

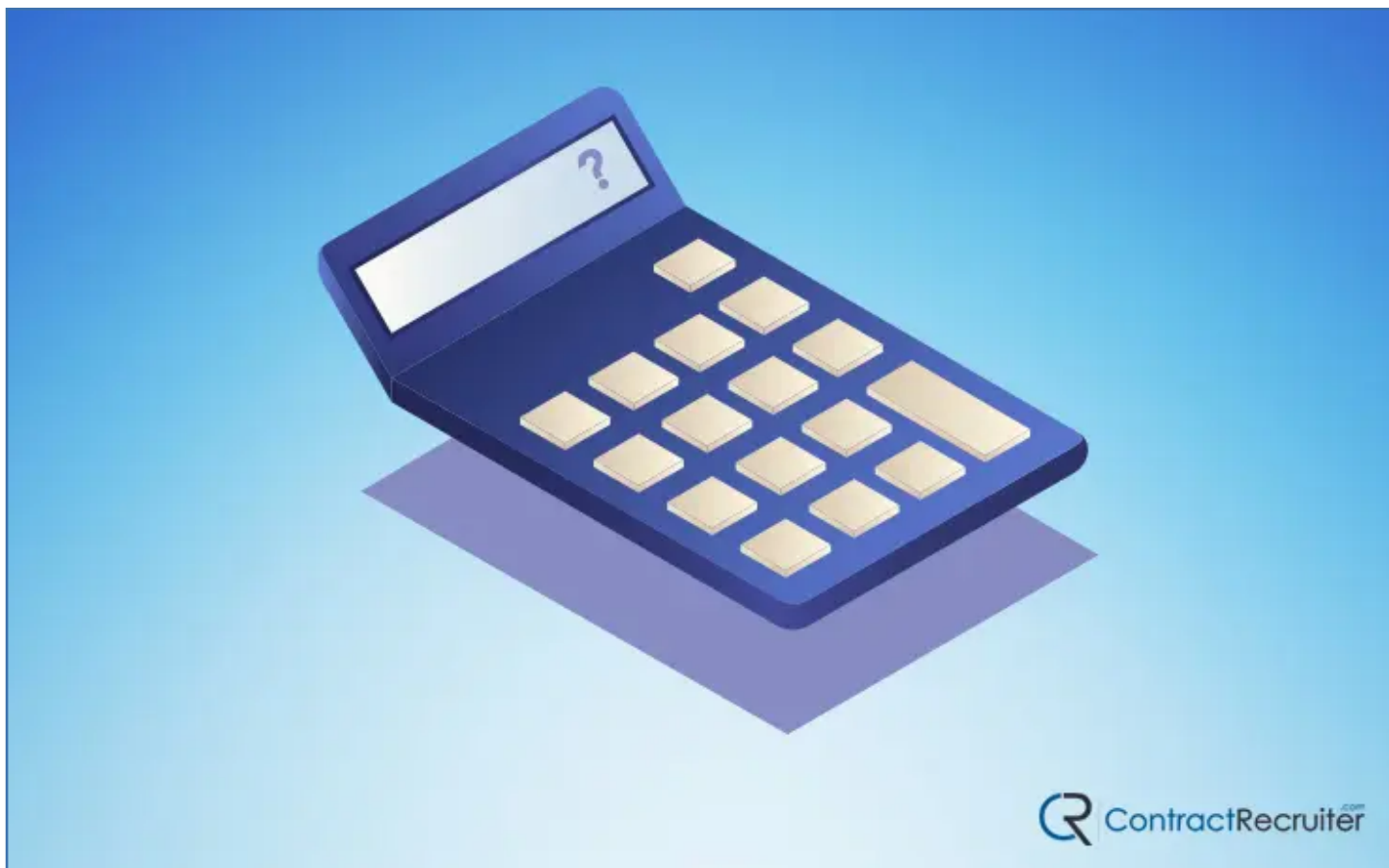
White Paper

How to Accurately Calculate Your Recruiting Cost Per Hire

ContractRecruiter.com

Give us a call at (800) 797-6160

INTRO



Many people don't think about it, but there's a cost associated with hiring new people to fill roles in any company. This applies regardless of whether you're doing everything bespoke and in-house, or you're hiring a company to handle recruiting for you. It counts everything from your talent management tools to the time of your hiring manager and beyond.

