# Corporate Recruiting Reports

# COST & TIME

Staffing.org

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# Costs

We measured staffing costs twice during the recession, once in early 2008 and again 12 months later. Those measurements were almost identical, telling us that employers adjusted their recruiting budgets early in the downturn and were keeping them at lower levels until business conditions improved. This latest survey measured the effects of the nascent recovery, which, while anemic, has turned employers eyes toward the future.

From a staffing perspective the last two years have been unstable. Along with changes in the economy and the competitive landscape, social media morphed into a set of serious staffing tools, technology evolved significantly, candidates became more skeptical, and employees less enthusiastic. Recruitment outsourcing regained its stature and cloud computing grew rapidly.

Economically, the differences between major markets were sharply displayed. International employers could easily be found hiring new employees in East Asia and South America while simultaneously firing them in North America and Europe. Without question, enterprise talent pools are now worldwide.

Looking back, it doesn't appear that the talent equation overall ever changed from scarcity to a much ballyhooed surplus. As it turned out, the supposed surplus of laid off workers did not translate into either a greater availability of "talent" (the catchword for the most desirable groups of candidates), or an increase in their percentage of the total workforce. Employers seeking talent report the same shortages in 2012 that they did in 2010 and 2008.

From a research standpoint it continues to become more difficult to determine what staffing best practice means concerning cost and time. When most employers went about staffing in similar ways, industry benchmarks were stable and reliable references for evaluating performance. Today, there are so many different ways of doing things that apples to apples benchmarks, a fundamental requirement of trustworthy data analysis, have become increasingly difficult to identify.

Perhaps even more significant, staffing's value proposition has been gradually shifting away from efficiency. The recession highlighted this because profit pressed employers had to make so many calculations about which employees produced the most value for their companies. The quick hire was frequently not the most productive hire over the long haul. Also revealed to many was the wastefulness of traditional "hire-fire-rehire" recruiting practices, and the relative insignificance of recruiting costs when compared to the productivity penalties of mediocre hires, disengaged employees, and low retention.

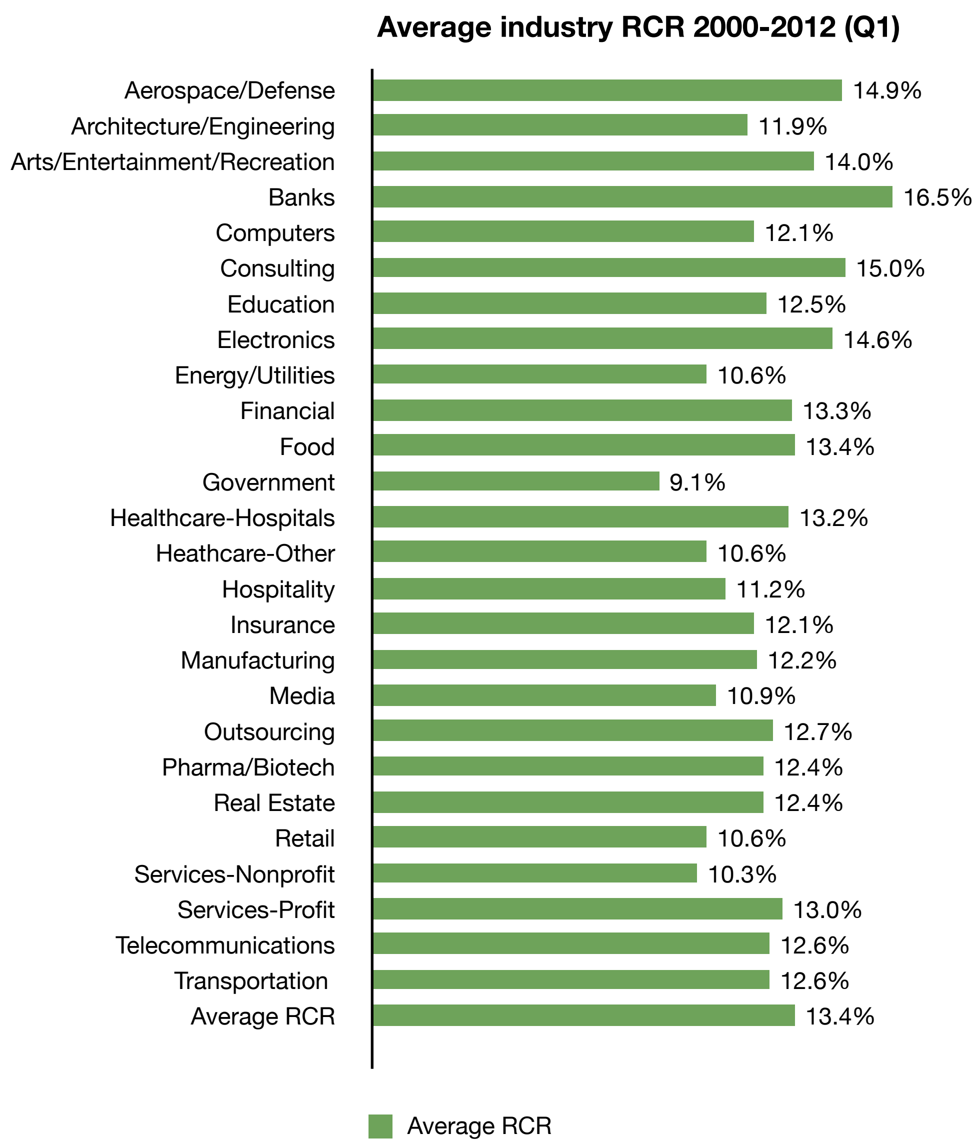
Today, clients are justifiably confused about the "right" amount to spend on talent acquisition. That amount is now so dependent on circumstances and strategy that individual companies of similar sizes in the same industry can now make rational and appropriate staffing decisions that result in hiring costs that differ by 100% or more.

