



# The True Cost of Turnover:

Hidden Costs Go Beyond Financial to Impact Productivity and Culture

ACTION STEPS CAN HELP BOOST EMPLOYEE ENGAGEMENT

# Industry Threat: **TURNOVER**

Relentless turnover in the manufacturing industry is threatening companies focused on driving productivity and profitability.

Finding talent is one of the biggest challenges in the industry, so losing employees, whether entry level or seasoned, significantly compounds the problem.

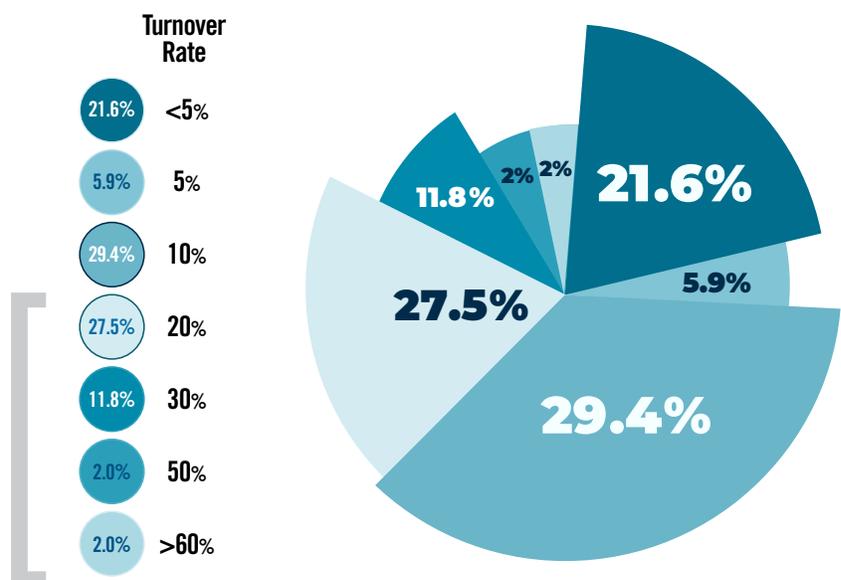
After putting substantial effort and cost into recruiting promising team members, the industry needs to make sure newer employees — and the incumbent workforce — stay for years to come.

## HIGH ANNUAL TURNOVER

While turnover of low performers is healthy, losing significant numbers of potential high performers can indicate trouble.

It is concerning that two out of five manufacturers (43%) report an average 20% or higher annual turnover.<sup>1</sup>

## Companies' Approximate Total Annual Turnover Rate (%)



# Main Sources of **TURNOVER**



**1. First year is critical.** Human Resource managers often say that the first year of an employee's tenure determines longevity with a company. Unfortunately, much of the turnover in the manufacturing industry comes from new hires. Strong onboarding, mentoring and similar programs help get workers successfully through that first year.

**2. Baby Boomer retirements are underway.** The transfer of incumbent knowledge must take place now. Capturing institutional knowledge and turning it into reliable, repeatable, measurable training is critical for manufacturers focused on growth.

- More than one-third of respondents said over 20% of their workforce will be eligible for retirement in the next three years, according to Tooling U-SME's Industry Pulse: 2018 Manufacturing Workforce Study.<sup>2</sup>

