Delta Resources International

Knowledge Is Power

Qualitative analysis and permanent placement

The Harvard Business School has identified that the cost of poor selection for a sales representative at three times the rep's annualized compensation, including expenses, training, benefits, wages and commissions/bonus. Thus a $60,000 per year salaried/commissioned sales rep hiring mistake actually costs the company more than $300,000

What are the costs of a poor hiring process for a sales representative?

There are hard and soft costs to consider. The hard costs include but are not limited to the time to hire. For instance when a sales territory is open an extra week or month or quarter the reduced revenue and profits can be calculated according to the following formula.

Annual quota divided by the period divided by gross profit less salary, recruiting fees, travel and adminstation expenses. All numbers are annualized to the week or month or quarter.

Example:

Annual quota $2,000,000.00 Gross Profit 35%, = $700,000.00 salary+ commissions = $175,000.00 Recruiting fees= $25,000, Adminstration, Benefits, Travel and Entertainment=$25,000

Gross Profit: $700,000
Total Costs:$225,000
Net Profit:$475,000
Net Profit per week:$9,500, Net Profit per month:$39,583.

A simple and true case study to highlight additional hard costs that can not as easily be included in the equation above.

"During 2000, Lisa an AE presents a sales engineer to a International software company. The company has been in business since 1985 with annual revenues in excess of $50 million. The company hires this person and 2 years later the person is still employed. The software company requires another sales engineer to compliment the person placed 2 years ago, in the same metropolitan geography. Does the hiring manager call Lisa? NO! After the position is open for 2 weeks the person placed 2 years ago calls Lisa and suggests she calls his boss. The boss, acknowledges the opening but insists they had it handled and have decided to use internal recruiting efforts. Incidentially Lisa, presented another on target candidate. One month goes by. The boss, hiring manager calls Lisa and asks about the candidate. the hiring manager agrees to pay a fee. When the hiring process is discussed, Lisa learns the hiring manager is planning to meet 8 people and 5 managers from around the country have flown into the territory to spend the day interviewing these 8 people. Lisa's candidate makes, 9. However Lisa's candidate is the only one that the hiring manager is excited to meet. What are the costs for a group of 5 upper level managers to fly into a city, stay in hotels and spend a complete day meeting 8 candidates when they only need 1? 6 weeks have gone by. The hiring manager knew Lisa was competent. Has he saved any money, based upon the Example above he has already losted close to $60,000. If we attemept to equate the cost of one day of a group of managers of a software company, the equation looks like this $150,000 times 5= $750,000 divided by 200= $3,750.

What are some of the soft costs: The hiring manager has spent 10 hours minimum, reading resumes and speaking to candidates over the phone. An additonal 5 hours coodinating with the other managers. What activities could the manager have done instead? If I gave you back 2 full days every 6 weeks what would the time be worth to you?

Superior human capital practices are not only correlated with financial returns they are, in fact, a leading indicator of increased shareholder value. ...superior HR practices are a key to attraction, retention and more and more, business outcomes.message: If a company’s goal is to improve shareholder value, a key priority must be its approach to human capital.
The business case has been building and Watson Wyatt’s Human Capital Index research makes it airtight. The linkage between superior human capital management and superior shareholder returns has been proven. Moreover, proof that superior HR practices drive financial results more than superior financial results drive HR practices supports our theory: If you hire the right people, create an environment that supports creative thinking and increased productivity, leveraged by technology, you’ll reap the rewards.

Dr. Bruce Pfau, Watson Wyatt

During the last ten years I have carefully studied the recruiting and human resources management practices of techology companies. The organizations I included in my observations span the gamet. 5 person companies, 50 person companies, 500, 5,000, 50,000 plus person companies. 10 year old firms, startups, etc.

My research included tracking their share-holder value. The share-holder value was usually tied closed to the career movements of the candidates.

Early on, I noticed that many of these firms did not value their employees. In the early 1990's I witnessed (publicly traded companies) 'the 90 day mentality'. Hiring people in an attempt to build sales and firing them in an attempt to reduce costs every quarter. When the issue of fees were introduced many of the firms were stead fast on negoiating low fees. I wondered, If they don't value their employees they certainly don't want to pay to hire the best. Then I read the resumes. Every few people were employed at the same firm for more than 3 years. Most less than 2. An an alarming rate less than 1 year.

What was the problem? The hiring process? The on-boarding process? The products? The management? The marketing? The business model?

The individuals who ran or still run these companies are smart! So why do they act so dumb? What haven't recruiters done to education them? What have recruiters done to hurt them?

Another simple and true case study: One of my close recruiter friends works closely with IBM. She placed over 25 sales reps in a short period. The interview to placement ratio= less than 3 to 1. Usually 2 to 1. Another friend worked closely with Sun Microsystems. His interview to placement ratio: 22.5 to 1. He placed over 100 sales people with Sun Microsystems over a 3 year period. In the last 2 years IBM stock is down from $130 to $50 in a terrible tech market. Sun Microsystems's stock down from $60 to $3. There is a reason for everything!

