The Hidden Costs of Low-Ball Offers

Making an offer to a candidate at the lowest end of the range (or below) is just being responsible for your budget, right? At first glance you may think so, but are you really saving money? In my 20+ years of experience in putting candidates and companies together my answer would be a big NO, especially in a market that is very competitive for talent, and the better candidates may have other offers to consider as well.

Some of the companies that are known for making low offers feel they are being shrewd in their negotiations with candidates, and some even justify their low offers by saying they are trying to make sure people are accepting their offers because the really want to join their company and it's not just about the money. And while that may be true, but the company better have other things going for them (excellent benefits, unique or interesting technology, advancement opportunities, better commute, etc.) to keep those new hires onboard.

In some cases a company is not even aware they are making a low offer, but rely on some salary guide that is out of touch with the realities of the market.

From a candidate's perspective, the salary negotiations and enthusiasm for accepting an offer and joining a company that makes a low offer is drastically different from a company that makes a good (or even just a fair) offer. Candidates that are currently unemployed with no other pending offers may be reluctant to accept a low offer thinking they may miss out on a better offer. Or, they may accept the offer but continue to look for other/better opportunities and leave within a year anyway, leaving the company to go through the recruiting and training process again and incur all of the costs associated with it.

If the candidate receives a low offer from a company they quickly begin to lose the excitement they had when they applied for the position, and begin to wonder if the company will be cheap in other resources and in future raises. And if they have other offers, a low offer can make an offer from a less desirable company look better and increase the likelihood they will take the other offer. In some cases, a delayed counter-offer from their previous employer may also be more tempting if they have accepted a low offer from a new company.

You also need to consider the costs incurred by the position being open longer because you can't get your offers accepted. There are costs associated with someone not being in the role you are trying to fill, and the revenue that would be generated by a good, productive employee being in that role. Insurance companies and the American Management Associate calculate that each employee generates between 5x-10x the salary they are paid in revenue for the company. You can see how quickly the costs for every day the position remains open can accumulate. Not to mention the burnout of the other employees that are picking up the slack.

While salary guides can be useful tools they should not be relied on completely since you also have to take into account what your competition is offering for the same talent. Knowing and exceeding a candidate's salary expectations can pay off big dividends because the candidate is more motivated to show they are worth the money you are offering, and will work to exceed your expectations as well, which will ultimately save the company money in the long run. Remember, you get what you pay for. A happy and productive employee is a very valuable asset. Let them know you really want them on your team with a good offer and enjoy the additional benefits. It ultimately saves you more money than a low offer and increases your chances of attracting top talent.