



The true cost to serve of Talent Management

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Back in November, I wrote an article on the unique differences between Human Resources, Talent Management and Recruitment. The article focused on how businesses often incorrectly assume these disciplines are one and the same and this misunderstanding can lead to poor make/buy/sell decision making around managing human capital. If you are interested in reading this article the link is here - [Recruitment, Talent, HR Defined](#)

Leading on from the previous article, I now want to breakdown the true cost to serve of a high performing talent management operation.

Technology has dramatically changed the landscape of recruitment. Accessibility is the ultimate disrupter. Just as Uber has enabled anybody to earn extra cash by becoming a part time taxi driver, Facebook, LinkedIn and other technologies seem to have empowered any person to become a recruiter. The question is, has modern technology really made recruitment operations cheaper?

In 2018, many recruitment firms are trading at terms well under 12%. Category Managers who lead labour services negotiate hard with panel providers under the title Business Partnering to drive down transaction fees and push as much risk, process and accountability onto the recruitment company as possible. In addition to the heavily negotiated rates, payment terms are at 60 days minimum and guarantee policies request 100% refunds. There is an entire article here on risk and accountability, but I will keep on track regarding cost.

So, what is the cost to serve a customer in a typical, credible, high performing talent management firm?

A recruitment transaction does not happen in a vacuum. The operational reality is far more complex. Any business that wants to be successful and make a profit must factor in many operational variables that consider demand for your service/product; cost, target revenues, waste and sustainable margins. The below table breaks down the typical annual costs and profit related to a recruiter (Recruiter X). A breakdown has been allocated on the commissions they are paid, the terms negotiated and likely operating profit and market demand that is generated both annually and per transaction.

Table 1 – Breakdown the typical costs and profits – 20% Terms

	Base	Super (9.5%)	Salary	SR	STI %	Revenue Generated	Bonus Earned	Total Package	Opex Cost	Operating Profit	TOB %	Avg Role Package	Fee for Services
Recruiter X	\$85,500.00	\$7,837.50	\$90,337.50	\$180,000.00	30%	\$592,000.00	\$123,600.00	\$213,937.50	\$130,000	\$248,062.50	20%	\$185,000.00	\$37,000.00

An experienced recruiter who is considered successful typically fills 33% of the roles they manage; 1 of every 3. The 2 remaining roles are either filled by a competitor, withdrawn for any number of reasons, filled internally or put on hold. This means if a recruitment business hired only experienced recruiters, they would likely carry 66% waste in productivity. The reality is, many recruiters only have a 20% hit rate, which means they fill 1 in 5 roles and create 80% operational waste. Overhead costs are typically between \$100k and \$150k per annum per consultant.



