



Identifying Recruiting's Value (and convincing the boss)

By Nick Tubach, President and CEO

Let's face it; recruiting is one of the last places the typical executive management team "wants" to invest. Recruiting is frequently viewed as a necessary evil or a means to an end; rarely as a key function that impacts a company's success or failure. Even when management does acknowledge importance of recruiting, they still aren't often prepared to increase recruitment spend. The thought is that since recruiting isn't impacting the top line, it's simply not a top priority. This is where many organizations "zig" when they should "zag."

Recruiting must be able to effectively articulate the true financial value behind any solution they chose in order to get executive attention *and* the budget. To do so, you must be able to calculate "cost per hire" (CPH), which is often done so as a function of direct spend (e.g. agency fees, other outside, or contract vendors, job boards, internal recruiters, etc.). Note, the common denominator; they are all direct costs. That's only part of the equation, however. What about indirect or opportunity costs? For example: Finding sales performers more quickly or having hiring managers spend half as much time in the recruitment process. While these indirect/opportunity costs are not as easily quantified, if companies don't consider such "costs" as the driver of selecting/justifying any recruiting solution, they'd be guilty of what I call "business operations myopia."

It's feasible that once you consider the operational impact outside of recruiting (i.e. engineering, R&D, sales, etc.), not only may your true CPH be much higher than you thought, your company may actually benefit from increasing recruiting spend because of top line efficiency gains, for example.



Take the following simplified example (from a real company):

- Company needs to add twenty sales professionals
- Each carries a quota of \$2m per year; say close to \$40k per week

Solution 1

- Average time to hire is eleven weeks
- Average CPH (using the direct cost model) is about \$3,500
- Hiring managers look at 20 resumes and have five interviews before one is hired
 - Average an eight-hour investment in time to hire one sales person - burdened salary of \$50 per hour
 - Each hour not managing sales implies lost productivity to the tune of \$1000 per hour
 - i.e. hiring manager CPH is \$8,400 per hire

Now let's compare this to a "Managed Recruiting Solution" of \$40,000 per month for three months (for professional services fees) to put in place a team of twenty sales pros, with the only difference being the following:

Solution 2

- Average time to hire drops to nine weeks (from 11)
- Hiring managers only look at six resumes and interview three to result in a hire
 - Average a 4-hour investment per hire (compared to the previous eight hours)
 - i.e. hiring manager CPH of \$4,200



Summary is below:

	Solution 1	Solution 2
Direct CPH	\$3,500	\$6,000 (\$120,000/20)
Hiring Manager CPH add-on	\$8,400	\$4,200
True total CPH	\$11,900	\$10,200
Total (out of pocket) Project (cost)	\$238,000 (\$11,900 *20)	\$204,000
Net positive impact on sales revenue		\$1,600,000 (2 weeks * 20 sales pros * \$40,000 sales quota)

It would have been easy to discard Solution 2, based on the typical “Direct CPH” model (\$3,500 vs. \$6,000), but digging a little deeper shows Solution 2 to be a better option (\$238k vs. \$204k). Now, also consider the effective sales team productivity gain of Solution 2 by having two extra weeks of production; \$1.6m (2*20*40,000). If I’m the VP of sales, I’m inclined to pay for that increase, happily. You just increased my year-end bonus!

Words of caution...make sure you have sufficient evidence and/or data to justify your assumptions. After all, you are introducing a better, albeit new, way to look at the bigger picture.

It’s time to graduate the perception of recruiting to the next level. Good luck!