



Monitoring “Cost per Hire” - Cost Metrics in Recruiting

By Doug Fuehne

Measuring success is critical in recruiting. There are four general types of metrics on which to concentrate - cost, [quality](#), quantity and [time](#). This blog focuses on the costs of recruiting.

Possibly the most overused and least-understood metric in recruiting is “cost per hire” (CPH). At its core, CPH should be very simple, right? Identifying CPH can be as simple as noting how much an agency cost you for a hire - agency fee multiplied by the candidate’s salary -- most likely one of the highest cost per hires your organization pays.

However, as with many simple things, the complexity lies in the details of the metric and its implementation. For example, [Recruiters Network](#) has a CPH calculator that concentrates on six factors while [Tek Systems](#) has a 33-factor CPH calculator. Which one is more accurate? Hopefully, this variation allows you to realize that “Cost per hire might just be the great unknown and misunderstood aspect of staffing (Monster.com).”

When you are calculating CPH, there are several things to remember:

First, what is the purpose of this data? It is nice to know that at one time in history, your CPH was X, but remember, it is a metric, and metrics are designed to be tracked over time. This means, whatever method you use to calculate CPH should be repeatable and should always measure a “before” and “after” cost, or a series of costs over time.

Second, your CPH should integrate with your overall recruiting strategy. What *should* your CPH be? You *can* spend too little. Keeping CPH extremely low minimizes the opportunity to interview great candidates and maximizes the



likelihood of turnover. However, of course, you can pay too much by exclusively utilizing staffing agencies.

Finally, any measure of CPH should include three elements of “costs.”

- DIRECT costs
- INDIRECT costs
- RISKS - noticeably absent from the recruiting literature

Numerator and Denominator of Cost Per Hire (CPH)

Measuring an accurate “cost” in the cost per hire (CPH) metric must include three separate elements; direct costs, indirect costs and risk costs. Once the cost is established, the denominator of the metric, number of hires, is equally important, and how you define this number will affect the metric.

Direct Costs of Recruiting

These costs are relatively easy to quantify, but it’s often hard to find all of the elements, as they may be distributed throughout your organization’s accounting structure.

- People - Elements of direct costs include the cost of your internal recruiting staff, your contract recruiters and any outside assistance you may have from other recruiting providers. Also included in this category are recruiting leadership costs, such as the director of recruiting and whatever management you may have.
- Process - Analysis of your recruiting process will provide other direct costs. Look at sourcing, screening and selection as sub-processes with costs. For example, agencies are a direct process cost in the “sourcing” area. Other “sourcing” costs are employee referral bonuses, networking events, advertising costs, etc.



Screening costs can include any interview travel and entertainment, and don't forget about screening tests or guides (Myers-Briggs, Lominger, etc).

Selection costs are background checks, drug screens, relocation, printing welcome packets, etc. H1B Visa costs can be included here, or in the sourcing category.

- Tools -These are items like your applicant tracking system, any job board subscriptions you may have and the cost of creating and monitoring metrics. Don't forget about document management costs and your telecommunications costs - both of these can become pretty big with the amount of resumes and phone calls that are part of recruiting.

Indirect Costs of Recruiting

Indirect costs can be divided into sub-categories, too. Personally, I use process costs, opportunity costs and intangible costs.

- Process costs include hiring managers that spend too much time reviewing resumes instead of performing their "managing" job. Again, remember to track "before" and "after" costs, as there will always be some indirect costs spent.
- Opportunity costs can be huge. How much did it cost your organization NOT to have that person performing that job? In high-value sales, the opportunity cost for an un-filled sales position can reach into the millions. However, the trick with all indirect costs, but especially opportunity costs, is to make sure you are comparing similar numbers. You can't compare a dollar of lost revenue to a wasted hour of time - one is revenue, while the other is operating expense. It is always better to drop all costs down to the "profit" line when making comparisons.



- Intangible costs include costs related to employee efficiency and cultural fit, among others. How much does it cost your organization to have a poor cultural fit? Did that manager really spend that long counseling that employee? How much can the organization gain from a more productive employee? Tough questions, but ones you should consider.

Finally, the indirect costs of recruiting should be separated out from the direct costs simply because someone could argue that “they are not real” (even though they most certainly are). In this manner, you can add or subtract costs depending on your audience. After all, it is very important that your numbers be credible.

Risks of Recruiting

Risks are not necessarily costs, but can greatly contribute to the “cost of hiring.” Risks cannot be compared with direct or indirect costs because they are probabilistic - they may or may not occur. While you *will* spend money on a job board and your managers *will* spend too much time reviewing resumes, you may or may not incur a penalty for EEOC or OFCCP violations. However, if that does happen, it typically dwarfs other costs. You would be foolish to ignore risk costs.

We won't focus on risks, except to note that you should make every effort to identify and control them, as they are a very real potential cost of recruiting, especially if you ignore the “process” part above.

The Denominator - Number of Hires

Finally, once you have figured out your “cost,” you need to know how many “hires” you actually made. This seems simple, but I have seen many clients that don't know the answer to this question. Make it a point to diligently track this number - it is critical.



You can split the number of hires into specific groups in order to calculate and track different CPH. For example, costs for different position tiers (executive, professional or hourly staff) or for different position profiles (remember the CPH of that un-filled high-value sales position). It all depends on what is important to your organization, and what integrates with your recruitment strategy the best.

You may also want to consider if the number of hires is the right denominator. Should you consider the work your recruiting team was forced to do on requisitions that closed prior to a hire being made as part of the “costs”? Some cutting-edge recruiting providers are measuring the “cost to submit the candidate that eventually gets hired.” You get the point - there are many ways to peel this onion.

Final Note

If you care about the costs of recruiting, and you should, you ought to give *how* and *what* you measure around costs some serious thought. Think about getting some professional assistance with your analysis. It will pay for itself many times over.

After all of this analyzing, I’m going to invest in the cost of a cold one at my local networking establishment!