MOONSTAR

Unlock significant savings by tracking employee turnover costs in your P&L

The story of how we calculated our €1M+ losses and unlocked cash to invest in increasing our retention

ALEXANDRA COPOS DE PRADA
Founder & CEO Moonstar.ai
Previous CEO Ana Hotels, Ana Pan

One of the most powerful ways in which companies can boost their bottom line is by ensuring their employees are engaged. The problem is that employee engagement problems are often hidden – after all, employees don't generally go around telling their bosses they are disengaged or use that as an excuse for being less productive or for skipping work. In fact, the employers who are lucky enough to identify the problem typically do so during exit interviews with departing employees, when it's already too late.

More importantly, the costs of disengagement are hidden and therefore hard to quantify. CEOs most often do not account for these.

That means the problem is left unresolved and management teams remain blind to the benefits of an engaged workforce.

I learned this the hard way by losing over €1M per year. At the age of 30, I took over as CEO two companies, one of which had to go through a significant turnaround to survive. We had close to 2,000 employees spread across 24 locations.

After two hard years, both companies were growing and we managed a successful turnaround. My biggest challenge then became one I was utterly unprepared for - our high rate of employee turnover.

We were losing over 600 people per year, many of whom we wanted to keep, many who had the potential to grow into middle managers. I knew quite a few of them and every time someone left, I took it as a personal failure.

It wasn't until we looked at how much turnover cost us, more than €1M per year, and hurt our staff motivation that we saw a big potential in actively managing it. We realised that managing for growth relied heavily on keeping our employees engaged and loyal.

Here is the story of how we were able to extract these benefits and cost savings, and how we found resources to invest in increasing our retention via better onboarding, training, communication and engagement. Once I realized the huge potential of engaging our employees and reducing our churn, I decided to launch Moonstar, the employee retention platform, a mobile first application that brings together all the tools companies need to communicate to, onboard, train and engage with their workforce.

I hope this article will help you assess where the leaks are in your company and what you can do about it.

Some of the amazing people I work with at Ana Pan, our award winning bakery business.

START BY QUANTIFYING EMPLOYEE TURNOVER

Once our businesses were on a stable growth path, employee turnover became top of mind. It was a very visible problem, even if the root cause was not. Most of the leavers were good and had the potential to progress in the organization.

Worse of all, 55% of new hires were leaving within six months, despite management incorporating best practices from well-known technology companies.

I wasn't worried about the costs initially. I was convinced then, and remain today, that managing for growth relied heavily on attracting excellent talent and keeping our employees engaged and loyal; however, it wasn't until we looked at how much turnover cost us and hurt our staff motivation that we saw a big potential in investing in managing it proactively.

I firmly believe that until CEOs look in detail at the costs associated with their employees' turnover, not much of essence will change when it comes to rethinking the employee journey to make it more engaging for staff and more productive for companies.

Once we figured that the costs of early churn hovered around €450,000, and that total churn costs exceeded €1 million including recruiting and training, but not including lower productivity or absenteeism, we knew we had an opportunity to invest in reducing turnover costs. Equally importantly, we had the chance to build an organization and culture in which people would thrive with us for the long term.

THE UNEXPECTED HIDDEN COSTS OF EMPLOYEE TURNOVER

Employee turnover is a costly problem for any company. Gallup estimates that in the U.S. alone, it costs companies close to $1 trillion every year.

When companies complain that they have a limited budget to invest in their people, they are not paying attention to the money lost due to their staff turnover. We were spending €1M+ per year in recruiting, training and then replacing new hires.

When we lowered our staff churn rate, we saved significant money to invest in better onboarding processes and training for our middle managers to become great mentors to their teams.

What are the main costs associated with employee turnover?

The top three costs that we actively look at are direct turnover costs, losses due to lower productivity and losses due to higher absenteeism.

1. Direct employee turnover costs

The more immediate costs are those associated with hiring a new person, training her and getting her to full productivity in her role.

The Center for American Progress' research suggests that about 16% of a new hire's salary is spent overall on getting that person to full productivity, if the employee earns under €25K/ year. If an employee earns over €25K/ year, the cost to replace her goes up to 21% of payroll.

Of course, these numbers go even higher depending on skill level and seniority within the company. In our case we were losing about 600 frontline workers, at a 16% annual salary of €11,000/ year, which placed our turnover costs at over €1M.

