



# Measuring Cost-per-Hire

A REPORT BY  
KELLY SERVICES OUTSOURCING & CONSULTING GROUP, AUSTRALIA  
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Talent at work



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# Executive Overview

Human resource departments are increasingly the focus of benchmarking studies that aim to determine their performance and effectiveness. As the HR function comes under increased scrutiny to meet organisational goals and metrics, the cost of the recruitment process itself has become one key determinant of success.

The concept, known as Cost-per-Hire is one of the common measures applied as part of this assessment process. But what exactly is Cost-per-Hire and how is it being measured?

In order to tackle this issue, Kelly Services Outsourcing & Consulting Group undertook a series of discussions with key executives in late 2006 to get a better idea of how the corporate sector analyzed the costs of its recruitment activities.

What becomes clear is that the process of calculating Cost-per-Hire is extremely complex and inconsistent. Things get even more complicated when you consider cost of "empty chair" time, the impact of hiring delays on turn-over, the cost of losing embedded knowledge, and lost promotional potential.

Respondents were asked to undertake an assessment of all the components that go to make up the Cost-per-

Hire equation for a range of given staff positions. What emerges is a somewhat opaque pattern that suggests a range of costs varying from \$2,700 to recruit a university graduate, up to \$40,000 for a chief executive.

It is also clear that many firms have different definitions and methodology for determining total recruitment cost. For what is arguably the most important functional task of most organisations, it is clear that the recruitment process is still surrounded by some quite fuzzy science.

However, on a positive note, internal consistency of measurement within the same organisation does appear to provide a reasonable comparison of one Cost-per-Hire over another.

It is always prudent to ask the question: what does it cost me to bring in key talent? For any organisation, it is vital to watch costs and have a program of continuous improvement, ensuring that money is being devoted to the right areas and that there is a pay off.

It is important to measure what works and what doesn't work as rigorously as possible. For some businesses, hiring via the Internet may go some way in cutting cycle times and lowering Cost-per-Hire.

It is important to never spend more than necessary but to always weigh costs against potential benefit. However, you also have to pay for top talent. Good people know they are good and demand appropriate salaries and benefits. Whether the organisation uses traditional or new methods, having an effective way to calculate Cost-per-Hire is essential to both proving the value of HR and making HR operations as efficient as possible.

Even though it may be time consuming, developing good numbers to accurately assess Cost-per-Hire should benefit any organisation. It's worth remembering that Cost-per-Hire is not the only measure. Reducing hiring costs needs to be correlated against measured improvements in hiring quality. Good metrics will help reduce costs and improve the recruitment process, because, if you have a good benchmark, people will aim for it.

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At a series of recent executive discussions facilitated by Kelly Services Outsourcing & Consulting Group, a lot of conversation and debate centered around the average Cost-per-Hire, what companies typically measure to establish this and what is “best practice” in this area.

Whilst there has been some study done on this in the United States there appeared to be no clear Australian studies of this nature. This report examines the different variables and/or consistent approaches Australian companies use to measure Cost-per-Hire.

The results represent the views of mid to senior HR related professionals from 59 organisations in the industry sectors covering IT&T, Government, Manufacturing, Transport, Banking and Finance, Professional Services, Health and Retail/Wholesale.

The survey was conducted over November / December 2006 by Kelly Services Outsourcing and Consulting Group, Australia.



# What is Cost-per-Hire and why is it measured?

As human resource departments search for every inch of cost containment in their operations, increasing importance has been placed on the use of metrics particularly in the recruitment arena, with one of the more common being Cost-per-Hire.

Cost-per-Hire was first routinely calculated in the late 1960's. Cost-per-Hire proved to be a relatively effective tool for forecasting recruiting costs. By the early 1980s, although many organisations were beginning to calculate Cost-per-Hire, no standard formula was in place.

Many institutions and consultants have put forth widely accepted methods for determining Cost-per-Hire. There are two classic methods for computing cost-per-hire: the Employment Management Association (EMA) model, which Gary Cluff developed in 1983, and the Saratoga Institute's HR Effectiveness Report, which has been around for about 10 years.

According to Cluff, a good cost-for-hire assessment should include, internal, external and direct costs. The EMA model takes all of those costs into account. They include:

- **Internal costs:** employment/recruiting office salaries and benefits; staff travel, lodging and entertainment; and administration.
- **External costs:** travel, lodging and entertainment, and salaries for other recruiters.
- **Company visit expenses:** candidate travel, lodging and meals; interview workday expenses, and others.
- **Direct fees:** advertising, job fairs, agency and executive search fees, cash awards for employee referrals, and college recruiting.
- **Supplemental data:** average annual salary of new hires, recruit workload, and number of interviews versus number of hires; acceptance rate, time-to-fill; time-to-start, turnover, relocation costs and average sign-on bonus.

