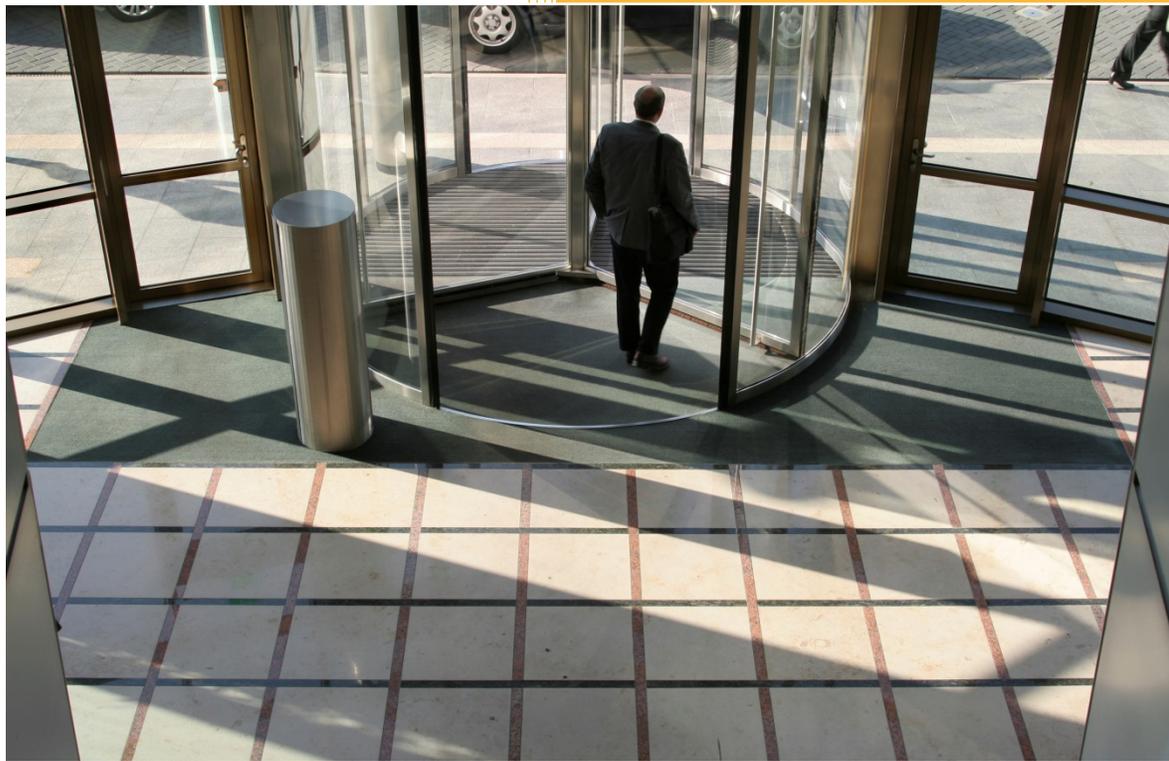


# Essential Guide to Turnover Costs



Part I

Understanding Direct Costs  
of Employee Turnover

# ESSENTIAL GUIDE



## TURNOVER CHALLENGE

Turnover carries a significant cost:

The cost to replace a \$10/hour retail employee averages \$3,328.

The cost to replace a \$40k manager is about \$8,000.

The cost to replace a \$100k CEO is \$213,000.

## THE SOLUTION

- Implement a year-round, comprehensive employee feedback program.
- Use feedback data to implement internal strategies that positively affect change.
- Track ROI with research to understand reductions in turnover costs.

## IMPACT

- Significantly increase employee engagement.
- Change reasons for leaving from supervisor-driven to non-company driven.
- Positively impact employee productivity.
- **Reduce turnover by between 25-65%, saving your company thousands or even millions.**

## MAKE AN IMPACTFUL CHANGE TO THE BOTTOM LINE BY HARNESSING EGREGIOUS EMPLOYEE TURNOVER COSTS

THE DEPARTMENT OF LABOR BUREAU SHOWS THAT THE AVERAGE AMERICAN HOLDS 11.3 JOBS THROUGHOUT THEIR WORKING YEARS. WITH SO MUCH TRANSITION, ORGANIZATIONS FACE AN UP-HILL BATTLE IN EVALUATING THE OVERALL COST OF THEIR EMPLOYEE TURNOVER. IT DOESN'T NEED TO BE THAT WAY.

