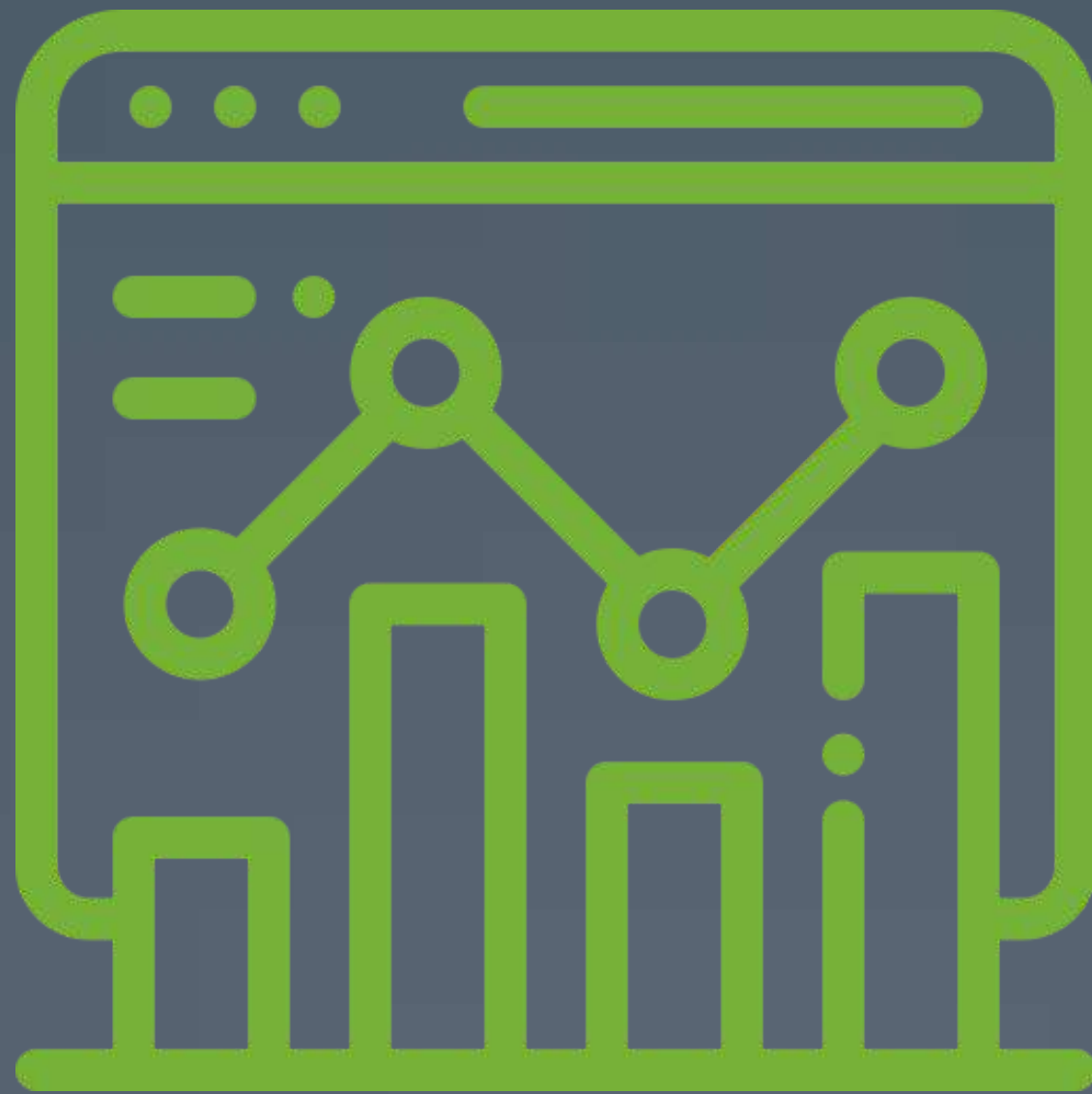
Training costs

Additional structure costs

(place, energy, equipment)