The Saratoga Institute model includes advertising, agency/external recruiter costs, travel relocation, referral bonuses and internal recruiter costs which account for 90% of the costs to hire. The Saratoga Institute then adds an additional 10% to cover miscellaneous expense items such as

testing, reference checking, bonding, hiring-unit staff time, administrative support and other minor expenses.

The primary difference between the Saratoga and the EMA model, Cluff says, is that "the Saratoga method gives 'other recruiter costs' and 'administrative expenses' a flat 10-per cent weight, rather than giving them a line item for actual costs. The numbers tend to be within 5 per cent of each other."

It is important to note that all the experts in Cost-per-Hire calculations agree on one thing: calculating Cost-per-Hire is extremely complex – and inconsistent. This is largely due to the fact that there appears to be no consistent standard of measurement. The biggest variable is probably the inclusion or exclusion of management time and overhead costs.

This experience largely correlates with the Australian Cost-per-Hire analysis whereby many organisations use different methods to measure Cost-per-Hire. However, our own analysis has identified common patterns that Australian businesses use to measure Cost-per-Hire, which do provide a reasonable snapshot of the situation in the Australian market.

# How does Australia measure Cost-per-Hire?

A total of 59 Australian companies were surveyed to gauge the different variables and approaches that organisations use to measure Cost-per-Hire.

While the results of this survey are numerically small, we believe that they provide an accurate indication of the experience in the Australian marketplace, due in large part, to the seniority and experience of the respondents. Survey respondents represented a wide variety of industries including small, medium and large organisations with 68% having up to 500 full-time employees.

Metrics taken into consideration to understand how Australian companies measure Cost-per-Hire included:

1. In-house recruitment practices and associated costs
2. Common practices and methods used to calculate Cost-per-Hire
3. Average Cost-per-Hire for different categories of employee.

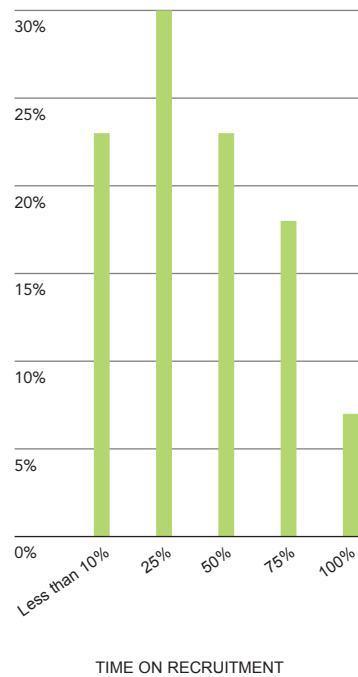
# 1] Current in-house recruitment practices /costs

Most of the organisations in the study (76%) had between one and three full-time employees dedicated to recruitment duties only within the HR team. As well as those who are fully dedicated to recruitment duties, other employees spent time on recruitment to a varying degree.

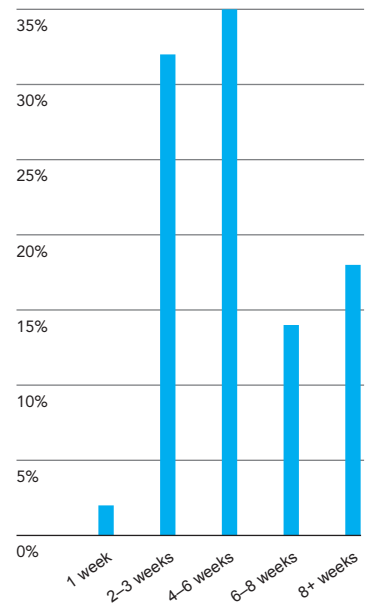
The average base salary for HR staff performing recruitment duties was \$63,148 with a range from \$35,000 to \$140,000 - other costs that make up the total salary package were identified as on-costs (comprising 13.2% of the base salary), Incentives (5.1%) and Benefits (5.0%)

Most organisations (67%) anticipated recruiting up to 16 hires per month across all locations in Australia. When it came to measuring the average time to fill vacancies, 67% of vacancies were filled between two and six weeks.

**How much time do existing staff within the HR team dedicate to recruitment duties?**



**Average time to fill vacancies**



## 2] Common Cost-per-Hire practices / measures

In general, many companies tend to track source costs such as print / online advertising and external recruitment employment agency costs rather than actual Cost-per-Hire.

According to responses received from the 59 organisations around Australia, less than half said they record Cost-per-Hire information. Although this is a relatively small number, it is instructive to analyse these responses.

These respondents measured Cost-per-Hire in slightly different ways. While all counted print and online advertising costs, other costs were counted by some and not others.