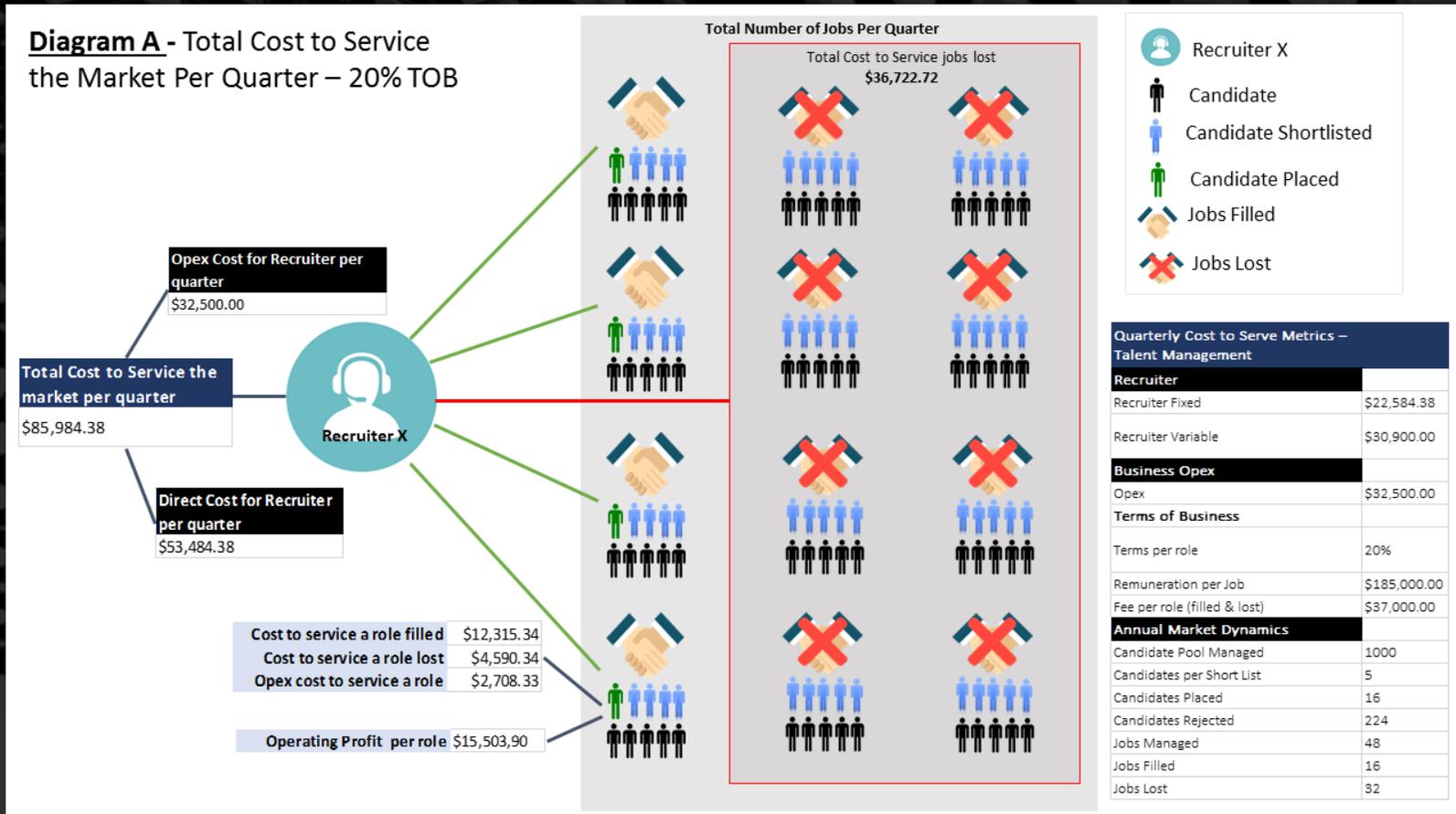
Recruiter X (See Table 1 and Diagram A)

Recruiter X has 8 years' experience and is an accomplished talent manager. Recruiter X manages a candidate portfolio of 1000 mid-senior managers who range in financial package from \$150k - \$200k. Recruiter X is tasked with having a high touch management of the 1000 candidates, which means understanding their key drivers, skills, status, remuneration, location and keeping their data relevant. Recruiter X has a target earnings of \$210k per annum including bonus and has target billings of \$600k per annum. Recruiter X must create \$180k of billings per annum (fill 5 roles) before a commission is achieved (Standing Requirement). Commission is at 30%.

At recruitment terms of 20%, this means Recruiter X needs to place 16 candidates a year into roles at \$185k salary, which is 4 roles per quarter.

Recruiter X has had to work on 48 roles for that year (12 per quarter) to achieve this hit rate of success. The cost of this waste in time, resources, and overhead costs associated must be factored into the cost of the roles that were successfully transacted.

