

Including
detailed
**Calculation of
Return on
Investment**

Measuring the Value of Candidate Relationship Management Programs

INTRODUCTION

We live in a world of recruiting that has changed dramatically. Knowing how to source and assess applicants is no longer sufficient, as the best talent is not equivalent to the best applicant. In order to ensure that your organization is winning the best talent in today's job market, employers must also learn how to attract top candidates. For employers the art of attraction requires clear differentiation of employer brand, a transparent and engaging candidate experience, as well as an effective candidate relationship management (CRM) process.

This paper describes how to structure a formal CRM program across your recruiting organization. Additionally, PeoplePath has developed a model that calculates the return on investment (ROI) to clearly measure the value of a formal CRM program. The PeoplePath model enables enterprises to view the potential impact a formal CRM program can have on their business and assist with the decision-making process.

A GLOBAL PARADIGM SHIFT IN TALENT ATTRACTION

As a matter of fact, power has shifted from employers to candidates. When asked in 2011 to describe today's labor market, 50% of recruiters interviewed opted for an employer-driven market and the other half for a candidate-driven market. Just six years later this picture has changed dramatically. Asked again in 2017, only 10% of recruiters agreed they were in an employer-driven market while by then a whopping 90% said they felt to be in a candidate-driven market.¹

Such developments over the last few years have prompted talent acquisition leaders to revise their traditional recruiting models. As a result, they have run into the following challenges:

1. Traditional recruiting methods are less effective, and as a consequence, there has been an increase in recruiting costs. The average cost per hire was \$4,425 in 2016 up from \$4,129 the year before. If you consider filling 1000 positions per year that's an increase of \$296,000 annually - a shift most companies simply cannot sustain long term.²
2. The workforce is becoming increasingly fluid, which has increased the need for high-touch relationships between employers and candidates. In fact, according to a recent study, 82% of job seekers say the ideal interaction with a company is one where innovation technologies are behind the scenes - second to personal human interaction.³
3. The war for talent and the skill gaps have forced talent acquisition leaders to revise their recruiting models from reactive to proactive. This means that talent acquisition decision-makers have become aware of the fact, that they need to manage talent pools and talent pipelines in order to stay competitive in today's recruiting world.

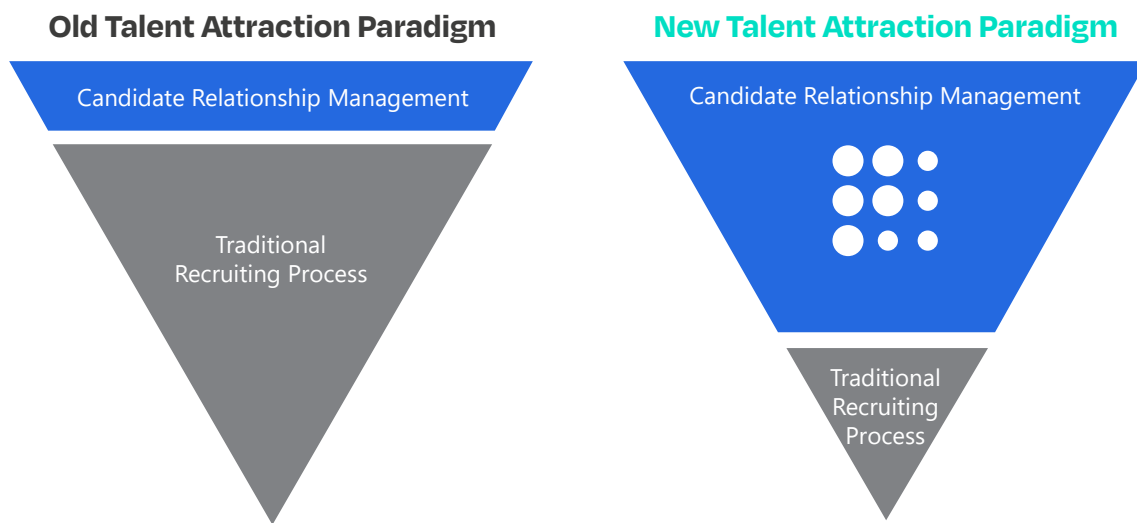


¹ MRINetwork, "2017 Recruiter Sentiment Study", (2017)