## The History of Recruiting Costs

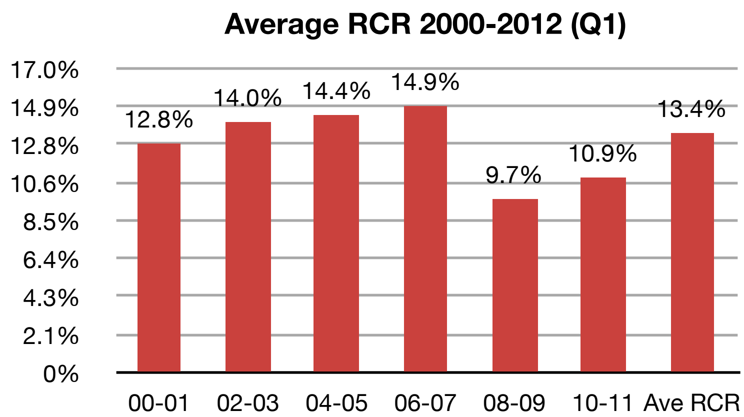
Is there such a thing as a reliable benchmark for cost per hire, and if so what does it mean? Regardless of whether this question points to the best criteria for evaluating a staffing department, it will always be asked by every employer at some point because efficiency is so fundamental to business success. So we have to continue to attempt to answer it.

Most of our clients have been wrestling with costs during the last four years. The great majority spent less at one point or another, either by reducing hiring, cutting overhead, or both.  But some companies also invested, using the hiring lull to install more efficient technology, write new outsourcing contracts, or adjust departmental structures. A few aggressive companies even increased spending, seeing in the downturn opportunities to lure talent from competitors and upgrade their workforces.

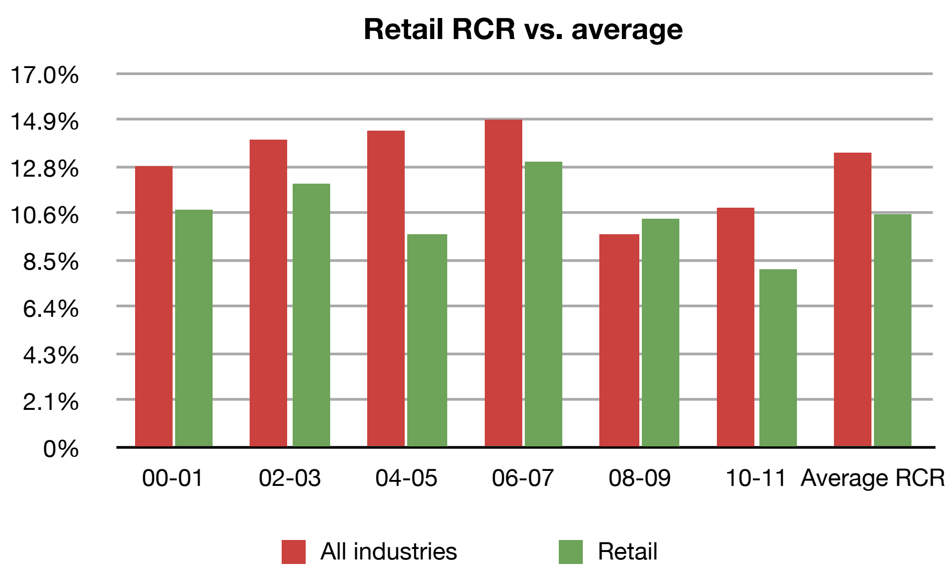
To put this year's data in perspective we reviewed our records going back to 2000 to see what history could tell us about a decade marked by two economic slumps that framed an interim period of growth and high employment. With so much volatility in the job marketplace, we needed a long-term view to begin to answer the question: *What has really happened to recruiting costs, and what should they be today and tomorrow?*




The consolidated data for the 27 industries shows rising costs from the lows of the recessionary period of 2000-2001 through the recovery period of 2002-2007, then a sharp retreat during the recent recession, followed by a rise again over the past two years.




