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# TALENT ASSESSMENTS

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# SHOWING VALUE

To get buy-in for talent assessments you have to be able to demonstrate ROI. Savvy HR leaders know it's important to show HR's contribution to the bottom line, not just go hat-in-hand to the CEO.

In this guide we'll show you the hard numbers that demonstrate the value assessments will bring to your organization, and how to build your own business case.



# TALENT ASSESSMENT ADVANTAGE

## LOWER COST PER HIRE

**Companies using assessments reduced cost per hire by 3.3% year-over-year. For others, it increased 1.3%**

## LOWER "HIGH POTENTIAL" TURNOVER

**11% vs 18%**

**For a company with 50 high potentials that means hanging onto 4.5 more of their future leaders**

## CUSTOMER RETENTION

**2X**

**Assessment users had twice as much improvement in customer retention year-over-year**

## HIGHER PRODUCTIVITY

**56% vs 45%**

**The number of employees who exceeded expectations on performance reviews**

# OUR SAMPLE COMPANY



To show you how to calculate the ROI of assessments, we've created attributes for a sample company, let's call them Widgets 'R Us. Our Sample Company

Number of employees: 500

Employee turnover rate: 16%

Cost-per-hire: \$3,479

Customer retention rate: 70%

Profit per customer: \$10,000

You can substitute your own numbers to create a more accurate estimate.



# ROI OF TALENT ASSESSMENTS

Here's Widgets' ROI for using assessments, based on the company stats from the last page and some standard calculations we'll explain in the following pages:

Item.....	Amount
Cost of Assessments.....	(\$18,000)
10% Reduction in Turnover.....	\$435,200
3.3% Cost Per Hire Savings.....	\$9,200
Return on Investment.....	\$426,400

**That's a return on investment of 2,269%!**  
**Imagine putting that in front of your CFO!**

# CALCULATING YOUR ROI



The calculations in the chart on the previous page are based on the attributes of our fictitious company and commonly-accepted industry calculations.

They also assume that Widgets 'R Us will hire 80 people during the year and assess the top three candidates for each role.

In the pages that follow, we'll show you the details so you can calculate your own ROI estimate.



# CALCULATING ASSESSMENT ROI

## COST OF ASSESSMENTS

### **Explanation:**

The cost of assessments varies based on supplier, volume, and type of package/arrangement. We assumed that the company used in our examples was hiring 80 people per year and used assessments on three candidates for each new hire. The cost per assessment at this volume was \$75.

### **Calculation:**

$\$75 \times 240$

(cost per assessment) x assessments used

**Tip:** If you're comparing costs, be sure to ask about the "all in" cost. Some assessment suppliers will offer a lower per assessment price, but then add on charges for mandatory training pushing the final cost up substantially.

# CALCULATING ASSESSMENT ROI

## COST OF TURNOVER

### **Explanation:**

Estimates on the cost of employee turnover range from 20% of salary to five times salary.

An average of several major studies puts the cost of turnover at 136% of annual salary. We used that figure in our calculations.

### **Calculation:**

$(\$40,000 \times 500) \times 16\% \times 136\% = \$4,352,000$

$([\text{avg salary}] \times [\text{\# of employees}]) \times [\text{turnover rate}] \times [\text{cost of turnover \%}] = \text{total cost of turnover}$



# CALCULATING ASSESSMENT ROI

## COST PER HIRE

### **Explanation:**

The average cost-per-hire in the US (2012) was \$3,479. If you have your own CPH figure, substitute it here.

Research from the Aberdeen Group shows that companies using assessments realized a 3.3% improvement in cost-per-hire.

### **Calculation:**

$\$3,479 \times 3.3\% = \$115$  (savings per hire)

$\$115 \times 80^* = \$9,200$

[savings-per-hire] x [# of new hires] = total cost-per-hire savings

\*Our sample company planned to make 80 new hires per year.

# ADDITIONAL ROI FACTORS

We used the most common areas of financial benefit for using assessments. If you have the data, you can also include these factors to demonstrate the full return.

**Profit-Per-Employee**

**Customer Retention**

**Employee Engagement**



# CALCULATING ASSESSMENT ROI

## PROFIT PER EMPLOYEE

### **Explanation:**

Profit per employee is calculated by dividing the company's net profit by the number of full-time employees.

Companies using assessments have a 2.5 times greater year-over-year increase in profit per full-time-equivalent (10% vs. less than 5%).

### **Calculation:**

profit per employee = ([revenue - total operating expenses]) / [total # of full time equivalents (FTE's)]

**Tip:** If our sample company had a net profit of \$10,000,000, the calculation would look like this:

\$10,000,000 / 500 = \$20,000. If they realized a 10% yoy increase, that would mean \$2,000 per employee, or an additional \$1,000,000 to the bottom line! "You're welcome, boss!"

# CALCULATING ASSESSMENT ROI

## CUSTOMER RETENTION

### **Explanation:**

Companies using assessments have more than double the rate of customer retention improvement year-over-year than those that do not use assessments (5% vs. 2%).

### **Calculation:**

For our calculation, we assume a company with 1,000 customers, earning \$10,000 profit per customer, a 70% customer retention rate that increases 2% per year.

$([\text{avg profit per customer}] \times [\text{total customers}]) \times [\text{retention rate}] \times [\text{change in retention rate}] = \text{impact on profit}$

$(\$10,000 \times 1,000) \times 70\% \times 1.4\% = \$68,600$

**Tip:** This is a trickier one to measure because you need to get data from different sources, but studies back up assessments' impact on this metric and it's an impressive one to show management.



# CALCULATING ASSESSMENT ROI

## EMPLOYEE ENGAGEMENT

### **Explanation:**

Companies using assessments are 36% more likely to be satisfied with new hires and 24% more likely to have employees exceeding performance expectations.

### **Calculation:**

How you calculate the return here will depend on how you track and report employee engagement in your company.

# MAKE YOUR CASE



The value assessments can bring to an organization has been proven over and over again. All that remains is for you to show your management the kind of return you plan to bring.

If you'd like help with that, we're here for you. We can help you identify your opportunities and provide relevant case studies to make your case. And our support team will be by your side to make sure you get the results you expect.

**THANK YOU**

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