Human Resource departments in charge of the workforce have an enormous opportunity in front of them to help lower operating costs and increase employee retention and engagement if they are able to lower the overall employee turnover rate within their organization.

Determining the overall price of employee turnover is critical to any organization's expense control. There is an enormous financial opportunity to be had when reducing the expenses inherent to employee turnover. When companies see a high turnover rate, they must know exactly how many different factors come into play to determine the overall amount of money dedicated to replacing each individual employee.

**This guide will show organizations exactly how to calculate those expenses.**

The overall cost of employee turnover is a multilayered calculation with many components being difficult to measure precisely. The overall cost can be broken down into direct and indirect expenses with

each of these having multiple layers to them.

To break it down simply, calculating the cost of employee turnover is done by determining the total time and money spent to replace any individual.

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*The most important step in reducing turnover – is having a clear understanding of the direct costs associated with it.*

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With the estimated expenses of employee turnover ranging anywhere from 33% to 300% of the employee's salary, depending on what study you choose, it is imperative for organizations to understand exactly what goes into the direct cost of employee

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*Calculating the cost of employee turnover is done by determining the total time and money (direct and indirect costs) spent to replace any individual.*

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turnover. These amounts can be broken down into three different categories:

1. Prior to the employee's departure
2. While the position is vacant
3. During replacement and onboarding

The fees associated with actions taken prior to the employee fully departing the organization are just the tip of the iceberg in calculating the overall direct costs. Events like the Exit Interview, separation processing, accrued vacation days, continued benefits, and theft/ sabotage are all part of the costs often associated with turnover prior to the actual departure.

Direct out of pocket expenses while the position is vacant are another set of fees that are basic calculations. These will include:

- The payment to temporary workers to fill in the position
- Current employees' overtime pay to compensate for the smaller staff
- Recruitment fees

WHILE SIGNIFICANT, THE DIRECT EXPENSES RELATED TO EMPLOYEE TURNOVER ARE JUST PART OF THE EQUATION IN DETERMINING THE TOTAL COST OF EMPLOYEE TURNOVER. OUR NEXT ESSENTIAL GUIDE ADDRESSES THE INDIRECT COSTS THAT HELP PAINT THE FULL PICTURE.

Recruitment costs include advertising, recruiting, and recruitment administration.

The expenses accompanying the replacement and onboarding practices are mainly focused on hiring costs. These include:

- Interviewing
- Testing costs along with aptitude and drug tests
- Reference checks, and search fees

Additional onboarding payments include:

- Bonuses: moving and signing
- Equipment necessary for the role
- Training costs - orientation costs and training expenses to get the new employee up-to-speed with their role

After collecting all of the expenses related to each of these values, organizations will need to add them up to understand the initial direct costs of employee turnover, but they are far from having an exact amount in understanding the total amount in evaluating the cost of employee turnover.



### **PRIOR TO DEPARTURE COSTS**

Find the sum of the following fees to determine the total expenses associated with the separation costs of employee turnover.

- If Exit Interviews are outsourced it is easier, but if they are conducted in-house, the overall expense equals the average interview duration multiplied by the cost per hour of the employee conducting the interview.
- To calculate the cost of separation, average the total amount of time taken to complete the separation paperwork and multiply it by the cost per hour of the employees who complete those tasks.

- Determining the accrued vacation payout for the departing employee occurs by multiplying the weekly salary of the departing employee by the average number of accrued vacation days available.
- The final portion of the prior to departure calculations is the cost of theft or sabotage. In order to compute that cost you must determine the average cost of theft by a departing employee.

- + exit interviews
- + paperwork & processing
- + vacation pay
- + theft or sabotage

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**TOTAL COST:** PRIOR TO DEPARTURE



### VACANCY COSTS

Expenses incurred while the position is vacant are calculated by adding the following calculations together:

- Compute the overall fee for temporary workers by multiplying the number of weeks the temporary workers are employed by that cost of the worker per week.
- In order to determine the cost of co-worker overtime, multiply the number of weeks that co-workers fill-in, times the percentage of time overtime, times the cost of overtime.