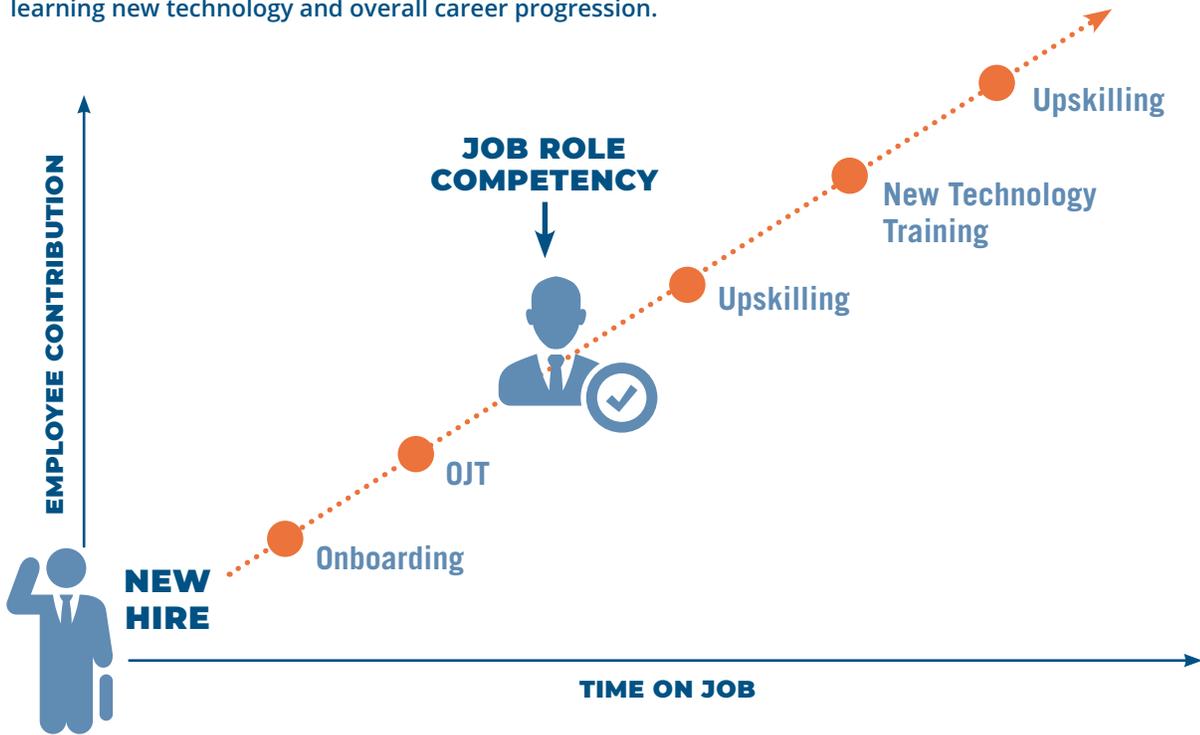
## INSIGHT

### Main Sources of Turnover:

From visiting thousands of manufacturing plants over the years, Tooling U-SME observed a pattern where continued investment in training decreases as competency in a job role increases. At that point, however, continued training is essential for upskilling, learning new technology and progressing within a career. This ongoing investment increases an employee's contribution to the company, improving productivity and retention.

## CRITICALITY OF CONTINUED INVESTMENT IN EMPLOYEE

Only with continued investment in employee training and development will competencies increase, leading to improved productivity and retention. The good news is the investment in training generally decreases as competency in a job role increases. That doesn't mean training stops. Ongoing training is still essential for upskilling, learning new technology and overall career progression.



## UNDERSTANDING THE COST OF TURNOVER

There are two distinct costs of turnover (CoT):

1. Financial. This is the literal cost in dollars, based on expenses related to recruiting, onboarding, training and hiring temporary staffing, as well as lost business associated with the employment gap.
2. Business impact. Developing people for today and tomorrow goes hand in hand with implementing new technologies and equipment, taking on more business and implementing productivity improvements. Turnover puts this progress in

jeopardy. It also means the loss of valuable embedded knowledge. Of course, these losses translate into financial losses as well (e.g., machine downtime, safety issues, scrap, meeting business capacity).

**Understanding the cost of turnover is the first step toward creating a company of loyal, long-term and productive employees.**

## Low Unemployment DRIVES OPENINGS

# 99%

say No. 1 challenge  
is finding skilled  
new hires



According to Tooling U-SME's Industry Pulse: 2018 Manufacturing Workforce Study,<sup>3</sup> the No. 1 challenge cited by 99% of respondents is finding skilled new hires. With the lowest unemployment rate in years (3.7% in September 2018<sup>4</sup>), this is not surprising.

