Sci.bio Recruiting

1-617-500-6690
info@sci.bio
www.sci.bio

222 Weymouth St., Suite 2
Rockland, MA 02370

WHITEPAPER

Cost-Per-Hire

Cost-per-hire (CPH) is a recruiting key performance indicator (KPI) that equates to the average cost of hiring an employee. This number is an essential data point in assessing your recruiting process efficiency and offers key insight on your hiring efficiency with respect to competitively-similar companies. This paper will explain this metric in detail and offer a practical and accurate benchmark for proper calculation while providing an explanation on how to interpret this data, along with suggestions on how to reduce your CPH without sacrificing quality. Lastly, we will address the perennial question of whether it is more cost efficient to insource, i.e., hire an internal talent acquisitions (TA) team or to outsource the TA function, in part or fully, to achieve optimal results.

Exploring Cost Per Hire

As the life sciences sector continues to grow, the demand for qualified biotechnology talent outpaces the supply for many segments. Academia is mainly geared toward basic science training, while advanced hands-on knowledge most often comes from on-the-job training and development. Thus, for roles in applied biopharma R&D talent, the law of scarcity fully applies and it is not unusual for candidates to have several competing offers to consider. This is especially true for those who have niche or hard-to-find skill sets.

Life science companies frequently share the same framework and processes for talent acquisition (TA): internal and/or external recruiters combined with an open talent pipeline and various marketing and job posting efforts. The exact makeup of the TA team and marketing approach will vary depending on company size, age, geography, core job specifications and expected growth. However, the quantifiable differentiator between companies can be seen with one value—their CPHs.

CPH is not a determinant of success or failure. It is simply a relative metric summarizing the company's current recruitment processes. CPH efficiency depends on each company's specific priorities and budget. In its simplest terms, it follows the following formula:

$$CPH = \frac{\text{Internal Recruiting Costs} + \text{External Recruiting Costs}}{\text{Total Number of Hires}}$$

Total number of hires must include all employees (fixed-term, permanent, full-time (FTE) or part-time (P/T). It is also important to note that CPH is calculated within a predetermined amount of time. For example, a company can choose to determine CPH per quarter or per annum. Less obvious is specifically which items should be included in this calculus. Some common internal and external costs are outlined below, however, it should be noted that individual situations and company set-ups may bring other costs into play. While this paper could end here as a very straightforward formula, our findings are that most organizations fail to assess the totality of their expenses and often fail to apply true cost-benefit analysis with respect to spend. An example of this may be paying six figures for a single executive search, when for a small fraction of that spend, a competent sourcing team could generate a talent map that could be engaged by an experienced recruiter.

Internal Recruiting Costs	External Recruiting Costs
Internal Talent Acquisition (TA) salaries	Agency Placement Fees
Applicant Tracking Systems (ATS)	Marketing
Time Spent by Hiring Manager*	Job Fairs and Campus Recruiting
Interview Room and Travel*	Aptitude and Assessment Program/Centers
Learning and Development of TA Team	Background & Drug screens
Employee Referral	Sign-on Bonus
General & Administration Costs	Other Fixed Costs [i.e. Office Rental]

*To calculate the cost of time spent by an individual employee, multiply the number of hours spent by the employee times the hourly salary of that employee. To calculate the hourly rate of a salaried employee, divide their annual salary by 2080.

**Costs which occur after an employee is hired such as onboarding, orientation, and job-specific training are not included in the calculated costs.

In relation to CPH, companies may also calculate a recruiting cost ratio (RCR) as a proxy for the relative value a new hire brings to the firm.

$$RCR = \left(\frac{\text{Internal Recruiting Costs} + \text{External Recruiting Costs}}{\text{Total First Year Compensation of Hire}} \right) \times 100$$

RCR can be treated as an anticipated value that new hires will bring to the company within the first year. It is typically accepted that an employee's first three months in a new role is invested in learning the new practices and policies along with how to best execute their responsibilities. Naturally, the RCR within the first year is not as high if calculated for that same employee two years later. Calculating RCR for the first year, however, demonstrates the overall investment that the company has placed in this employee. RCRs of 100 showcase that input of recruitment costs and output of employee value is equal. There is no loss in investment for a new hire. This would be ideal, but it is certainly not realistic. Typically, the more senior a role, the higher the RCR value.

RCR can be used to limit budgets on lower level role searches. It can even be standardized or utilized as a benchmark for recruiting efficiency. For example, a company can hypothetically set RCR to be 160-200, implying that recruiting costs amount to 16-20% of a new hire's first-year salary.

Although it is hard to draw a fair interpretation between RCR and CPH, the RCR formula can be modified (mRCR) to apply to broader recruitment activities.

$$mRCR = \left(\frac{\text{Internal Recruiting Costs} + \text{External Recruiting Costs}}{\text{Total First Year Compensation of All Hires}} \right) \times 100$$

CPH and mRCR should demonstrate an inverse correlation in that the higher the CPH for a period of time, the lower the mRCR. If a company spends more per new hire, then that new hire should be expected to provide an increased value for the company. This is especially true when comparing CPH and mRCR for open positions in varying levels of management.