Could be marginal if the structure is already big, but for smaller team, this is an impact to consider



4

Putting it all together

1



Slice and dice your data on a **departmental basis**, and by each **cost type**

Mighty Digits Headcount		Monthly	Actual	Actual	Actual
			Jan-21	Feb-21	Mar-21
Expenses by Department					
General & Administrative			11,850	11,850	11,850
Sales & Marketing			-	17,775	17,775
Tech			10,112	20,112	30,112
Headcount Costs Summary					
Costs			\$ 21,962	\$ 49,737	\$ 59,737
FTE Salary			\$ 18,533	\$ 33,533	\$ 33,533
Consultant Salary			\$ -	\$ 10,000	\$ 20,000
Benefits			\$ 1,483	\$ 2,683	\$ 2,683
Taxes			\$ 1,853	\$ 3,353	\$ 3,353
Processing Fees			\$ 93	\$ 168	\$ 168
Bonuses			\$ -	\$ -	\$ -

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2



Use **Graphs** to understand costs & hires by department, and across multiple periods

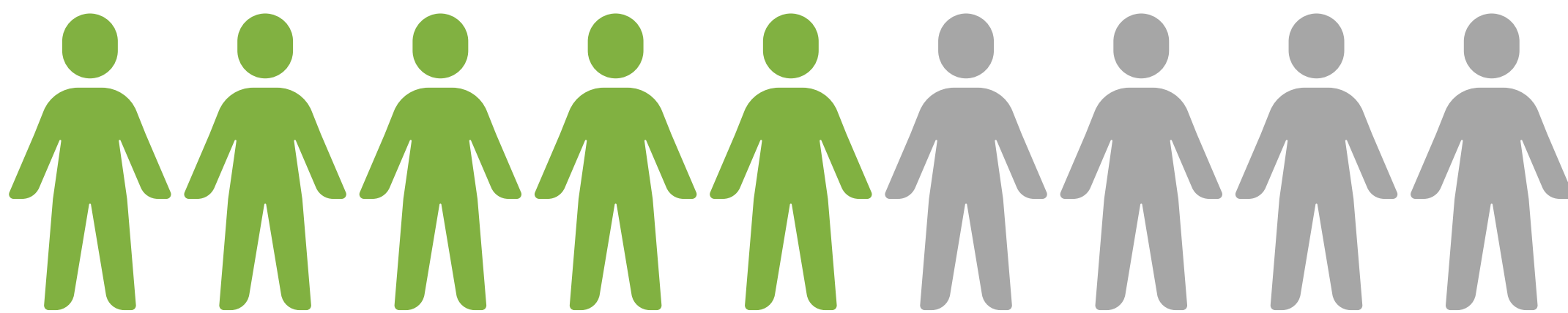


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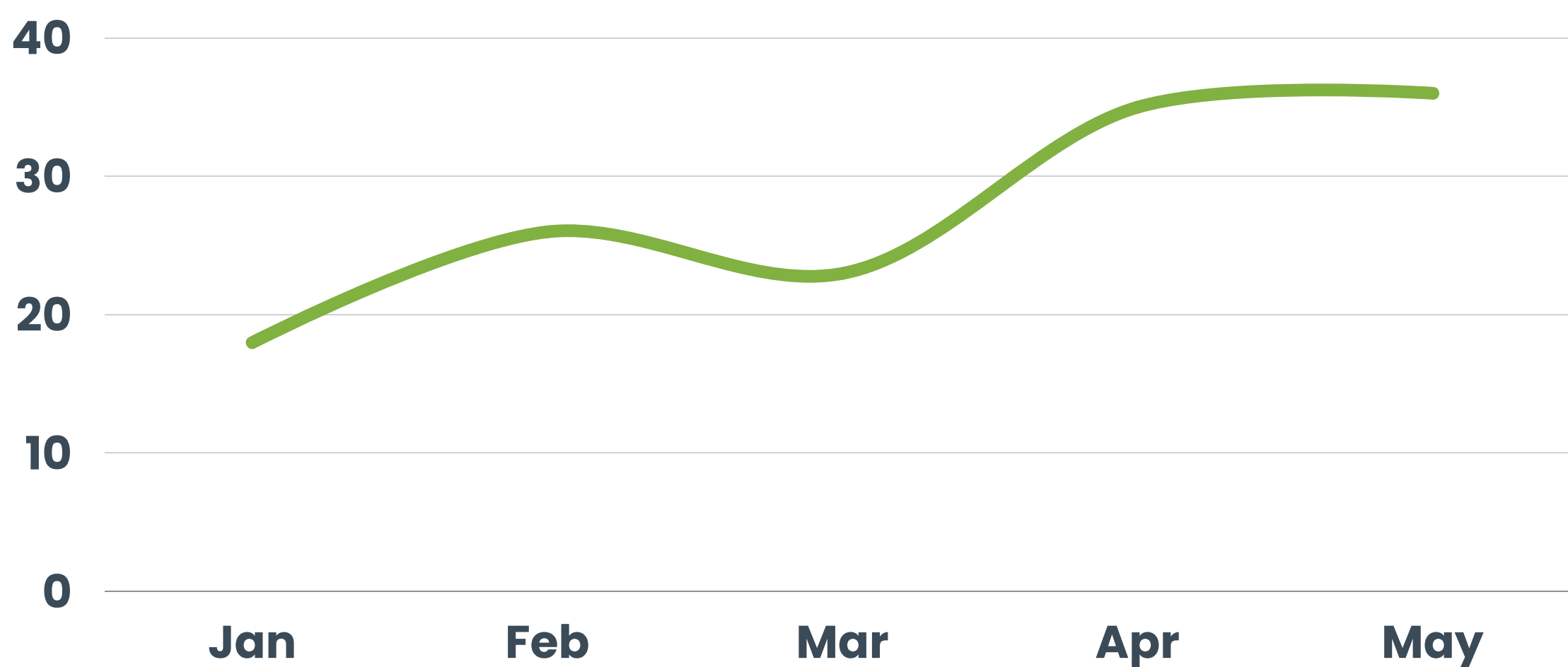
3

Use ratio like **FTE increase** vs **sales increase**.

FTE increase



Sales increase



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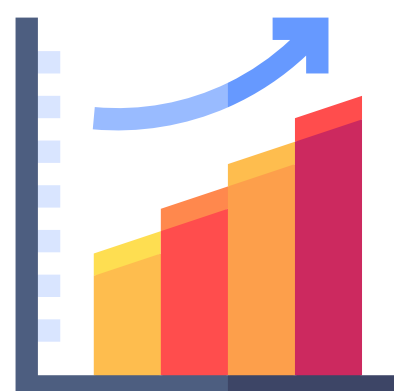
5 Bonuses

Analysing Headcount

What are the types of analysis you can perform if you are in charge of analysing or controlling headcount?

Headcount

Evolution per month and vs budget



Full Time Equivalent

Full Time Equivalent is based on the contractual hours of an employee. A full time contract represents 1 FTE, but a part time employee with 50% represents only 0.5 FTE



% of Direct employees

a direct employee works directly on a project or production order, whereas an indirect employee has more a supervisory or a support function role



Flexibility

number of temporary workers, numbers of hours in time account: this will help you know how much you can reduce or increase your activity to adapt to the business demand



Capacity

compare the gross capacity (hours before holidays, sickness, leaves) as well as the net capacity. Identify the root cause of differences in your capacity. It can help you explain why there is less or more hours worked



Turnover rate

number of employees leaving the company compared to the total number of employees. You can see if there is some anomaly in some departments or some regions



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Looking for more help forecasting
your headcount spend?

Check out my easy to use headcount template:



<https://www.mightydigits.com/headcount-template>

Check out the course for finance professionals:



<https://nicolasboucher.online/course>



About the Authors



Josh Aharonoff

I help Startups Scale with Proper Finance & Accounting



Nicolas Boucher

I teach Finance professionals how to become high performers in FP&A, Controlling and Finance