While there used to be about seven unemployed people per opening, now there is one. That means employers are recruiting those who are already employed, luring them with higher pay and promises of a better work environment.

The best way to retain your employees is by ensuring their satisfaction on the job. High-impact learning organizations, which tend to significantly outperform their peers in productivity, customer satisfaction,

quality and other metrics, have a strong learning culture in place. They also invest in employee engagement personnel and tools to continually evaluate and develop their workforce.

**These companies know they can control many aspects of building a positive work environment, including:**

- Solid onboarding, mentoring and job qualification programs
- Modern blended learning and development programs
- Clearly defined career pathways with skills compensation plans

# Calculating ANNUAL CoT

A frequent complaint of manufacturers is that they don't have the funds to invest in a standardized training and development program, yet this cost is dwarfed by their annual CoT.

### Example

If a company of 1,000 employees loses 20% of its workforce (200 employees) in a year, and CoT

averages \$7,500 per employee, annual CoT is \$1,500,000. Reducing turnover by even 5% saves \$75,000.

In fact, many manufacturers report cost of turnover that is much higher, especially for more senior positions, such as experienced and mid-level production workers, production supervisors and management, and engineers.

While losing an entry-level employee may cost \$7,500 or more, the loss of an engineer could cost more than \$30,000. These are conservative estimates.

This example also does not include "hidden" costs associated with turnover, such as temporary labor, loss of productivity and lost business.

**Voluntary turnover is costing organizations hundreds of thousands and up to millions of dollars.**

## HIDDEN FIGURES

Most respondents indicated that they do not include costs such as temporary labor to fill the gaps, loss of productivity (e.g., safety, scrap), and lost business, making the CoT even more expensive.

**70%**

track screening costs, HR time, onboarding costs and training costs

**57%**

do not track temporary labor to fill gaps as part of CoT

**68%**

do not track loss of productivity costs, such as machine downtime, safety issues and scrap

**77%**

do not track opportunity costs, such as lost business associated with the skills gap

## JOB SATISFACTION IS STRONG

According to SME's 2018 Manufacturing Compensation Report,<sup>5</sup> job satisfaction is relatively high, which is good news for manufacturers. However, even though employees may be content, turnover is still an issue because the market is so competitive.

That means companies must continually focus on creating a positive work environment to retain incumbent employees. It also means companies must strengthen onboarding and other programs to ensure new hires integrate well into their new roles.

- 67% of respondents to SME's compensation report study are satisfied or very satisfied with their current employment.
- Nearly three-quarters (73%) of respondents report that their company is likely or very likely to hire additional employees.

### Preventable Turnover

When it comes to voluntary turnover (employees leaving employment by choice), it is clear that the majority of these exits could have been prevented.

In fact, **three in four employees (77%) who quit could have been retained.**<sup>6</sup>

**Training and development address three of the top reasons people leave a company:<sup>7</sup>**

#### 1. Career development

Opportunities for growth, skills development, job progression and security

#### 2. Compensation and benefits

Total rewards promised and received (e.g., pay for new skills)

#### 3. Job characteristics

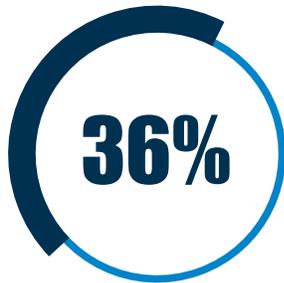
Ownership and enjoyment of manageable work, clear understanding of work to be done and how to do it, and an ability to contribute ideas for improvement

## WHAT SHOULD BE INCLUDED IN CoT

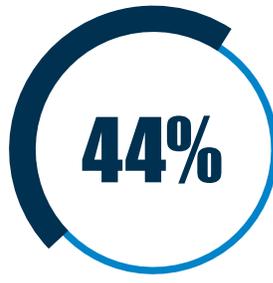
- Screening cost
- Human Resources time
- Onboarding
- Training
- Temporary staffing
- Productivity losses (e.g., machine downtime, safety, scrap, business capacity)
- Opportunity costs (e.g., lost business due to employment gap)