Interpret Cost-Per-Hire

Although the majority of biotechnology companies recruit under budgetary constraints, only 41% of them currently calculate and utilize cost-per-hire (CPH) values. Measuring cost per hire (CPH) consistently across several intervals provides information regarding the anticipated cost for recruiting and allows for assessment of extraneous cost.

Hypothetically, let's say that your current industry average CPH is just under $4,000. Would that mean $4,000 is a good CPH? If a company's CPH is significantly over or under $4,000, then what does that mean?

It is easier to answer the latter question first. CPH may be calculated broadly for the company, but it can also be evaluated based on different categories such as job seniority, position, or department. A high CPH could indicate that a company spends more time in the pursuit of talent which is necessary for senior roles or roles in higher demand. In fact, the Society for Human Resource Management reports CPH for executive roles as four times higher than the average CPH. A low CPH will occur during periods of minimal hiring such as the winter holiday season or a particularly effective talent acquisition (TA) strategy. It should be noted that Biopharma, by comparison, has a CPH higher than other industries. This may be due to the relative scarcity of qualified and experienced talent with respect to demand in many subsegments such as clinical and regulatory. This creates a sort of competitive bidding process which raises CPH.

Bersin by Deloitte published research indicating that company maturity directly correlates with CPHs. As a company grows in size, so does CPH. Recruitment professionals interpret this finding as evidence that as a company matures, it learns that each hire is unique. Therefore, the recruiting approach should be customized for each role. This high-touch recruiting naturally costs more. Companies often need to sway top-performing individuals from their current positions. This requires time-consuming and deliberate effort, especially in a competitive market.

Even though CPH can (and should) vary by hire, it is still prudent to measure and compare values. By tracking costs, it is easier to identify areas where expenses are inefficient. Additionally, by measuring and comparing CPH, the efficacy of changes such as new software tools or interview policies can be quantified.

As for the primary question of what is a good CPH, how much of a "profit" does each company expect their employee to produce? To answer that, companies can measure an employee lifetime value (ELTV), a return of investment benchmark, against CPH.

$$ELTV = \left(\frac{\text{Company Revenue}}{\text{Total Number of Contributory Employees}}\right)\text{(Average Tenure of Employee)}$$

This is most helpful when calculating CPH based on job seniority, department, or position. When matching those respective CPH values against ELTV, it is easier to justify higher CPHs for positions with higher ELTVs.

But, how much of a margin should that be? Companies can trend both ELTVs and CPHs across different tiers to assess if their CPH and ELTV margins are reasonable. A good CPH is, therefore, one that adheres to the company's average CPH of its ELTV group.

Navigate Cost Per Hire

As mentioned above, company maturity directly correlates with increased cost per hire. More mature companies have almost double the CPH value than organizations with the lowest levels of maturity. One view of this trend is that more-established companies understand the value of unique hires and have specialized recruitment needs. But there is an alternative explanatory variable. In the fast-growing early stages, companies may build larger, segmented internal TA structures. This investment seems to make sense when spread across the many hires the company forecasts in the immediate future. However, hiring typically slows down as companies stabilize and become mid-sized. Therefore, with a smaller number of hires needed and increased internal costs including internal TA salaries and administrative costs, mature companies wind up with persistently-increased CPHs.

Knowing this, why do 40% of companies build out an internal TA team? Because initially an internal recruiter compared to an agency recruiter has a lower CPH. These companies believe that they are saving money. However, one internal recruiter, due to competing priorities and non-recruitment responsibilities, often requires additional support. As the size of a company increases, the human resources team has to grow to match it. Although this is originally efficacious for the business, internal TA teams that hold steady, or even continue to grow, when the velocity of hiring slows results in a higher CPH over time.

Therefore, if you accept that an internal recruiting team might have a higher CPH, what are the other options for your company to meet their recruiting needs? Many companies use an agency recruiter to fill some of their positions. However, there is another option for hiring at scale that has some distinct advantages over an internal recruiter and a contract recruiter alike: Recruiting Process Outsourcing (RPO).

Is an RPO approach the best of both worlds when hiring at scale?

A well managed RPO can extricate company resources while offering reduced cost when hiring at scale. While RPO services can vary in scope and breadth, they can compare favorably against both contract recruiting and regular full-time employee "recruiter" options. By outsourcing talent acquisition either in part or whole to an RPO or Managed Service Provider (MSP) companies can streamline and focus on their core focus. Though not appropriate for all situations, RPO firms provide bundled recruiting services managed professionally and often at a significantly reduced cost in a scaled capacity.

One considerable advantage of an RPO is that you are only paying for time spent recruiting and handling associated recruiting activities rather than employing someone for 8 hours per day. This is especially beneficial when you consider studies that show that the majority of employees working an 8 hour day are actually only productive for less than three hours! In addition to the usual office procrastination suspects, such as making another coffee or chatting with coworkers, employees are also spending 31 hours per month in meetings and take, on average, 16 minutes to refocus after checking their email, as highlighted by this informative infographic. For internal TA teams who naturally are involved in a wider array of activities, it makes sense that much of their time is spent performing tasks that do not directly pertain to recruiting.