² SHRM, "2017 Talent Acquisition Benchmarking Report", (2017)

³ Randstad US, "Global report Randstad Workmonitor Q3, 2017", (2017)

Thus, an important paradigm shift from a process-oriented talent acquisition approach towards a relationship-oriented approach is crucial. The graphic below illustrates how candidate relationship management has become a dominant success factor in today's talent attraction world. As a result, candidate relationship management (CRM) is a focus area in most talent acquisition teams across large corporations globally.



BENEFITS OF A FORMAL CRM PROGRAM

BENEFITS FOR CANDIDATES

For candidates, CRM programs have a variety of attractive benefits such as allowing them to evaluate potential employers and determine personal fit over time. In fact, according to a recent report, 87% of business leaders strongly believe that technology is enhancing attraction, engagement and retention of talent.⁴ Candidates who have been nurtured through a formal CRM program tend to experience easier and faster processes, whether it be during the assessment, interviewing or onboarding phase with an organization.

In fact, CRM programs are an important building block of a personalized and authentic candidate experience. According to a study, 47% of job seekers are looking for a good work life balance and 35% for information on company culture. With only 25%, the company's financial performance was found to be less important.⁵

BENEFITS FOR EMPLOYERS

On the other hand, CRM programs also provide a handful of benefits for the employer including:

1. Reduced Direct Recruiting Cost
2. Reduced Headhunting Cost
3. Reduced Time to Fill
4. Reduced Staff Turnover Rate
5. Reduced Onboarding Cost

We will analyze these benefits in more detail in the following chapters.

CRM programs are an important building block of a **personalized and authentic candidate experience.**

⁴ Randstad sourceright, "2018 Talent Trends Report", (2018)

⁵ Glassdoor, "Glassdoor Study Reveals What Candidates Look for in Job Ads", (2018)

REDUCED DIRECT RECRUITING COST

A well nurtured candidate pool empowers recruiters to easily fill open requisitions through CRM and reduce cost for direct recruiting. By utilizing CRM as a long-term strategy to generate the right applicants, businesses can reduce expensive, last-minute recruitment marketing costs. Additionally, CRM candidates have proven to be better suited for positions and require less interviews leading to savings in relation to interview planning, travel expenses and time invested from HR and line managers. A well developed talent pipeline allows recruiters to fill positions with warm, on-demand talents quicker and easier. This also means there is no need to publish a job ad on various job boards. Given that 15% of all HR related expenses are due to recruitment costs, these potential cost savings can make a significant impact.⁶

REDUCED HEADHUNTING COST

Specifically for more senior positions there is a very impactful cost saving potential associated with CRM. As a matter of fact, talent nurturing can nearly replace traditional headhunting. Acknowledging the fact that average headhunting fees typically amount around 20% of a new-hire's annual salary, the saving potential from CRM is huge.⁷

REDUCED TIME TO FILL

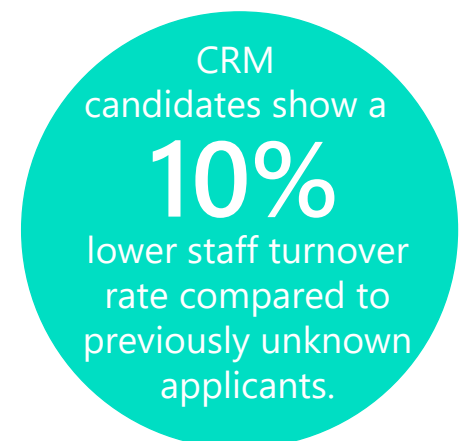
With average time to fill reaching a shocking 38 days there is an increasing pressure to fill positions faster.⁸ Not surprisingly, with established relationships from CRM programs recruiters find it easier to identify the right candidates much quicker. Based on IntraWorlds' project experience, time to hire from CRM programs typically ranges between 16 days at the low end and 36 days at the high end. This means CRM programs help to reduce time to hire by 50% on average - due to the fact that CRM candidates have been identified as potential matches beforehand and are readily accessible when a job becomes available.