# Work **TO BE DONE**

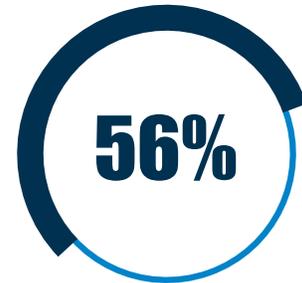
It's clear that upskilling can be a retention strategy. Yet many companies still have tremendous opportunity for improvement:<sup>8</sup>



Only one in three budgets for employee development



Only two in five incorporate training for on-the-job trainers



Only about half of companies evaluate critical job tasks with structured evaluations



**76%**

say their company does not have a talent development strategy for manufacturing employees



**41%**

completely/strongly agree their company trains people to develop the right knowledge and skills

**12%**

use a training and development program for job progression within a role to a great extent



**12%**

use skills assessments for existing employees to a great extent



**15%**

tie employee compensation to skills development to a great extent



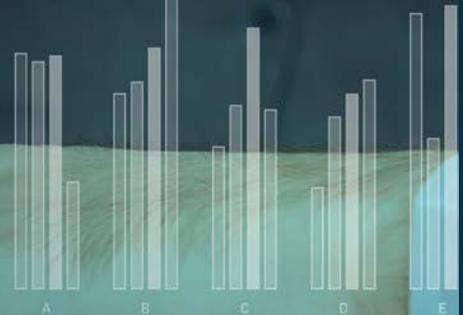
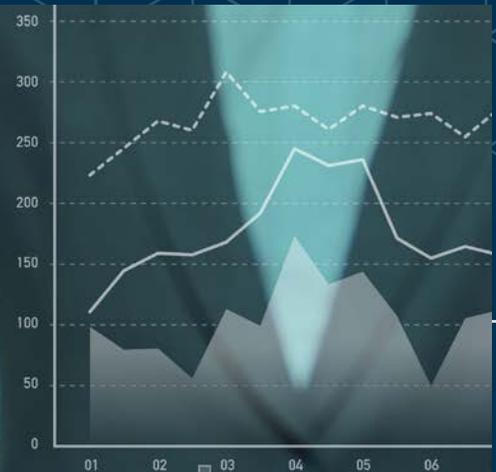
**38%**

completely/strongly agree their company provides employees with training that meets the organization's needs for today



**28%**

completely/strongly agree their company provides employees with training that meets the organization's needs for the future



# ARE YOU AT RISK?



AIO	1,822	12,349.0
EJK	3,680	238,681.0
HPL	1,062	85,678.0
KEE	485	8,369.0
NAH	8,569	189,301.0
QOP	6,602	102,698.0
TIK	890	24,697.0
WIG	6,280	76,002.0
AHD	2,436	57,410.0

# Dangers of **TURNOVER**

- **Financial costs**

- Lost customers
- Unable to meet business capacity
- Inability to take on new business
- Lower quality and increased scrap
- Investment in additional recruiting and training

- **Delivery issues**

- Production delays
- Reduced customer service
- Dissatisfied customers

- **Employee issues**

- Low morale (may lead to additional turnover)
- Overtaxing existing workers (safety issues)

- **Other**

- Loss of embedded knowledge
- Benefit to competitors when potential high performers go work for them



## MODERN LEARNING TECHNIQUES

- Online training
- Just-in-time training
- Microlearning
- Behavior-based training
- Adaptive learning
- Augmented reality
- Virtual reality

# Action Steps for **COMBATING TURNOVER**

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## **1. Set expectations in the hiring process.**

Manufacturing is not for everyone, and full transparency about the work is important early in the process.

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## **2. Develop a strong onboarding program.**

Typically a 90-day program for new hires, onboarding uses contemporary techniques in training and development to build a strong foundation, teaching knowledge and skills before new employees are on their own.

