

# VALUE PER HIRE & COST PER HIRE

Are you wondering if now is the right time to make a hire? We've come up with two frameworks to help you decide:

1. Use the **Value Per Hire** calculator for employees that are revenue-producers (e.g. sales reps or service providers who generate revenue directly for the services they provide, like massage therapists, plumbers, personal trainers, etc.)
2. Use the **Cost Per Hire** calculator for employees who do not have a direct revenue-producing role (e.g. cooks, front desk attendants, maintenance, etc.)

## VALUE PER HIRE CALCULATOR

Value Per Hire is a formula aimed at answering one simple question:

*How much profit can this person potentially make for you?*

### Step 1: Calculate employee's expected contribution.

First, calculate an **estimate for the contribution you expect this employee to generate**. You can arrive at this figure in a few ways, depending on how your business is structured. For example:

- Take the average revenue generated by your current employees who hold the same position and establish a baseline of revenue expected from the new hire.
- If needed, subtract the cost of goods sold from revenue to arrive at the gross margin.

# VALUE PER HIRE CALCULATOR

## Step 2: Figure out a salary for the role.

Whether it's a fully salaried position, or a position that also pays commission, **determine the highest number you expect to pay** from your pocket for this position. If you need help, consult salary data sites such as:

- [indeed.com/career/salaries](https://www.indeed.com/career/salaries)
- [glassdoor.com/salaries](https://www.glassdoor.com/salaries)
- [payscale.com](https://www.payscale.com)
- [salary.com](https://www.salary.com)
- [bls.gov](https://www.bls.gov)

## Step 3: Calculate your total Value Per Hire.

**Expected Employee Contribution – Salary = VALUE PER HIRE**

## Step 4: Calculate recruiting costs for the role.

Now that you've determined how much value a new hire can bring to your team, ask yourself: **how much would you be willing to pay to recruit someone to fill that role?** Factor in the **recruiting costs**, which can include things like:

- Sponsored job advertisements
- Employee referral program bonuses (a pool of money budgeted to pay your employees for their referrals who become hires)

The bottom line is: if a new hire can contribute a substantial value to your business – say, for example, \$50k per year in value – then would you be willing to spend 5%-10% of that value to recruit this person?

# COST PER HIRE CALCULATOR

Cost Per Hire is a formula aimed at answering a slightly different question than the Value Per Hire calculator:

*What's the cost of not having a person in this role?*

## Step 1: Identify your pain points.

This analysis is less about arriving at an exact figure and more focused on **examining all of the pain points that stem from not having enough people on your team**. Spend some time creating a list of these. For example:

- Lost business opportunities as a result of being short-staffed
- Stretching your team too thin, potentially reducing the quality of work
- Increased overtime pay
- Risk of staff burnout and turnover
- Owner or manager covering for people, taking their focus away from running the business

## Step 2: Determine how much you'd spend on a new hire to solve those pain points.

Would you spend \$10 on advertising to get a \$100 purchase from a customer? Of course you would. When sales are slow, most business owners have no problem investing a certain percentage of their budget in advertising to get a boost. Why would staffing be any different?

What **percentage of your budget** would you be willing to spend on the salary of an employee that could alleviate your business' pain points?

## Step 3: Determine how much you'd spend to recruit that person.

If you were to work with a recruiter or headhunter to fill this role, you would have to pay them around 20% of their annual compensation as a fee. You may not want to spend 20%, but would you be willing to spend 5% or 10% to get fully staffed? You should be willing to spend this much on recruitment advertising if needed.