- + temporary workers
- + overtime pay

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**TOTAL COST:** VACANCY

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*Calculating direct costs of employee turnover means knowing the costs of departure, vacancy, recruiting, hiring, orientation and training.*

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### RECRUITING COSTS

The overall costs of recruiting a viable replacement for the departed employee are determined by finding the sum of the following expenses:

- Advertising costs for each position
- Recruiting costs for each position
- Overhead costs of recruiting for each position

- + advertising positions
- + recruiting events
- + overhead

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**TOTAL COST:** RECRUITING



### HIRING COSTS

Calculating the overall cost of hiring services is a process that involves many more steps than the other direct costs because of how many different tasks necessary to acquire new talent. Add the following together to determine total costs associated with hiring replacement employees:

- The cost of interviews is found by multiplying the cost per hour of interviewer, times the average length of each interview, times the average number of interviews.
- Testing costs are determined by finding the cost for each test per new hire.
- In order to find the costs associated with reference checks, multiply the average number of hours needed to check

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references times the cost per hour of the employee conducting the reference check.

- Search fees for potential candidates are calculated by multiplying the percentage of new hires hired through an agency times the average search fee cost.
- Signing bonus fees are computed by multiplying the percentage of new hires receiving a bonus times the average signing bonus amount.
- Equipment costs are calculated by finding the average cost of equipment associated with each new hire.

- + interviews
- + testing
- + reference checks
- + search firm fees
- + signing bonuses
- + equipment costs

**TOTAL COST: RECRUITING**



**ORIENTATION & TRAINING COSTS**

Orientation and training costs are often overlooked by organizations when determining the overall direct expenses related to employee turnover. In order to fully understand these costs, find the sum of the following:

**Orientation Costs**

- The total time spent by the employee orienting the new hire times the cost per hour of the orienting employee, plus
- The total time spent by the new hire times the cost per hour of the new hire

**Training Costs**

- Divide the number of new hires in the training class by the time spent by the training employee. Then divide that total by the cost per hour of the trainer

- Multiply the total time spent by the new hire by the cost per hour of the new hire. Add that amount to the cost of training materials necessary per new hire.

Add the sum of the overall training costs with the overall orientation costs to determine the total costs of new hire orientation and training.

- + new hire orientation
- + training & materials

**TOTAL COST: ORIENTATION & TRAINING**

**CALCULATING TOTAL DIRECT COST**

Once all of these steps are complete, add the sums of the prior to departure costs, vacancy costs, recruiting costs, hiring costs, and orientation and training costs to have determine an exact amount of direct cost associated with employee turnover.

- + prior to departure costs
- + vacancy costs
- + recruiting costs
- + hiring costs
- + orientation & training costs

**TOTAL DIRECT COST: EMPLOYEE TURNOVER**

Once again, the direct expenses related to employee turnover are just part of the equation in determining the total cost of employee turnover. Make sure to read the Essential Guide in Calculating the Indirect Costs of Employee Turnover when it's released.

*Need an easy way to communicate to your team and supervisors the power of calculating the direct costs of turnover? The following page is a printable infographic designed to do just that. Print it out and bring to your next meeting.*

*Get your organization to understand how "Adding it Up," will lead to increasing employee engagement and significantly reducing costly turnover.*



# CALCULATING DIRECT COSTS OF EMPLOYEE TURNOVER

THE AVERAGE AMERICAN



HOLDS  
**11.3**  
JOBS

THROUGHOUT THEIR  
WORKING YEARS.

