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HR Analytics Increases Profit and Retention

Applied Industrial Technologies

Executive Summary

In January 2015, Applied Industrial Technologies began working with Cangrade Inc. and CareerBuilder on a project designed to overhaul and enhance recruiting and employee development in the organization's core U.S. operations. Specialists in Human Capital Analytics began by assessing the real impact of different employee characteristics and skills on organizational outcomes, and then used these success models to implement scientific tools and processes for pre-hire assessment, succession planning and employee development.

In the first year of this engagement, leaders at Applied have credited the project with a number of positive organizational outcomes, including a revenue impact of at least $12.9 million, and a 28% drop in first year turnover. In this case study, we examine how they achieved these results.

The Goal

When Kurt Loring joined Applied as CHRO in 2014, he discovered gaps in the organization's implementation of strategic HR practices. "We knew which people and which teams were performing well, but had no idea *why,* or how, to replicate their success in an organized fashion." Furthermore, Kurt felt that first year turnover of salespeople such as Account Managers was higher than desirable.

Kurt approached vendors to help Applied introduce a major strategic initiative he dubbed "HR Analytics." This initiative would have two goals:

1. Increase Service Center Revenue and Net Profit
2. Decrease "False Starts," or First Year Turnover

The Approach

Cangrade and CareerBuilder partnered to deliver a solution incorporating HR Analytics in different parts of Applied's human capital processes. This solution began with a "benchmarking" of the current salesforce – 1,056 employees in total. The surveys took an average of 25 minutes to complete and were delivered through Cangrade's automated system. 1,051 people (99.53%) completed all of the questionnaires, providing information about their personality traits, motivators, hard & soft skills.

Cangrade scientists placed information from these surveys alongside existing information on employee success, and used statistical analysis to identify groups of characteristics driving the profitability of the Service Centers at Applied and the happiness of employees.

The Rollout

These analyses were used to generate "success models" which were incorporated into software solutions and used to enrich different parts of the human capital process, beginning in July of 2015:

Pre-hire Assessments – Applied uses cloud-based pre-hire assessments, based on statistical success models, as an early step in all hiring. These assessments serve as an early screen in Applied's recruiting pipeline, identifying which applicants are statistically likely to succeed and should be considered for further interviewing.

Workforce Planning - Applied leadership has also gradually started using these predictions to enrich decisions about lateral movements between teams and employee career paths. When an employee is being considered for movement or promotion, Cangrade's predictive software helps leaders identify positions and teams where success is most likely.

Structured Interview Guides – When a strong candidate is identified, hiring managers conduct a structured interview through Cangrade's platform. The main questions in these guides are standardized based on core competencies identified in the benchmarking process, and follow up questions are suggested based on a candidate's answers on the pre-hire assessment.

Online Sales Training – Success models are also used to identify knowledge gaps and generate course recommendations for each sales employee. These recommendations in turn populate individualized learning tracks and micro-coursework, delivered through CareerBuilder's "Moneyball for Sales" system.

Acceptance

HR Analytics was initially met with cautious optimism. "Some of our leaders were very excited, but others were a bit more skeptical at first," recalls Loring. Greg Krupa, Applied's Manager of Talent Acquisition, reports the same pattern for hiring managers on the ground: "As recruiters we could see a difference almost

overnight in the quality of sales talent coming through the door, but some hiring managers initially resisted the idea that an algorithm should figure into their decisions.

With time and internal championship, most skeptics were converted. One Area VP admitted to Loring that "I wasn't sure at first how well this would work, but when I look at where we were a couple of years ago and the quality of talent I see around me today, it's like night and day."

First Fiscal Year Outcomes

After one year of full rollout, internal and external analysts evaluated the first year success, to identify whether the HR Analytics initiatives had moved the needle on the metrics Applied's leadership hoped to improve. The analysts concluded that the efforts were almost unilaterally successful.

Retention – In the first year of full HR Analytics rollout, false starts were reduced by a full 28%.

Revenue – Those service centers who successfully built teams with higher Fit scores statistically outperformed others. Analysts estimate that improvements in this area during the first year led to a 12-month increases in revenue of at least $12.9 million,

Net Profits – Those service centers who successfully built teams with better job Fit were also more profitable. Analysts estimate that 12-month improvements yielded at least $1.16 million in additional profits. Additionally, those service centers where employees adopted coursework early in the fiscal year (relative those who did not) tended to become more profitable later in the year, with this difference indicating a further impact of at least $1.03 million to Applied's bottom line.

Considering these results, leaders at Applied made the decision to nearly double their investment in HR Analytics in year two, by expanding services to include Customer Service & Success Representatives.

"As HR leaders, it's exciting and validating to see our work yield such a clear and measurable impact on Applied's success," said Loring. "The question now is not whether the HR Analytics initiative is helping, but how best to extend its reach and keep pushing the needle further."

About Applied Industrial Technologies

Founded in 1923, Applied Industrial Technologies is a leading industrial distributor serving MRO and OEM customers in virtually every industry. In addition, Applied provides engineering, design and systems integration for industrial and fluid power applications, as well as customized mechanical, fabricated rubber and fluid power shop services.