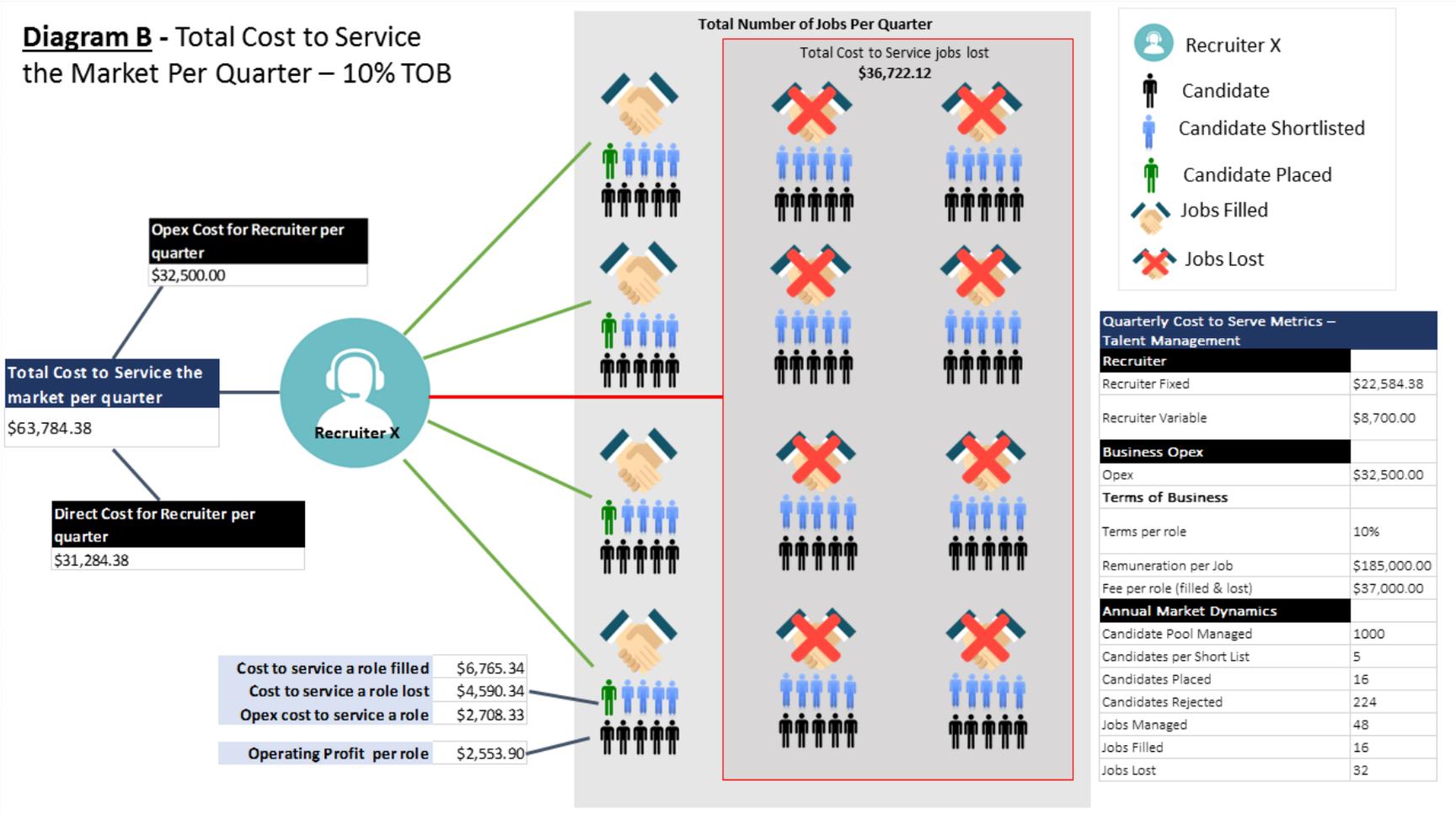
Diagram A below breaks down the direct and in-direct cost per quarter for Recruiter X filling 4 roles at 20% terms. The cost of waste (roles not filled) and the costs directly attributed to roles filled is marked out.



The total cost to service roles managed by Recruiter X in the quarter are \$85,984.38. A total of 12 roles have been managed and 8 of them did not result in a placement fee. The total cost on waste (roles not filled by Recruiter X) is \$36,722.72 and the total cost to serve 1 role successfully is \$12,315.34. Operating profit per role is \$15,503.90.