REDUCED STAFF TURNOVER RATE

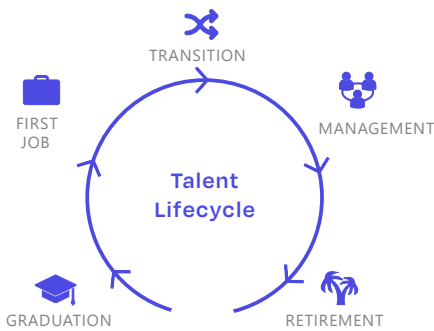
With CRM contacts being nurtured for several months or years, there is an increased chance for them to get to know the company and its culture. Oftentimes, CRM contacts have worked for the company before or have had interviews, allowing them to evaluate their personal fit over time. As a result, CRM candidates tend to integrate more seamlessly with the company and its culture. Furthermore, the risk of leaving within the first year drops significantly. PeoplePath customers report a 10% decline in staff turnover for CRM candidates compared to non-CRM applicants.

REDUCED ONBOARDING COST

Finally, for CRM hires there is a reduced cost of onboarding. This is mostly driven by a reduced need for training, specifically for CRM contacts that have worked with the company before, e.g. former interns or former employees. Moreover, given that CRM contacts already know the company to a certain extent, they show higher productivity during their first months on the job.



TARGET GROUPS OF A CRM PROGRAM



CRM target groups can span the entire talent lifecycle, i.e. they can cover job starters and university graduates as well as young and experienced professionals up to senior managers and experts, as well as freelancers. Well thought-through CRM programs usually cover the entire career lifecycle allowing talent acquisition strategists to build relationships with talents for years, decades, and possibly for life.

From our experience, generally there are five different target groups that we see companies cover in their CRM programs throughout the talent lifecycle:

- 1. Apprentices** - students who are about to leave school. Some of whom are starting a vocational training with a company.
- 2. Graduates** - students who are approaching graduation or have graduated within the last year. Some of whom have already completed internships.
- 3. Young Professionals** - individuals with up to five years of experience. Some of whom have changed jobs already or are thinking about making a change.
- 4. Professionals** - individuals with more than five years of experience and often possess a specialized skill set and/or are growing into leadership positions.
- 5. Flexible Workforce** - external workers i.e.: temporary staff, interim managers and/or freelancers some of whom are specialized and hired for specific projects.

CALCULATING RETURN ON INVESTMENT (ROI) BASED ON BENEFITS & TARGET GROUPS

To calculate the ROI of a CRM program, the benefits are divided by the costs invested:

$$\text{ROI} = \text{Program Benefits} / \text{Program Costs}$$

ASSUMPTIONS & MODEL FOR CALCULATING ROI

Based on experience and completed projects, PeoplePath has developed a model that considers benefits and costs involved for calculating the ROI of a CRM program. In the model PeoplePath defines relevant drivers and estimates assumptions considering benefits from Reduced Direct Recruiting Cost, Reduced Headhunting Cost, Reduced Time to Fill, Reduced Staff Turnover Rate, and Reduced Onboarding Cost. Utilizing the following table, organizations can determine the impact of a CRM program based on their key drivers and company-specific estimates.

DRIVERS & ASSUMPTIONS (for model and sample calculation)

TALENT POOL DRIVERS

Apprentices in Talent Pool:	1,500
Graduates in Talent Pool:	5,000
Young Professionals in Talent Pool:	2,500
Professionals in Talent Pool:	1,000
Flexible Workforce Contacts in Talent Pool:	1,000
Total Contacts in Talent Pool:	11,000