But within individual industries the pattern varies. In retail, for example, the pattern is more irregular, showing staffing costs continuing to decline since their peak. No two industries show identical patterns.



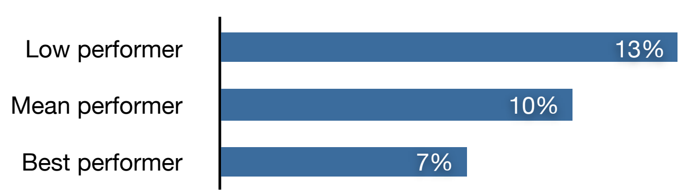

Does history provide our efficiency benchmark? Not a fixed one, but It does tell us that the benchmark moves with the economic cycle and that different industries respond differently to the business environment. In short, the benchmark is situational and variable.

Historical numbers also don't accurately reflect the extraordinary impact of technology on staffing over the past decade, something that shows up clearly when we talk with individual clients. Some of them have transformed their staffing efforts through technology, applying it aggressively and creatively to greatly improve efficiency and effectiveness at every level of the recruiting funnel. Others have not.

The different ways employers have exploited technology is mirrored in other areas as well. Some clients have applied the sophisticated supply chain techniques originally developed to optimize the flow of raw materials and parts to manufacturing facilities, as well as the sophisticated distribution techniques used to optimize the flow of finished goods to point of sale, and applied them to their management of people. The result has been significant improvement in their ability to have the right talent in the right place at the right time.

This has caused the data we collect to spread out. Instead of results that group tightly together, we now see, in almost every industry, results that vary considerably from company to company. A typical spread would look like this, with the staffing costs of high performers roughly half those of low performers.

**Efficiency performance**




And as if the benchmark variations linked to the general economy, individual industries, technology and innovation were not enough, there are equally important differences related to company size, number of hires, local talent scarcity and other factors. We found that even regional geography can influence results by as much as 10%.

There is also an extremely important culture factor. Some companies place a very high value on talent and treat it as a high priority. Other companies don't. How a company values talent—acquiring it, developing it and retaining it—has a big impact on costs. Companies that value talent highly are generally willing to spend more on staffing because they calculate the ROI of a good hire over the long term.

The lesson here is that, increasingly, efficiency benchmarks must be carefully matched to enterprise strategies and priorities as well as to an array of local job market conditions.

The days of easy benchmarking are gone. The world of staffing has fragmented. There are now too many variations linked to process, technology, marketing, structure, brand strength, quality, time and strategy to make the old, trusted linkages to industry benchmarks as meaningful as they once were. Although there definitely are "right" cost answers for every company, these are highly situational and require analyzing many variables, starting with the basic question: *what kind of workforce does the company really want?*

## Averages Don't Necessarily Measure Excellence

Benchmarks are useful when used to define excellence, but not when used to justify mediocrity. The data in this report generally consists of what most people understand to be "averages" and statisticians refer to as "means." If you were grading performance, a mean usually means a "C," grade, not a "B" and certainly not an "A."

However, there are instances where a mean recruiting efficiency score might signify excellent performance if, for example, it is producing a roster of candidates that is clearly superior to competitors' rosters. In such a case, a so-so efficiency score might be completely justified by a superior effectiveness score.

Here is a statistical average. But where is best performance located within the range of 3 and 35? We simply don't know.

*16+3+7+23+35+4 = 88 / 6 = 14.67 average*

Also be careful if your company does not meet an industry benchmark *for perfectly good reasons*. Say you're recruiting in a high cost area like New York metro, and your competitor is recruiting in the low cost southeast? Or suppose your company is famous for its low turnover, its willingness to pay signing bonuses, its very aggressive growth, exceptional onboarding, or rigorous security clearances, all of which raise your CPH but represent defensible business practices? Or suppose you are a startup competing for talent with established, big brand competitors. All these things can create apples to oranges comparisons.

Hitting or missing a benchmark like cost or time is much less important than knowing *why* you missed it. Was there a good reason, or are you simply less efficient than you should be? Companies differ. No two recruiting departments operate under identical circumstances. The best benchmarks are **always your own over time**, those that reflect your own company's priorities and your own performance against those priorities. Continuous improvement, based on your own best efforts in your own performance arena, is what you want to be measuring.

