Cost of Turnover Tool

*Make the business case to improve retention through upskilling and stability*

March 2019

This Cost of Turnover Tool is a simple, “back of the envelope” calculator to help you estimate how much it costs your business to replace staff. The goal is to reasonably indicate the financial impact of turnover on your company. Some turnover costs – what we’ve called the direct cost of turnover – can typically be calculated using data collected as part of regular firm operations. Other turnover impacts like lower employee morale or poorer customer service – what we’ve called the indirect cost of turnover – are more difficult to quantify, but equally important to consider when assessing the financial impact that turnover may have on your business.

Different industries experience turnover in different ways. For example, while a manufacturing firm may engage a staffing agency to hire temporary workers, a retailer is more likely to rely on a fleet of hourly workers who can quickly fill shifts. But a retail business may have longer lines and higher shrink when turnover spikes. This tool allows you to pick the expenses relevant to your organization, and calculate annual cost of turnover by estimating a few costs and using simple calculations. This information can help you make the case for investing in upskilling and other strategies to improve retention.

This tool was developed jointly by UpSkill America and Reimagine Retail. To learn more about our work, visit as.pn/upskill and as.pn/reimagineretail.

**Getting Started**

To use the tool, you will need to collect some data on the costs of separation associated with losing a worker and on recruiting and onboarding a new employee to work productively. To help collect this information, you should answer the following questions before you start.

- What position or occupation do you want to calculate costs for?
- Who do you need to collect information from?
  - Who in your organization has information about separation, hiring, and onboarding procedures and costs?
  - Who is the manager who can provide information about the effects of vacancy and procedures for onboarding new workers for this position?
Direct Cost of Turnover

A. Estimate separation costs for 1 worker
   - Separation pay
   - Time of HR and other staff to process separation, including participating in exit interview

B. Estimate daily vacancy costs for 1 worker
   - Typical daily overtime wages for employee(s) that fill in to cover vacant shift
   - Typical daily staffing agency cost for a temporary worker that exceeds the typical daily wage
   - Estimated lost sales from no-shows

C. Estimate typical number of days to replace a worker

D. CALCULATE: Total vacancy costs for 1 worker
   - Multiply daily vacancy costs (B) by days to replace a worker (C)

E. Estimate recruitment/screening costs for 1 worker
   - Prorated cost of advertising the position
   - Prorated share of fees paid to recruiting services
   - Costs of screening and interviewing the typical number of applicants. For example:
     - Time spent reviewing applications and scheduling and conducting interviews
     - Cost of pre-employment testing; staff time to administer
     - Cost of drug screen or other background checks; include staff time to coordinate
     - Hiring bonus or incentive

F. Estimate orientation and onboarding costs for 1 worker
   - New employee orientation; include staff time for one new employee and management staff who conduct orientation, charges for space, technology and other resources
   - New employee literature or forms for one new employee; include staff time to prepare handbook, benefits information, other company policy materials
   - Cost of badge, uniform, tools, etc.
   - Wages paid to one new employee during onboarding and training
   - Prorated wages for supervisor or trainer during onboarding and training

G. CALCULATE: Total cost to replace 1 worker in this position
   - Add separation costs (A), total vacancy costs (D), recruitment/screening costs (E), and orientation/onboarding costs (F)

H. Number of workers in this position replaced in the last 12 months

I. CALCULATE: Total direct cost of turnover in the last 12 months
   - Multiply individual replacement cost (G) by number of workers replaced (H)
Indirect Cost of Turnover

Beyond the direct costs of replacing a lost employee, turnover can have significant additional impacts on workforce morale and productivity. For example, new employees may commit more errors or have less time and knowledge to answer customer questions. These indirect costs can be difficult to quantify, and can be even higher than the direct cost of turnover. To estimate indirect costs, it could be valuable to begin a conversation with your team about which of the costs listed below are relevant to your business, and how you might estimate them, such as by comparing the performance of multiple stores with different retention rates.

**J. Estimate the portion of shrink costs attributable to turnover in the last 12 months**
- Reduced profit from scanning and administrative errors
- Theft from disgruntled employees; reduced security and increased shoplifting

**K. Estimate the portion of safety costs attributable to turnover in the last 12 months**
- Increased legal and compliance costs from worker and customer injuries

**L. Estimate the portion of lost sales attributable to turnover in the last 12 months**
- Reduced customer service and satisfaction; brand damage from disorder and long wait times; customer abandonment from long lines; reduced staff expertise
- Increased stockouts; phantom stockouts from misplaced SKUs
- Cost of lower productivity
- Reduced worker morale and engagement

**M. CALCULATE: Total indirect cost of turnover in the last 12 months**
\[ M = J + K + L \]

**N. CALCULATE: Total direct and indirect cost of turnover in the last 12 months**
\[ N = I + M \]

This tool is part of a series from UpSkill America to educate, train, and support frontline workers’ development to advance their careers, thanks to a grant from Walmart.

Reimagine Retail, a project to explore ways to enhance stability and improve mobility for the retail workforce, is made possible by a generous grant from the Walmart Foundation.