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YOUR DAILY OPERATIONS MAGAZINE

Employee Turnover And Cost

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by Justin Spath

It is probably fair to say we all recognize that the people we hire are a driving force in our business. The question is do we recognize the financial impact of our hiring process to the bottom line? It seems to me that as this year wraps up, we should reflect on how our dealerships have done and plan for the next year. It is also an appropriate time to discuss the costs we all incur due to our, often poor, hiring and recognize that there is a lot of savings that can be found.

The most common way to determine the costs of poor hiring is to look at the employment turnover at your dealership. Turnover is the number of employees you have leaving your dealership over the course of a specific time period. Usually you will see this expressed as a percentage of total employment. The calculation is determined by the following formula:

$$\frac{\textbf{number of seperations in time period}}{\textbf{average number of employees in time period}} \textbf{ X 100}$$

What will this number tell you about the cost of poor hiring once you have calculated it? Nothing. It does, however, give you a basis for comparison between time periods and between statistics in the population. You can compare your turnover rate year-to-year, month-to-month (the most common method) or, if you have a lot of time on your hands, even on a day-to-day basis. By keeping this number in mind as you conduct your hiring, you can get a good feel for when hiring is necessary. You can also compare your turnover rates to others in the automotive industry and in the country as a whole. Turnover rate in the retail automotive industry is around 7 percent and the national turnover rate is running at about 3 percent. If you find that your dealership's turnover rate is below the standard for the industry or the national rate then under most circumstance you can assume that you have a good handle on your hiring practices.

So now that we know what turnover is, how to track it, and what to compare it to, let's look at what costs are incurred due to poor hiring decisions and large turnover.

Let's assume a cashier quit and we need to replace him. For the sake of simplicity in this example we will say that all administrative personnel, including this cashier, at my dealership make $10 per hour and all managers make $20 per hour. We also expect that it will take two weeks to find a new cashier and fill this open position. With this established we will start tracking the costs that are incurred from the time the person quits.

1) Administrative time to process termination paperwork, remove the former employee from payroll, respond to unemployment requests, etc.	2 hours @ $10 per hour.
2) Time for other employees to fill in for the cashier for two weeks.	80 hours @ $10 per hour
3) Overtime paid to other employees to complete their work while filling in for cashier.	20 hours at $15 per hour (time-and-a-half)
4) Managerial time developing newspaper advertisement.	1 hour at $20 per hour
5) Administrative time to approve newspaper advertisement and process payment.	1 hour at $10 per hour
6) Cost of advertisement.	$300 for advertisement
7) Manager time sorting resumes, interviewing applicants and	15 hours @ $20 per hour

checking references.

8) Drug and pre-employment testing for new hire.	1 test at $50
9) Orientation and training time for new hire.	40 hours @ $10 per hour
10) Orientation and training time for manager.	40 hours @ 20 per hour
Total Cost	**$3,000**

Take a look at all that again. Did you realize all the time and money that went into this process? Does it look like something similar to what happens at your dealership? It's a little bit scary that it costs $3000 per employee that leaves your company. But that is not the scariest part. Think about these three things now:

I used very conservative numbers in this calculation. Real life numbers are going to be much higher.

This is for a low-level administrative position. Hiring for sales or management the numbers will usually rise in proportion to their salary.

This only addresses the "hard costs" and completely ignores "soft costs."

The hard costs that we see in my example are the costs that we can assign a specific monetary value to. These examples include time, labor and services. Soft costs are more nebulous. Soft costs would include losing a customer because your fill-in cashier was not polite on the telephone, or missing a sales call because the manager had to train a new employee. These costs are harder to quantify, but studies by human resource professionals have shown that soft costs are usually about three times the hard costs.

Taking the soft costs into consideration would mean that hiring a new employee would cost your dealership around $12,000, with costs escalating proportionately with the lost employee's skill and pay. If we look at the dealerships I work for, with about 200 employees, and follow the industry rate of 7 percent turnover, that would mean my dealership would be have at least $168,000 a year in hiring costs with the reality being far higher than that.

By understanding these costs and where they are coming from, we can see how reducing your turnover by even a small percentage can result in thousands of dollars in savings for your dealership. All too often, dealership managers and owners do not see the impact of employee turnover and repeated hiring. A dealership's focus should always be on hiring the right people the first time in order to minimize its costs.

Take the time this month to calculate your turnover rates for 2006 and the costs you incurred in the hiring process. Looking back over the last year and gathering this information will be useful because next month's we will address how to take this information and use it in planning for your staffing needs in 2007.

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