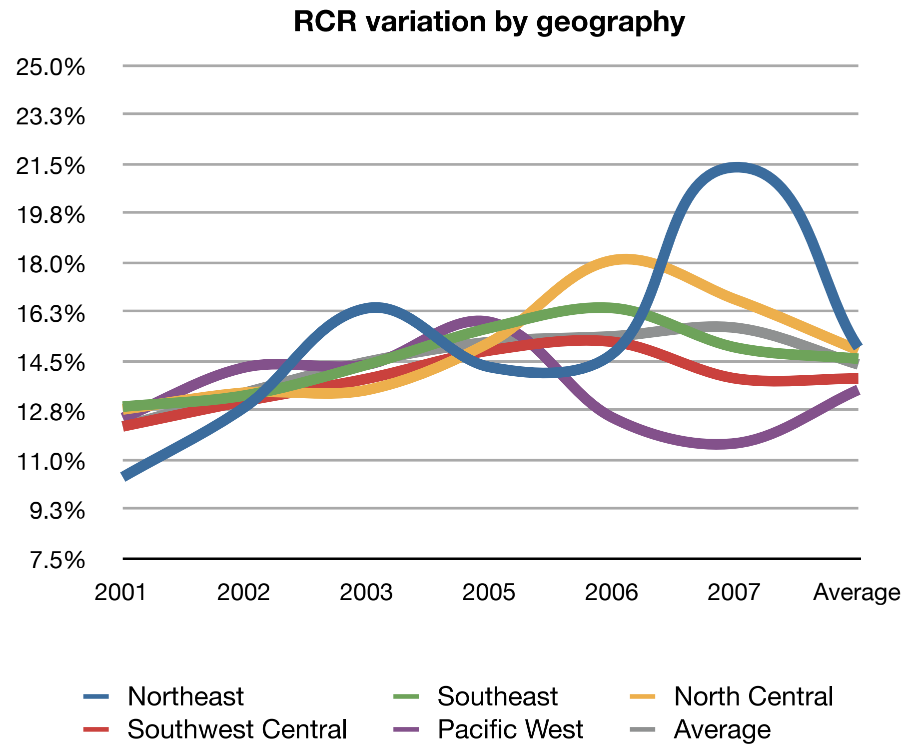
## Geographic and other Variables

Staffing managers in large, geographically dispersed organizations are well aware that hiring costs and competitive salaries can vary between, say, Boston, Miami and Des Moines. Some of these, like cost of living, are relatively static while others, like the demand for specific skills, may vary.

The problem is applying those cost differences when it comes time to compare the efficiencies of individual offices year over year. Cost of living can usually be indexed but talent supply can be highly variable. The upper mid-west, for example, has seen tremendous swings in the availability of mid-level engineering talent in recent years as the fortunes of the auto industry have waxed and waned. Today, as the biggest companies rebuild and suck talent out of a market that was severely depleted during the last recession because many engineers relocated, smaller companies are having to import—at considerable expense—the talent they need.

What we have found over the years is that there is about a 10% differential in average staffing costs between the most expensive locations (northeast) and the least expensive (west coast)

| | 2001 | 2002 | 2003 | 2005 | 2006 | 2007 | Average |
|---|---|---|---|---|---|---|---|
| **Northeast** | 10.4% | 12.9% | 16.4% | 14.3% | 14.8% | 21.4% | 15.0% |
| **Southeast** | 12.9% | 13.3% | 14.4% | 15.7% | 16.4% | 15.0% | 14.6% |
| **North Central** | 12.8% | 13.4% | 13.5% | 15.2% | 18.1% | 16.7% | 14.9% |
| **Southwest Central** | 12.2% | 13.1% | 13.9% | 14.9% | 15.2% | 13.9% | 13.9% |
| **Pacific West** | 12.5% | 14.3% | 14.4% | 15.9% | 12.5% | 11.6% | 13.5% |
| **Average** | 12.2% | 13.4% | 14.5% | 15.2% | 15.4% | 15.7% | 14.4% |




## Recruiting Cost Ratio (RCR)

Cost per hire (CPH) remains the industry norm and the metric that most professionals are familiar with. Its equation is simple:

*Cost per hire = total recruiting cost / number of people recruited*

CPH is useful when there is substantial uniformity in staffing specifications and operations, but it can be misleading when that is not the case. For example, CPH has trouble with variations in job functions, skill levels, labor market conditions and industry variables. This shows up when evaluating recruiters who are working highly competitive job markets, or high-cost wage markets, or markets where talent is scarce, or who are looking for senior level talent. Even if they are performing admirably, their CPH numbers will be higher then peers working on less challenging requisitions.

Is there a more useful calculation? Yes. Simply divide total recruiting cost by total salaries recruited, not hires. This is called Recruiting Cost Ratio.