ASSUMPTIONS

HIRING DRIVERS

Number of Hires per Year	1,000
Apprentices: % of all Hires / % of Apprentice Hires from Talent Pool	10% / 30%
Graduates: % of all Hires / % of Graduate Hires from Talent Pool	50% / 30%
Young Prof.: % of all Hires / % of Young Prof. Hires from Talent Pool	25% / 25%
Professionals: % of all Hires / % of Professional Hires from Talent Pool	15% / 15%
Flexible Workforce: Number of Hires / % of Flexible Hires from Talent Pool	50 / 50%

ASSUMPTIONS

DRIVERS FOR TARGET GROUP APPRENTICES

Average Annual Salary	\$25,000
Average Cost per Hire	\$3,584
Average Reduction of Staff Turnover in %	30%
Hires through Headhunting in %	0%

ASSUMPTIONS

DRIVERS FOR TARGET GROUP GRADUATES

Average Annual Salary	\$50,000
Average Cost per Hire	\$3,584
Average Reduction of Staff Turnover in %	10%
Hires through Headhunting in %	0%

ASSUMPTIONS

DRIVERS FOR TARGET GROUP YOUNG PROFESSIONALS

Average Annual Salary	\$90,000
Average Cost per Hire	\$3,849
Average Reduction of Staff Turnover in %	10%
Hires through Headhunting in %	30%

ASSUMPTIONS

DRIVERS FOR TARGET GROUP PROFESSIONALS

Average Annual Salary	\$150,000
Average Cost per Hire	\$6,614
Average Reduction of Staff Turnover in %	10%
Hires through Headhunting in %	50%

ASSUMPTIONS

DRIVERS FOR TARGET GROUP FLEXIBLE WORKFORCE

Average Annual Salary	\$100,000
Average Cost per Hire	\$6,614
Average Reduction of Staff Turnover in %	30%
Hires through Headhunting in %	50%

ASSUMPTIONS

DRIVERS FOR COST SAVINGS

REDUCED DIRECT RECRUITING COST

Savings calculated as 75% of cost per hire

REDUCED HEADHUNTING COST⁷

Savings calculated as 21,5% headhunting fee * percentage of hires through headhunting * average annual salary

REDUCED TIME TO FILL

Savings calculated as 1 - 2 weeks of average annual salary (dependent on target group) representing avoided economic loss from filling positions later

REDUCED STAFF TURNOVER COST

Savings calculated as average reduction in turnover * standard turnover cost [i.e. 14% average turnover * 50% of average annual salary + average cost per hire] / number of new hires

REDUCED ONBOARDING COST

Savings calculated as average training cost between \$750 and \$3,000 (dependent on target group)

COST DRIVERS

INVESTMENT IN CRM PROGRAM MANAGEMENT

Formula dependent on full time employee (FTE) employed as a function of talent pool size.

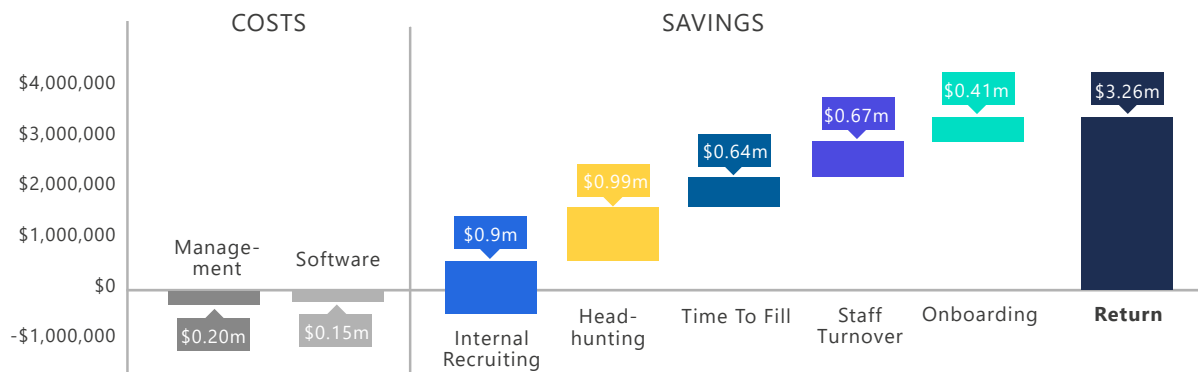
INVESTMENT IN CRM SOFTWARE

Formula dependent on licenses required as a function of talent pool size.

