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connecting exceptional people

THE TRUE COST OF **HIRING**



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The True Costs of Hiring

Sally is in her office working through a mound of mortgages when she gets an email with 'last day' in the subject line. Her stomach drops and she thinks, "Now what?" Managing a team that is already stretched to the max, she just received the message that every manager dreads. Someone is leaving the company unexpectedly, causing a gaping hole that her team will struggle to cover.

Sally's first instinct is to call her trusted staffing agency to help, but company leadership encourages managers to save money by doing the recruiting themselves. On the surface, this appears to be a good cost saving strategy, but when all the real costs are considered, this may end up being one of the most expensive options her employer could choose.

Three costs must be considered to calculate the real cost of hiring:

1. Opportunity Cost of the Unfilled Position

The opportunity cost of an unfilled position considers the productivity—and potential revenue—lost because no one is filling the role. For example, if Sally's mortgage position was open for four weeks and each week a person in this role would typically process \$20,000 worth of mortgages, the opportunity cost of the open position is \$80,000 (4 weeks x \$20,000). In other words, if this position were filled, Sally's company could have made an additional \$80,000. And this calculation is conservative—it doesn't take into account the lost productivity of other team members who pick up pieces of the departing employee's work.

2. Opportunity Cost of the Hiring Manager

Another important cost to calculate is the expense of the hiring manager's lost productivity. This is the cost of what she could have produced with her time. What could Sally accomplish if her time didn't have to be allocated to recruiting? The average position requires about 60 hours of recruiting time to create job descriptions, make job postings, review resumes, follow up on referrals, conduct phone screening, interview, conduct background checks, draft offer letters, etc. For typical hiring managers, the entire process happens over an average of four weeks. If Sally's typical output is equal to \$20,000 in mortgages per week, the opportunity cost to her employer while she is recruiting would be \$20,000 x 1.5 weeks of lost productivity, or \$30,000.

3. Recruiting Investment/Cost

For a business to handle recruiting internally, someone at the company, usually a hiring manager like Sally, has to write a job description and put together a recruiting plan. This often involves online job postings and creating and placing other advertisements. There is also time spent on recruiting, reviewing resumes, interviewing, conducting background checks, and negotiating and finalizing offers. If Sally makes \$70,000 per year, or \$34 per hour, this is an additional \$2,000 in cost for her 60 hours of recruiting work. The company is likely to spend another \$1,500 in advertising and screening services. Add \$1,500 to cover the hourly costs of other employees involved in recruiting, such as those who interview prospective new hires. This adds \$5,000 to the company's investment in internal recruiting.

Adding it Up

Working with an employment agency to fill this role could save Sally's company more than \$70,000. Because these firms maintain an active pool of candidates, they are able to fill positions quickly, reducing the opportunity cost associated with an unfilled role. In addition, the amount of time an internal team invests in recruiting is reduced greatly when a staffing agency is managing the hiring process. Funds normally spent on recruiting materials and ads can be redirected to paying the employment agency for its services.

Total Cost of Internal Recruiting

Opportunity Cost of Unfilled Position	\$80,000
Opportunity Cost of Hiring Manager	\$30,000
Recruiting Investment/Expense	\$5,000

Total Cost

\$115,000

Time to Fill:

4 weeks

Total Costs of Working with an Employment Agency

Opportunity Cost of Open Position	\$20,000
Opportunity Cost of Hiring Manager	\$10,000
Recruiting Investment/Expense	\$10,000

Total Cost

\$40,000

Time to Fill:

1 week

When calculating all the true costs of hiring, Sally's original instinct to call her Tampa staffing company might have been the best choice. This decision would not only save her employer a significant amount of money; it also would allow her team members to stay focused on their work while getting a new hire into the available position quickly. And perhaps the biggest benefit of working with an expert team of recruiters? The exceptional candidates from which the company could choose to fill the role. This leaves one final cost to consider before recruiting internally: **the cost of making a bad hire.**

About Hiregy

Connecting Exceptional People

Hiregy specializes in connecting exceptional employers and job candidates. Businesses rely on our ability to make the right connections to help their companies thrive. Job seekers appreciate that we focus on their long-term career priorities. Both groups know that we take pride in providing innovative staffing solutions and outstanding service. We're proud to provide exceptional staffing solutions to corporations, small businesses, and job seekers in Central Florida and across the United States.

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