There is no profit realised for the roles lost, but a cost of \$4,590.34 per role is still accumulated. This lost profit must be incorporated into the 4 roles that were successfully filled and this is what makes recruitment so expensive.

Diagram B below breaks down the direct and in-direct cost per quarter for Recruiter X filling 4 roles per quarter at 10% terms. The cost of waste and the cost base directly attributed to roles filled is marked out.



In Diagram B, the total cost to service roles managed by Recruiter X in the quarter are \$63,784.38. A total of 12 roles have been managed and 8 of them did not result in a placement fee. The total cost on waste is \$36,722.72. The total cost to serve 1 role successfully is \$6,765.34. Operating profit per role is \$2,553.90. There is no profit realised for the roles lost, but the same \$4,590.34 cost per role is accumulated. This lost profit must be incorporated in the 4 roles that were successfully filled.

The issue with the above model (see table 2) in Diagram B is Recruiter X has not achieved their target earnings. Recruiter X annual earnings have dropped from \$210k to \$125k. This would result in recruiter X leaving the recruitment firm to find a business that has stronger Terms to enable them to make their required earning potential or leave the industry entirely. Terms that are economically out of sync with market dynamics often lead to this outcome and is a core reason why the recruitment industry is under skilled and has a high turnover rate.

Table 2 Breakdown the typical costs and profits – 10% Terms

	Base	Super (9.5%)	Salary	SR	STI %	Revenue Generated	Bonus Earned	Total Package	Opex Cost	Operating Profit	TOB %	Avg Role Package	Fee for Services
Recruiter X	\$82,500.00	\$7,837.50	\$90,337.50	\$180,000.00	30%	\$296,000.00	\$34,800.00	\$125,137.50	\$130,000.00	\$40,862.50	10%	\$185,000.00	\$18,500.00

If the recruitment business in Diagram B attempted to pay Recruiter X their wanted annual earnings (see table 3) of \$210k per annum at 10% Terms, they would have a cost base of \$340k and a top line revenue of only \$296k. This would result in a loss of \$44k per annum to the recruitment firm. It would not matter how you allocated the commissions; the simple fact is a business cannot operate when the costs out strip the top end revenues.

Table 3 Breakdown of recruiter being compensated out of sync with market terms

	Base	Super (9.5%)	Salary	SR	STI %	Revenue Generated	Bonus Earned	Total Package	Opex Cost	Operating Profit	TOB %	Avg Role Package	Fee for Services
Recruiter X	\$192,000.00	\$18,240.00	\$210,240.00	\$180,000.00	30%	\$296,000.00	-	\$210,240.00	\$130,000.00	-\$44,240.00	10%	\$185,000.00	\$18,500.00

Summary

The best way to reduce the cost of using a talent firm is to clearly understand your demand volume, guarantee exclusive supply of roles, and understand the market the recruiter is operating in. Businesses over simplify negotiating rates in a B2B mentality. A talent firm with 20 consultants could have 20 cost to serve models. Each talent manager dealing with a unique set of economic conditions. Revenues are not evenly distributed throughout the headcount. Commercially astute recruitment firms understand this and will not negotiate below a certain point if blanket terms are a must. They factor in and value their recruiters and the experience they bring. They want to ensure those recruiters get rewarded in line with their experience and uniqueness of the markets they operate in.

Talent managers are not paid by the hour. They are paid by delivering an annual volume of roles which in turn allows them to earn a target revenue in line with their experience. The volume of roles a market can sustain dictates the % of terms in addition to recruiter experience and earning expectations. You are paying a % based on the supply and demand of a given market. The cost pressure for recruitment companies comes from many customers expecting talent managers to be highly experienced, exceptionally networked and have an encyclopaedic knowledge of the candidate market, but only wanting to pay for the time spent sending them the one candidate they eventually employ.



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