The above assumptions are a conservative view, based on PeoplePath' client and industry experience from large corporate clients.

ROI ILLUSTRATION

The model yields the following costs and returns based on the previous assumptions:

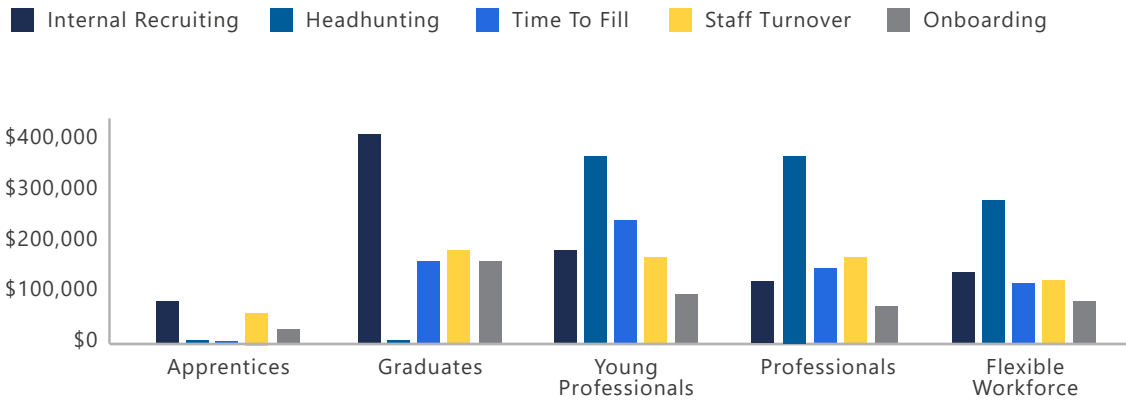


In this case the annual return of a CRM program is \$3.26 million. When comparing annual return (\$3.26 million) versus annual costs (\$0.35 million), the return outweighs the costs associated to the CRM program 9.2 times (ROI).

A VIEW ON DRIVERS AND SAVINGS PER TARGET GROUP

Based on the assumptions above the following chart illustrates the importance of each value driver per target group:

SAVINGS



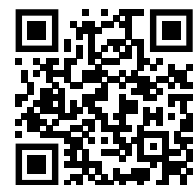
The graph above illustrates some dynamics in the ROI model. Internal savings tend to be most important for high-volume target groups, i.e. graduates in this model. Savings from headhunting are non-existent for entry level positions while they represent the highest saving potential for professionals and flexible workforce where recruiters more frequently rely on external support.

Assessing standard costs identified when establishing a CRM program, it is evident that the size of the overall talent pool and the number of hires, as well as the conversion rate of CRM contacts into new hires, are key to achieving ROI. For example, with a talent pool size of 1,100 and minimum annual program costs of \$160,000 (\$100,000 for management, \$60,000 for software), the calculation is simple: Even with just 100 new hires per year, the program already reaches a break-even status (ROI of 1.39).

CALCULATING YOUR CRM PROGRAM ROI

The PeoplePath model and the sample calculations illustrate that calculating the ROI of CRM programs requires an understanding of the core drivers and organization-specific estimations. For example, the relative importance of target groups in the talent pool mix varies between companies and industries, i.e. pyramidal organizations like auditing and consulting firms put much more emphasis on graduate pipeline building than pharma firms which often focus their CRM efforts around more experienced candidate profiles, i.e. young professionals and professionals.

Request your calculation today!



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ABOUT PEOPLEPATH

PeoplePath is a leading multinational provider of talent relationship management technology, with a robust platform at its core.

The company is headquartered in Germany and has subsidiaries in North America and Greater Europe.

PeoplePath empowers its clients to develop unparalleled relationships with top talent throughout the career lifecycle, spanning from pre-hire to post-retire through its integrated services and solutions.



Lifelong relationships
are the **foundation**
for mutual success.



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