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## **3. Clearly demonstrate pathways of development in the company.**

Set realistic time estimates for this progression, and identify the resources the company provides to support skills development. Some companies also offer rewards (e.g., bonuses and extra vacation days) for reaching agreed-upon milestones.

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## **4. Make check-ins part of the process.**

To ensure employees are adapting well to their new roles, it is important to schedule formal and informal times to touch base.

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## **5. Develop and assign strong trainers and mentors for new hires.**

Putting the wrong people in front of new hires can be a direct contributor to attrition. Companies must train the trainers, so they have competencies in adult learning, mentoring and delivery of on-the-job training (OJT) sessions.



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## 6. Provide ongoing development opportunities.

Modern techniques in training, from just-in-time training to microlearning, allow training to be delivered when and where it's needed. Employees want to continue learning and developing at all stages of their careers so they can progress through their companies, and they expect manufacturers to offer them the resources to do so.

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## 7. Assess the way your leaders “lead.”

Sometimes, companies need to look at how their leaders are presenting their cultures. A strong, engaged learning culture helps companies align with key performance indicators while motivating employees to develop knowledge and skills that enhance their careers.

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## 8. Develop cross-generational teams.

Allowing new workers to partner with seasoned workers will help build improvements across the company. This interactive, mentoring relationship encourages knowledge transfer between experienced and up-and-coming employees.

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# [ Conclusion ]



- CoT encompasses financial loss and negative business outcomes.
- The majority of reasons people voluntarily leave a job are preventable.
- Significant turnover indicates a company is not focused on strategies to retain and grow its employees.
- “Brain drain” from steady senior talent exits can be serious due to loss of embedded knowledge and impact on morale. It also provides an advantage to competitors if departing employees are moving to a new company in the same space.
- When entry-level employees leave, it indicates that introductory programs such as onboarding, upskilling, and outlining clear career pathways need to be strengthened.
- The first year — the most critical year of employment — forecasts longevity.
- Investing in the workforce by building a strong learning culture with an ongoing, standardized learning and development program is critical for long-term success.

## Be *the* Place TO WORK

The true cost of turnover goes beyond dollars and cents. It also has a damaging impact on company culture, productivity and ability to grow.

It's no surprise that the most effectively managed companies in *The Wall Street Journal's* annual Management Top 250 rank higher than the rest of the listed organizations when it comes to employee engagement and development overall (the top 50 ranked 66.6% vs. 46%).

Clearly, the best of the best companies are investing in their employees. And they are excelling in all other areas, too, from innovation to customer satisfaction to financial strength. These pieces all work together.

Manufacturers can differentiate their companies and create loyal employees by committing to proven action steps that retain and develop a strong workforce.

“ When it came to employee engagement and development overall, the top 50 companies ranked 66.6% compared with other organizations on the list which only ranked 46%. ”

— *The Wall Street Journal's Management Top 250*



Tooling U-SME delivers versatile, competency-based learning and development solutions to the manufacturing community, working with thousands of companies including more than half of all Fortune 500® manufacturers, as well as 600 educational institutions across the country. Tooling U-SME partners with customers to build high performers who help their companies drive quality, profitability, productivity, innovation and employee satisfaction. Working directly with hundreds of high schools, community and technical colleges, and universities, Tooling U-SME is able to help prepare the next-generation workforce by providing industry-driven curriculum.

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- 1 "Industry Pulse: 2018 Manufacturing Workforce Report," Tooling U-SME.
- 2 Ibid.
- 3 Ibid.
- 4 "The Employment Situation — September 2018," Bureau of Labor Statistics press release, U.S. Department of Labor, Oct. 5, 2018.
- 5 "2018 Manufacturing Compensation Report," SME, Arconic Foundation, SME Education Foundation.
- 6 "2018 Retention Report: Truth & Trend in Turnover," Work Institute.
- 7 Ibid.
- 8 "Industry Pulse: 2018 Manufacturing Workforce Report," Tooling U-SME.



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