Employee Turnover cost = Number of new replacement hires x Annual average salary x 16% cost of replacing

Depending on the industry you are in and the role you're hiring for, you can look at the above 16%-21% of a new hire payroll as a blended cost that takes into account:

- recruiting fees paid to agencies
- time spent by the HR team in sourcing, interviewing and hiring
- training costs to get the new hire to full productivity

Alternatively, you can look at these separately for more complex and higher paid roles.

2. Losses due to lower productivity

According to Gallup's State of the Global Workplace (2017), 18% of employees are actively disengaged. Those are the first people that will eventually leave you. 67% are not engaged, and only 15% of employees globally report they are actively engaged at work.

Actively disengaged = *'openly resentful that their workplace needs are not being met '*

Not engaged = *'putting in time, but little discretionary effort at work'*

How do the disengaged employees affect your bottom line?

The less engaged an employee is, the less he is invested in bringing his best self to work. He simply puts in the bare minimum: missing deadlines, burning through extra resources and delaying projects. This, in time, leads to frustrated colleagues, dissatisfied customers and unhappy stakeholders.

It's easier to think of low productivity as gains you are missing, instead of money going down the drain, since highly engaged employees register 17% higher productivity and 21% higher profitability.

Gains from improved productivity = [Operating Profit / # total employees] x [# of employees disengaged - # of employees leaving the company*] x 17% Increase in productivity

** Assumes that highly disengaged employees make up a significant percent of leavers*

At the maximum, we could have gained an additional €935,000/ year from productivity improvements if we assume the 85% global rate of disengaged employees, our 30% annual churn, 2,000 total employees, a 17% lower productivity for those disengaged employees who remain with the company and our annual operating profit of €10M.

3. Losses due to higher abseenteism

Disengaged employees often hand in tasks late, call in sick and generally work fewer hours compared to their colleagues. Not to mention they are a big demotivator to their peers. This, in turn, leads to compounded productivity loss across the entire team.

According to a SHRM report, absenteeism leads to an extra 3 days/ year as unearned paid time off, and oftentimes companies replace this employee with existing staff that they pay overtime, usually at 1.5 of the ordinary day rate.

Losses due to absenteeism = # employees actively disengaged x 3 days x Daily Salary Rate x 1.5

We lost at a minimum €72,000/ year due to additional absenteeism driven by the staff that felt highly disengaged. New research by Gallup puts this number even higher, suggesting that engaged business units have 41% lower absenteeism.

If you add up all the costs, we were losing €2.1M/ year, with €1M+ in direct turnover costs.

It was only when we started looking closely at these costs that we made significant changes to our onboarding processes, as well as to our employee experience. We unlocked resources to offer people more opportunities for development.

The costs we saved by reducing employee turnover we are investing in Moonstar, our employee retention platform that helps us seamlessly manage our onboarding and development programs, as well as communicate more directly to our staff and offer them opportunities to feel appreciated on a daily basis.

Disengagement also leads to lower group performance and a decrease in sales and customer satisfaction

A disengaged employee often causes considerable damage to the team's dynamic, because negative emotions are highly contagious. Research done at Wharton, University of Pennsylvania, refers to this as the Bad Apple Syndrome and shows it can bring down group performance by 30 to 40%. Inadvertently, colleagues pick up on negative emotional cues – boredom, indifference, detachment – and mirror them.

This manifests even more if you have disengaged managers: they not only affect their team's morale and performance, but their attitude often puts off high-potential new hires.

Disengaged employees also affect customer loyalty, since they are not invested in providing the best possible experience to clients

In contrast, units with engaged employees have 10% higher customer metrics and 20% higher sales. Gallup shows this improvement in customer KPIs is a direct consequence of employee engagement (Gallup 2020 Q12 Meta-Analysis, p.27).

The time is now for CEOs and Heads of HR to quantify the costs of employee turnover and the low engagement that precedes it.

Only by understanding the significant negative impact on the business these costs have, can companies start investing smarter in solutions to make the employee experience more engaging and productive for both the staff and the company. Companies who don't do much in this regard have only a meager 17% chance of achieving above-average performance in the long term (Gallup 2020 Q12 Meta-Analysis, p. 30).

Moonstar is the startup that I founded to address my own challenges in retaining our high performing staff.

Our mobile-first employee platform drives increased retention among remote, deskless workforces by powering staff engagement and productivity. We integrate the key factors that impact retention – communication, onboarding & learning, social recognition & rewards – in order to help people develop, stay engaged, informed and loyal to their companies for longer.

You can read more about boosting retention in your own company at moonstar.ai.