Let's take a look at an internal Talent Acquisition team made up of a Director level recruiter (W2) and a junior sourcer/coordinator, an outsourced agency recruiter, and a Sci.Bio recruiter as part of an RPO. The following chart assumes a full-time 40-hour work week filling a mixed slate of forty positions per year with all the lead recruiters making the same amount.

	Outsourced Contract Recruiter	Internal TA Team	Sci.bio RPO
Personnel Costs			
1.0 FTE Recruiter Annual Cost Direct Compensation[1]	$343,200	$150,000	$283,920
15 Hours Per Week Sourcing Annual Cost Direct Compensation[2]	$39,000	$31,200	$27,300
Tax and Benefits PTO (25%)	$0	$45,300	$0
Bonus (20%)	$0	$36,240	$0
Productivity Factor[3]	100%	50%	100%
Annual Personnel Cost - Adjusted	**$382,200**	**$525,480**	**$311,220**
Non Personnel Costs			
Background Checks	$2,800	$2,800	$2,800
Drug Screenings	$2,798	$2,798	$2,798
Employer Branding	$2,500	$2,500	$2,500
Career Events (2 per year)	$2,500	$2,500	$2,500
Interview Travel & Lodging Out of State	$24,000	$24,000	$24,000
Interview Travel In State	$2,625	$2,625	$2,625
LinkedIn Job Slots (5)	$5,400	$5,400	$5,400
LinkedIn Recruiter Licenses	$10,200	$10,200	$10,200
Total Non Personnel Costs	**$47,225**	**$47,225**	**$47,225**
Total Cost (Baseline & Personnel)	**$429,425**	**$572,705**	**$358,445**
Cost Per Hire[4]	**$10,736**	**$14,318**	**$8,961**

1 Recruiter Annual Cost assumes the folowing: Outsource Contract Recruiter = hourly bill rate of $165 x 2080 hours per year; Client Managed W2

2 Sourcing Annual Cost assumes the following: Outsource Contract Recruiter = hourly bill rate of $50 per hour x 780 hours per year; Additional Client

3 A UK research study has suggested that in an eight-hour day, the average worker is only productive for 2 hours and 53 minutes

4 Cost-Per-Hire Methodology assumes that 40 positions are filled per year with 10 positions (Director level and below) open at any given time

With values compared side-by-side per category, it is easy to discern areas of cost reduction. As seen above through market values of each recruiting-associated cost, there is immediate benefit to internal recruiters over agency ones. You must consider: How often do companies have a full-time recruiting workload for an entire year? Hiring tends to slow and rise in waves as a reflection of the tightly regulated processes of the biotechnology and biopharmaceutical industry. When assessing demand, it is also prudent to evaluate its duration and then only supply as best needed.

One of the biggest cost variables falls into the category of job advertising and employer branding which are inextricably linked. There are company philosophical preferences which will dictate what is acceptable. While that is not the focus of this paper, there are countless venues and approaches which can be leveraged for the sake of highlighting a company's employee value proposition, values, and mission as it applies to its human capital.

Conclusion

Cost-Per-Hire, CPH, is but one metric to assess recruitment efficiency and should always be assessed relative to a rigorous sourcing, selection, and vetting process. Every company has its own recruiting process and budget. There is no universal way to improve your company's cost-per-hire or strict guidelines concerning the target CPH for your organization. That's why the first step in improving this metric should be embracing an analytical mindset. Get curious! Analyze your current recruiting process and all the associated costs. Find out what's working and what isn't. Consider looking at your CPH in different timeframes and for different departments as well as the bigger picture of year-over-year and the company as a whole. This is the best way to make more informed decisions and learn how to spend your recruiting budget wisely.

Some questions to ask yourself as you consider your CPH and recruiting costs:

- What are the largest Internal Recruiting Costs in our recruiting process? Can any of these be streamlined or outsourced?
- Which department has the highest CPH? Are there ways to anticipate department needs or busy seasons that require more hires?
- Is there a time of year that has a higher than average CPH? For example, if Quarter 4 has a higher CPH due to increased advertising costs over a longer period as the hiring process naturally slows down during the holiday season, consider if you could reallocate your open positions to Quarter 3 or Quarter 1.
- What role or title has the highest CPH? Does this make sense given the seniority and expected impact of the hire? Does it indicate a place where efficiencies could be created; for example, hiring entry level employees with similar responsibilities in hiring classes a few times per year instead of ad hoc?
- What role or title in your organization would have a very high CPH if you had to replace that person? Are there retention strategies you could put in place to ensure their continued success with the company?
- And the biggest question of all: **How flexible is your recruiting process when your hiring needs change?**

The only way to guarantee flexibility at a price point that works for your organization year after year regardless of how many positions you need to fill is to outsource your recruitment process. Sci.Bio will meet you where you are and work with your team through ebbs and flows to find the talent you need to ensure continued success.

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If you have any questions regarding CPH or other key performance indicators for your recruitment efforts, please reach out to us! We are happy to help you navigate costs, hires, and your recruitment process.

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