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# Gut Instinct Isn't Enough

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As private equity firms look for ways to produce outsized returns, no stone should be left unturned. Taking a deep look at hiring practices, talent management and retention at the portfolio level is no exception. In fact, according to the Society for Human Resource Management, depending on sector, a company will spend between 40 and 80 percent of gross revenues on employee salaries and benefits.

"We believe talent data is one of the most important KPIs next to financial performance data at the portfolio level and there's a huge correlation between them," says Mike Beauregard, senior partner with Huron Capital. "Tracking data about your human capital, such as hiring, turnover, goal setting and performance tracking, etc. is just as important as tracking data about other areas of your business."

Using data in the human resources department is becoming more frequent. According to Josh Bersin, founder of Bersin & Associates, a research and advisory firm for talent management, as of 2018, approximately 30 percent of human resources (HR) departments include a person or team of dedicated to people analytics—that's up from 10 percent a few years ago. What more, the HR technology space is growing rapidly and has attracted more than \$3 billion in investment since 2015.

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– **Mike Beauregard**, senior partner  
with Huron Capital

"People analytics is an under-utilized lever for value creation at most companies. Human capital is not only the engine for top-line growth, but also typically one of the largest expense drivers on the P&L.

Moving the needle on turnover, overtime, benefits costs, or even time to fill common roles, can deliver meaningful financial results. However, firms are often lacking the benchmarks to know what good looks like and the expertise to drill into key drivers and deliver results." says Amin Venjara, Chief Product Owner of ADP DataCloud.

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The use of people analytics at the portfolio level is indeed growing, however while many companies are tracking data, many aren't using that data to help them make better decisions with their talent practices. "Many utilize data storage to collect the information, but it is not consistently utilized to proactively drive initiatives within the business," says Beauregard.

### **Hiring the Right talent**

The first way to use the data is for hiring practices. The question is how do you attract the best talent? "Analytics can help hiring managers see characteristics and trends in their employees, such as what backgrounds and experiences are common for their current best employees. We believe this data will help make better hires in the future. Other questions that might be answered by data analytics include preferences of one set of employees in a certain geography vs another, or different preferences by generation, for example. This assessment can help management make timely decisions for the growth of their workforce." says Beauregard.

ADP helped a high-end spa with 2,000 employees across five locations reduce its high turnover rates.



Hiring and retaining the right talent was critical, but turnover was a big problem. After reviewing the data the company realized that many of the hires were not a good fit for the company. The company realized there were a few areas they could improve upon during the interview process. The HR team added a peer interview to the recruiting process and provided candidates with a better sense of what the job entailed during the interview process, both of which helped to increase acceptance rates and retention.

High employee turnover during the first year is noteworthy. "It tells you if you are making the right hires. If you aren't looking at data around turnover during the first year of employment you are essentially blind. You spend money to recruit, but don't follow up to make sure they don't leave? It's critical to understand the turnover rate and its impact," says Venjara.

### **Managing and optimizing**

Managing talent is another important area where data analytics can be beneficial. It can help company management figure out what their training and employee development should look like. "We believe that companies that engage their employees, train and develop them, will lead to work product productivity, customer satisfaction, and ultimately performance." says Beauregard. The message is clear: managing talent correctly is a very important to the bottom line.

### **Retaining Talent**

Retention is also an area where data analytics can be useful. "Turnover is costly and there are usually underlying issues creating that turnover. Compensation is the most obvious thing to look at," says Venjara. "But things like employee engagement can be very telling as well."

ADP had a mid-market client that was experiencing high turnover. Using analytic tools, the company was able to determine that they didn't have an overall problem with turnover that they thought they had, but they had a problem with turnover in one particular department, which brought them to the realization that they had a problem with management in the department. "Prior to using analytics, the company was getting data late and wasn't able to successfully pinpoint the problem. Once the company made a manager change, the turnover dropped and it was a \$60,000 gain," says Venjara. "When someone quits the usual cost is estimated at half the annual salary of that job. By the time you replace that person it's about six months of time lost. Using analytics can help lower turnover and give management insight as to how to stop turnover and make gains to drive returns."

Gabe Mesanza is a partner in performance enhancement at Huron Capital works with portfolio companies to drive value. He says for the last five years the biggest issue he encounters on the HR side is with retention of hourly employees. "It's not always easily understood why people leave. You need to work backward and use the data to figure out what's going on. When did those people leave, was it in a short period of time, will increasing wages help? Until you parse through that data on a granular level it's hard to understand," says Mesanza.

At one manufacturing company Mesanza led, employee turnover was at 15 percent on any given week. "That didn't really tell me much other than at any given week 15 percent of employees were walking out the door," he says.

But Mesanza started to dig in. First he looked at the starting hourly wage and benchmarked it against the local industry average and decided the company was paying below market. The company increased its wages. However, the turnover rate remained high

and most employees were leaving in the first 30 to 60 days on the job. "That told me they took this job, but were still looking for other jobs," says Mesanza. "Well, why were they doing that?"

Through conversations and employee surveys, management learned of dissatisfactions and worked to address them. "We had temporary and full-time employees. The temporary employees were the ones who were leaving at a far faster rate so we worked with our temporary staffing agency to accelerate their conversion to full time employees and shifted our mix total mix toward full-time employees and implemented changes to our onboarding process," says Mesanza.

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The company realized a better onboarding process would go a long way. Instead of hiring someone and sending them to listen to a quick presentation and putting them out of the floor, the company made sure every new employee had a 'buddy' to shadow them on the floor. The company added an onboarding presentation that talked more about the company's long-term goals and encouraged the new employees to ask questions.

"This turnover problem was going on for 10 years and no one had asked for the data. The HR department was dealing with daily issues and employees on the floor. They weren't looking for insights as to why things were happening," says Mesanza. "The changes had an impact and cut the turnover rate significantly."

ADP helps PE firms and their portfolio companies access the key metrics of their workforce compared with the most current Human Capital Management (HCM) benchmarks based on real, "living" data to implement best practices across your portfolio. With Analytics and Benchmarking capabilities powered by ADP® DataCloud, you get up-to-date, easily accessible data that reveals critical, actionable workforce and business insights which are critical to success today.