It's important to know how much it costs to bring on a new employee. Knowing the cost per hire from various marketing channels helps you justify the expense of using premium channels, or justify dropping channels that cost more than they're worth. It also helps you estimate how difficult and expensive it can be to fill certain specialized roles.

With so many different factors that go into the cost of hiring, it can be difficult to figure out where to begin. That's what we're here to help you with today.

Table of Contents

Calculating Costs 4

Internal Costs 5

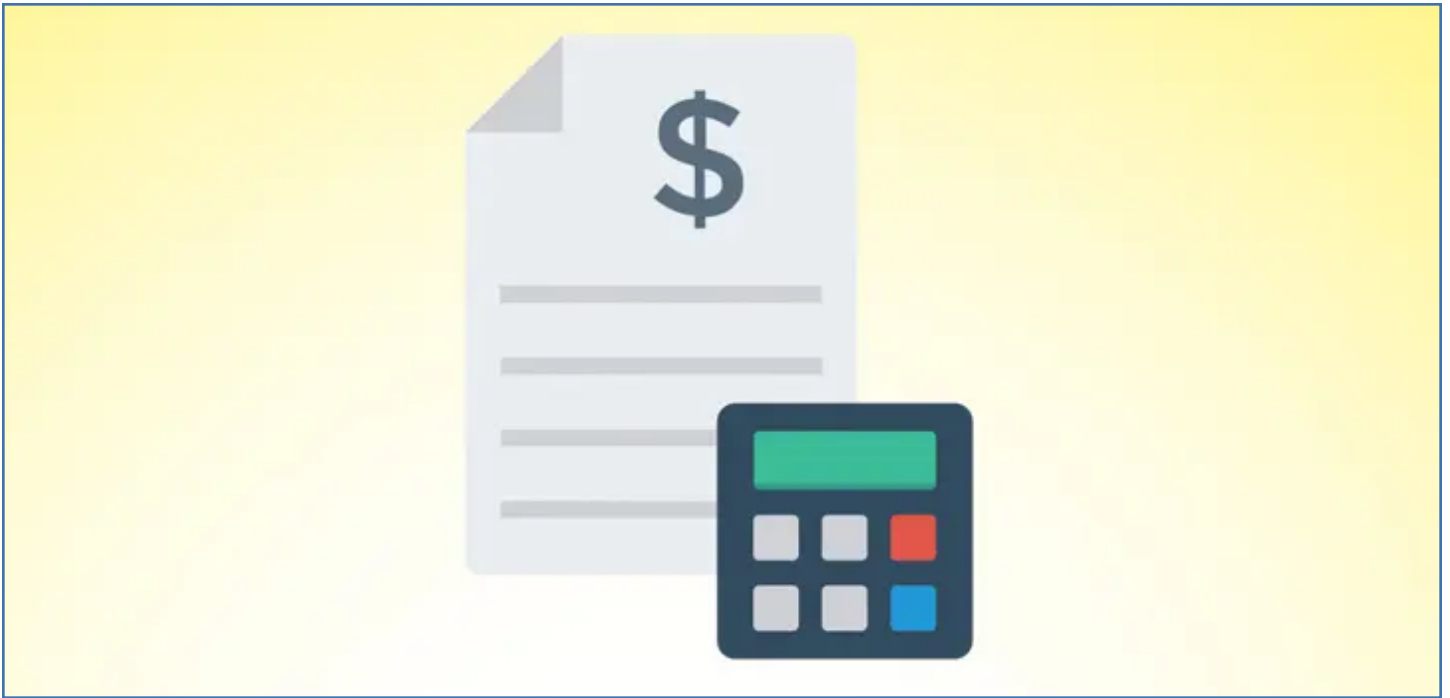
External Costs 6

Using a Calculator 7

How to Use Cost Per Hire 9

Calculating Costs

The first thing you need to do is figure out where all of your potential costs are coming from when you're hiring. These costs can be divided into two categories: internal costs and external costs.



Before you begin calculating costs, you need to determine the period of time you're looking at. This is important to calculate costs that recur on an ongoing basis, or that are one-time fees that may spike your calculation for particular time periods. It also allows you to determine the cost per hire because you need to know the number of hires in the same time period.