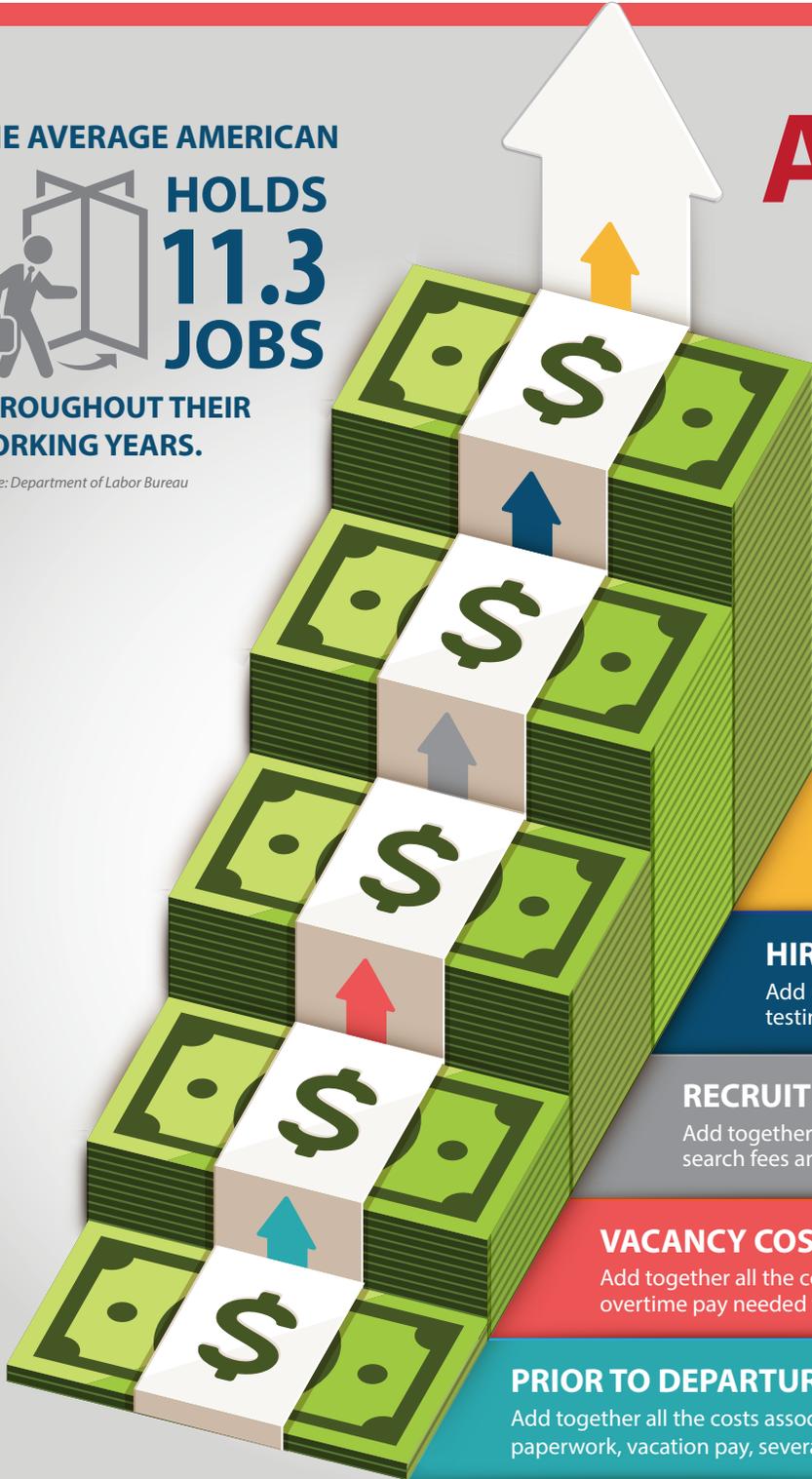
Source: Department of Labor Bureau

## ADD IT UP.

*Want to know what  
you're really spending?*

*Calculating the cost of employee  
turnover is done by determining  
the total time and money spent  
to replace any individual.*

*The investment is significant.*



### TRAINING COSTS

Total the expense of orientation and training for new hires.

### HIRING COSTS

Add up all the costs of interviews, testing, and reference checks, **PLUS...**

### RECRUITING COSTS

Add together all the costs of advertising jobs, search fees and overhead, **PLUS...**

### VACANCY COSTS

Add together all the costs of temporary workers and overtime pay needed to fill an absence, **PLUS...**

### PRIOR TO DEPARTURE COSTS

Add together all the costs associated with exit interviews, paperwork, vacation pay, severance, theft or sabotage, **PLUS...**