What about the effectiveness of the hiring programs? What are they executing against?
Top Firms Recruit Even in a Poor Economy Leading companies recruit talent and work hard to motivate existing employees even during bad economic times, according to a new study by New York-based consulting firm Towers Perrin. The study found that participating companies seek to recruit people with "the right fit" based on the contributions the individual will be able to make, as opposed to simply filling the job.

Marc Effron, practice leader, Leadership Consulting Services at Hewitt Associates. "The top companies for leaders differentiate themselves by the breadth of their leadership practices and how well these programs are implemented and integrated with each other."

Attracting Leadership Talent Means First Establishing Criteria

The Hewitt study shows that 68 percent of the organizations surveyed have a defined set of qualities they look for when hiring leadership talent. However, only 43 percent of these companies consistently or often use this criteria when hiring leadership from outside the organization, and 86 percent use it when hiring from within for a leadership position.

"Attracting leadership talent is the critical first step in an executive life cycle," said Effron. "Obviously, companies want to make sure they not only hire quality leaders, but the best leaders for their particular organization. Companies need to take the time to define the leadership competencies required to meet an organization's business strategy. It's then important that each candidate is assessed using these competencies to ensure the highest degree of success. In fact, Hewitt found that companies with these defined competencies have a higher return on sales than those without."

IACPR Survey 2002
Sample: 42 executive search consultants and 30 Human Resources executives.
Key findings:
Companies continue to go outside more often than not in filling executive-level jobs. HR execs report recruiting externally to fill 53% of positions above $150,000 compensation - just a point below the 2001 survey result, which showed a big jump from 1999 (45%) and 2000 (44%).

When going outside at the executive level, retained search remains the top vehicle, but employee referral moves up to a strong second choice. Third is direct recruiting by HR, followed by direct recruiting by hiring execs, use of Internet services and (last!) contingency recruiting.

Success rates for retained search dip slightly to 83%, according to HR execs, but this is off just 2% from 2001 and still well above the 77% completion rate achieved in 1999 & 2000. Search consultants see success on 89% of engagements, matching last year's result. This near-agreement between clients and consultants has now occurred two years in a row after years of wide splits.

Nevertheless, the split reappears when assigning blame for failures: HR execs take the heat 47% of the time (down from 57% last year) but search consultants accept responsibility for only 13% of failures (down from 19% in 2001) - less than a third of what clients think is the case.

Are searches taking longer than ever? Clients report an average cycle time of 4 months, up slightly from 3.9 in 2001, but searchers see it at 3.6 months, down from 3.8 last year.
Among stumbling blocks to success, communication is no longer the biggest, respondents say. HR execs feel search consultants need to work on their price

structure, overall service levels, understanding of the client company, research coverage and communication/followup. Search consultants say clients need to work on their responsiveness, speed, internal obstacles, realistic expectations, agreement among hiring managers … and of course communication/followup.

Reference-checking is even hotter this year, and search firms say they're up to the task: 91% of searchers label their work at least "generally complete" with 50% rating it "exceptionally thorough and exacting." HR execs are much happier with search firms' referencing this year vs. last year, with 48% rating firm's work at least "generally complete," up from 35% last year.

Integrity is key in the post-Enron world and clients are tough on it! Only 8% of clients give search firms an "A" for integrity. Most (58%) rate searchers' integrity as "B" with nearly a third (31%) giving recruiters a "C" and 4% saying search firms are flunking. A wake-up call?

Percentage fees are falling, as clients report paying 30% or more 70% of the time, vs 77% in 2001 and 96% in 2000. Search consultants agree, to a lesser extent: 84% of the sample typically charge more than 30%, down from 95% in 2001. Fixed fees stay popular: 62% of search consultants and 65% of clients report using them (up from 57% last year).

Best companies in recruiting effectiveness: GE (3), IBM(2), and Pepsi (2) get multiple mentions; 31 other companies were each named once by search consultants.
Top search firms: Heidrick & Struggles wins this year with 9 votes, topping last year's winner Spencer Stuart (5), Russell Reynolds (5), and Christian & Timbers (4.). Getting 2 votes each: Korn Ferry, TMP and The Higgins Group. 26 other firms each earned a single nomination.

Looking ahead, things can only improve, right? 84% of HR execs say search activity will at least maintain its current pace, while 32% foresee an increase in 2003. Search consultants are more optimistic: 72% project a stronger 2003.
Research by IACPR and David A. Lord, Executive Search Information Services

# of days # of days from # of days from
from assignment 1st interview to assignment to
to the first interview offer = 21.5 start date = 68.71
of Candidate hired = 32.21

Below please find our performance on 13 closed positions between October and February of this year (detailed info on attached spread sheets):

# of days # of days from # of days from
from assignment 1st interview to assignment to

to the first interview offer = 15 start date = 61
of Candidate hired = 28.85

Our firm has improved our performance in EVERY category. We improved the time it takes to present candidates by almost 11%. We helped shorten the hiring process by over 30%. We reduced the time from the time we received an assignment to the start date by ONE FULL WEEK, OR 12.5%.