The simplest possible equation for calculating your cost per hire is easy:

$$((\text{internal costs}) + (\text{external costs})) / \text{number of hires}$$

You add up the total costs for both internal and external channels, and you divide it all by the number of hires in that time period, to get an average cost per hire.

Other considerations, like specific costs associated with specific hires that aren't shared across all hires (like, say, the difference between paying for travel and accommodations for long-distance applicants versus not having to pay those for local applicants) can be used as well. You can divide up your equation; one with the costs and one without. Then make sure to set the "number of hires" to "number of hires with additional cost" versus "number of hires without additional cost."

So **what are all those different costs?** Let's look.

Internal Costs

Internal costs are costs you spend within your organization. There is a wide range of possible costs here, so let's look at some examples.

When you're compiling your own list, you'll need to come up with your own set of costs.

- **The cost of your HR, hiring, or staffing team.** This includes the number of hours your staffing team worked in the given period, the average hourly salary they are paid, and any costs of training or continuing education they may have.
- **Hardware costs.** Do you have specific hardware for tracking your hiring process? The cost of that hardware should be included, though it can be amortized.
- **Software costs.** Any applicant tracking software, interview software, scheduling software, or other apps you use to manage your hiring process need to be calculated and accounted for in your given time period.
- **Costs from accommodations offered to your hire.** For example, if you're flying in candidates for an interview in person after they have passed an initial screening, the cost of the travel and accommodations is a cost you need to add to your potential hires.
- **Real estate costs.** If you maintain a hiring office that is distinct from your company offices or locations, the cost of the hiring office should be included.
- **Bonuses and benefits.** If you give your employees a bonus for a successful referral, the cost of that bonus should be added to the cost per hire.



You can also, if you want, calculate the cost of the lost employee that the new hire is replacing. The cost of institutional knowledge (such as projects that were left uncompleted, severance pay, or a cascade effect of other employees jumping ship) can all be calculated and added as part of this equation.

Depending on your process, you may have relatively few internal costs, or you may have a lot of them. A small business where the CEO does the hiring directly might not have a lot of costs for a tracking system or for multiple salaries, while a large company with an entire hiring department may have a lot of ongoing costs.

External Costs

External costs are costs you pay to third parties for their services as part of doing business. These don't include things like employee salary but rather include costs such as fees for a booth at a campus career fair or fees for a job posting on a third-party recruiting site.

Some examples include:

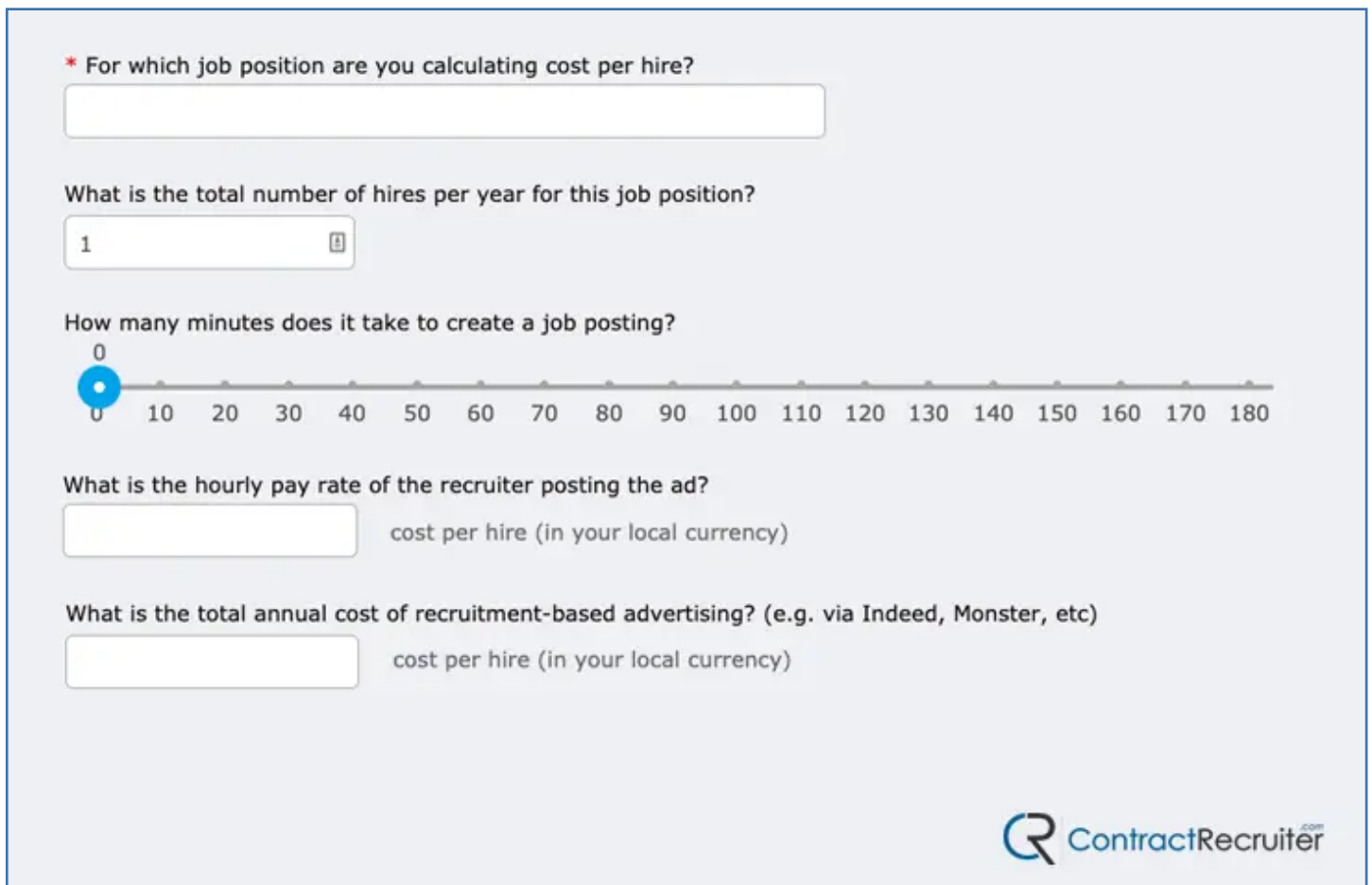
- **Costs for newspaper classifieds.** If you advertise in local newspapers, national papers, magazines, or other print media, you can tally the costs here.
- **Costs for web advertising.** If you use paid advertising through a service like Google or Facebook, the cost of hiring-related ads can be tallied here.
- **Costs for job postings.** Listing a job on sites like Monster, Indeed, LinkedIn, or Craigslist has associated fees, which can be tallied up here.
- **Costs for physical presence.** The cost of setting up a booth at a career fair or a trade show can be calculated here, though if the booth serves more than one purpose that cost may be divided. This should also include travel expenses for the people you send to those locations.
- **Costs for screening.** Services like background check services or drug testing cost money, and those costs should be added to the cost per hire.
- **Agency fees.** If you hire a contract recruiter or a recruiting agency of any type, the cost of contracting with that company should be included.
- **Signing bonuses.** If you're using a signing bonus to attract candidates, the cost of that bonus is typically considered an external cost.

External costs are often similar for a single role but can vary from position to position. A low-level position might have lower standardized costs, while a highly specialized position might have specific background check needs, relocation fees, or other costs associated with it. You can also do things like divide up the different advertising campaigns you pay for and look at your costs per marketing channel

All of these costs can be pooled into one general "costs" pool, or divided up into internal or external. They can also be split off into more categories, such as by software, by channel, or by adding a "candidate costs" section with costs like the signing bonus, travel, and background checks all added to that category. It really depends entirely on how granular you want your data to be.

Using a Calculator

There are a handful of different options you can use in terms of online tools that can tally and calculate your cost per hire. Many applicant tracking systems have this feature if you're willing to add in all of your associated costs and keep that data up to date. Of course, if you let that data fall out of sync with reality, the cost per hire grows less accurate.



* For which job position are you calculating cost per hire?

What is the total number of hires per year for this job position?

How many minutes does it take to create a job posting?