A variety of formula's are used, however the most popular and consistent formula used to calculate Cost-per-Hire is:

**Cost-per-Hire = Total hiring expenses / total number of hires**

Total hiring expenses can be calculated by adding the direct and indirect costs of recruiting including, but not limited to:

### Sourcing

Total cost of all advertising such as job boards, newspapers, referral programs etc

### Applicant Processing

Cost of tests such as psych tests, competency assessments, medicals, security, drug and alcohol tests etc

### Technology

License and maintenance costs for applicant tracking systems, job search function of their web site etc

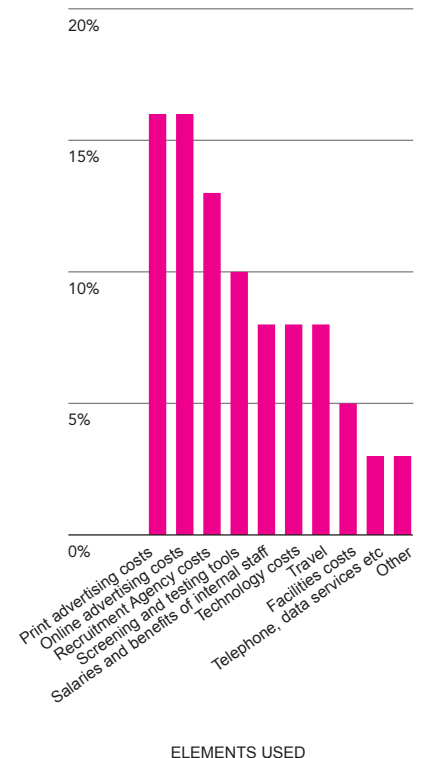
### Staffing

Base salary costs, on-costs, incentives and benefits. + % allocation of staff time if not dedicated to recruitment 100%

### Other

External recruitment agency costs.

### Elements used to measure cost-per-hire



NB: Facility costs such as rent, phones has not been included in the total hiring expense measure as most organisations tend not to include this in their Cost-per-Hire measures. However when comparing an outsourcing solution to internal costs it is recommended these issues be taken into account in order to get a true cost comparison.

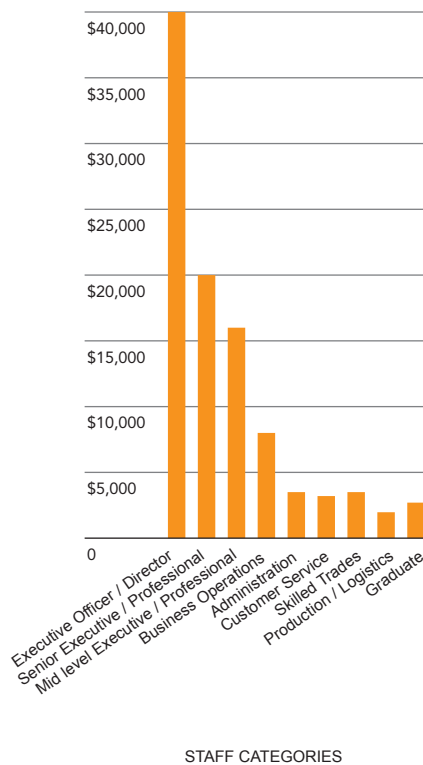
### 3] Average Cost-per-Hire for different categories of employees

Respondents were asked to consider the elements they use to measure their Cost-per-Hire. Results were then extrapolated to estimate an industry Cost-per-Hire median for the following employee categories.

There did not appear to be any major difference in average Cost-per-Hire between industries nor any discernible difference in calculated Cost-per-Hire according to the size of the organisation.

The result is that different organisations compute Costs-per-Hire in different ways. However, no matter how you do your calculations, if you remain consistent year-after-year, you should be able to establish benchmarks and goals for reducing your hiring costs.

**Median cost-per-hire for specific staff categories**



NB: Estimates vary widely for each employee category whereby the median should be taken as indicative only.

# About Kelly Services Outsourcing and Consulting Group

Kelly Services Outsourcing and Consulting Group is a specialized business unit of global staffing provider – Kelly Services. Launched in 2000, the Outsourcing and Consulting Group designs, implements and manages Recruitment Process Outsourcing, Vendor Management solutions and other customised staffing programs.

Each program is delivered onsite or from a Kelly Services Outsourcing & Consulting hiring centre or sometimes through a blend of both approaches to help reduce overheads and improve productivity.

To assist the HR and Procurement community, Kelly Services Outsourcing & Consulting Group has established an HRO Hub on [smartmanager.com.au](https://smartmanager.com.au). Here you can pose questions or access tools and information related to Human Resources Outsourcing issues and solutions.

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