0 10 20 30 40 50 60 70 80 90 100 110 120 130 140 150 160 170 180

What is the hourly pay rate of the recruiter posting the ad?

 cost per hire (in your local currency)

What is the total annual cost of recruitment-based advertising? (e.g. via Indeed, Monster, etc)

 cost per hire (in your local currency)




Generation put together a thorough tool that is best for larger companies with complex hiring practices and a HR team. It has 11 pages of form inputs ranging from interviewing and training costs to advertising costs, recruitment costs, quality of work reviews, and more. If you keep a very close eye on all of your billable hours in multiple departments and utilize the help of a recruitment agency or paid ads, this will help you crunch the data on all of that information and leave you with an average cost per hire. This tool is still in it's "beta" developmental stage, but we were able to test it without any issues.

Cost Per Hire Calculator

Advertising Costs, AD	<input type="text" value="0"/>
Employee Referral Costs, ER	<input type="text" value="0"/>
Agency Fees, AF	<input type="text" value="0"/>
Relocation Costs, Relo	<input type="text" value="0"/>
Travel Costs, T	<input type="text" value="0"/>
Recruiters Time, RC	<input type="text" value="0"/>
Administrative Costs (%)	<input type="text" value="10"/> %

Cost Per Hire (CPH):

How to Calculate Cost Per Hire



There's another cost per hire calculator set up on GoodCalculators for you to use. You have to add in your advertising costs, referral costs, agency fees, relocation costs, travel costs, costs for recruiter time, and administrative costs, and it will give you a cost per hire. Again, it's simple with no context, but at least it's not sales-focused.

Lastly, ApplicantStack has its own online calculator, available for free and without using any lead generation gateways in the way. They ask for the number of applications you receive per week, the number of hours your hiring staff spends per week looking them over, their average salary, your weekly budget (total costs for internal and external factors), and the number of hires per year you pick up.

This data set will give you a calculated set of information with your labor cost per hire, your third party cost per hire, and your hire rate percentage. It has some analysis, and it's meant to make their service look attractive (if you pay us X, we save you X+Y!). Still, if you can ignore the sales calls, it's a calculator for the data you're looking for.

How to Use Cost Per Hire

Now that you've calculated your cost per hire, how can you actually make that data useful? After all, data doesn't do you any good if you don't use it to make decisions.



\$4,129

According to the Society for Human Resource Management's (SHRM's) Human Capital Benchmarking Report, the **average cost-per-hire** in the United States is \$4,129. Bersin by Deloitte presented similar findings in their Talent Acquisition Factbook, estimating that the national **average cost-per-hire** is \$4,000. Jan 9, 2019

Compare yourself to industry benchmarks. You can easily find benchmarks for the average cost per hire in your industry. If your costs are much lower, you're doing well, but you might be missing out on a premium tool that could make your life easier. If your costs are much higher, you may have a flaw in your recruiting plan that you need to solve.



Analyze cost per hire per department or position. This way you can determine which roles are more expensive to fill and look at specific ways you can reduce those costs. This data is best analyzed when you calculate cost per hire per role.

Analyze cost per hire per source channel. Where did your candidate hear about your job opening? Depending on the source, costs will vary. If you find out that, say, Monster.com's hiring costs are much higher on average than Craigslist, you may want to invest more in CL and less in Monster. The same goes for different social, paid, and networking channels.

Compare cost per hire with hire quality. If you find certain positions have a high turnover or seem to attract unqualified candidates, you can check to see if you're under- or over-spending for recruitment for those roles. Comparing the cost per hire with the quality of that hire can also show you if you're getting the value you expect to pay for.

Calculate cost per hire over time. You can do two things here; track your costs to see if you're spending more year over year, and check to see if there are certain months of the year (or certain seasons) that are cheaper to hire quality candidates. This helps you determine when you should put money and effort into your hiring efforts, and when it's too expensive to be worthwhile.

Calculate cost per hire per HR employee. It's possible that some members of your hiring team are underperforming, and knowing if they're actively costing you money can help you make decisions about how to train them or whether to keep them around.

There's a lot you can do when you have the data available to analyze. Keeping track of that data accurately is the hardest part of calculating cost per hire. That's why spreadsheets or built-in calculators as part of your applicant tracking system are the best options.

