The High Cost of Talent Loss

Imagine that you arrive at work one morning and discover evidence of a burglary. A brand-new desktop computer has disappeared from an employee’s desk. You call the building security office and the police. Then you launch your own investigation. You are determined to find out how this happened and who is responsible. You will not rest until the case is solved. And you immediately increase security measures—no more property will be lost!

Now think about the last time one of your most talented employees was stolen by the competition or just walked out your door. What kind of investigation did you launch? What measures did you implement to prevent it from happening again?

Maybe the loss of a $40,000-$200,000 “asset” set off no alarm bells because no one in the organization has ever really assessed the cost of losing talent. It doesn’t take long to run the numbers. And you may be surprised.

What’s the Price Tag?

You may think they’re easily replaced—those talented and dedicated people who have been critical to your success. And yes, you might even find replacements at lower salaries. We hear this argument often, especially during periods of high unemployment when many good people are looking for work. Often, though, the managers who say this simply have not calculated the real cost of turnover. Research suggests that replacing key people costs between 70 percent and 200 percent of their annual salary. Consider this true story as told by a manager from a company we’ll simply call XYZ:

“John was one of our most talented engineers and was responsible for inventing some of our key technology. He asked his boss for a 15 percent raise—about $15,000—and his boss immediately said, ‘Forget it!’ John did and left the company to join a competitor who was thrilled to pay him 30 percent more. Some said, ‘Oh well, we’ll replace him within weeks.’ Here’s what really happened:

★ We hired a headhunter for $40,000 to recruit someone like John from a competitor.

★ After a three-month search, we found five good candidates and flew them in for interviews at a total cost of $5,000.

★ We selected the new guy (after much wining, dining, and selling) and agreed to a sign-on bonus of $10,000, a moving allowance of $25,000, and a salary that was 25 percent more than John’s (a $20,000 difference for the first year).
So on the surface, it looked like it cost about $100,000 in salary and expenses to get the new guy in the door. But wait, there's more:

★ Our competitor who won John (and his brilliant mind and technical knowledge) went on to land a multi-billion-dollar contract that would have been ours.

★ John's buddies started looking around, too. The company's executives got wind of it and decided to give them a 15 percent raise for two consecutive years—for a cost of over $200,000.

★ We lost three more key people to our competitors. Our cutting-edge technology leaked out the doors, making our competition stronger almost overnight.

So it wasn't a $100,000 cost after all. It was literally billions. And this does not take into account the harder-to-measure costs of lowered morale and productivity following John's departure.

In hindsight, it’s clear we should have worked a little harder to keep John. We should have paid him what he was worth in the market, but also made certain that he was challenged and happy with his day-to-day work. Losing him was a very costly mistake.”

Run the Numbers
This story may seem unusual, as most employees aren't worth billions to the bottom line. However, it is a true story that does illustrate some important principles.

No one other than the manager in this story ran the numbers to figure out what losing John actually cost. Managers seldom do, because then they would have to look for the real causes of turnover or find somewhere to place blame. They might even begin to create retention strategies, and most managers just don't want to do all of that.

You will never really know what it costs to lose a talented employee if the cost is never calculated. Thus, we recommend using the following checklist to assess the cost of one of your key people who left for another job. Use the blanks to add items that are relevant to your organization or industry.
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<thead>
<tr>
<th>ITEM</th>
<th>ESTIMATED COST</th>
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<tr>
<td>Newspaper ads</td>
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<td>Search firm</td>
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<td>Interviewing costs, i.e., travel, hotels, and meals</td>
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<td>Interviewing time spent by manager and team members</td>
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<td>Work put on hold until replacement was on board</td>
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<td>Overload on team, including overtime during recruitment and training periods</td>
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<td>Orientation and training time for replacement</td>
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<td>Lost customers</td>
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<td>Lost contracts or business</td>
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<td>Lowered morale and productivity, i.e., time spent talking about it around the water cooler</td>
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<tr>
<td>Sign-on bonus and other perks</td>
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<td>Moving allowance</td>
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<td>Loss of other employees</td>
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In addition to running the numbers on this checklist, you might also want to ponder these questions:

★ How much money would your organization save if it reduced turnover by 1 percent?

★ How would your organization use that money if it didn’t have to be spent on recruiting, hiring, and training new employees? Consider things like employee development, enrichment programs, bonuses, incentives, and research and development.

The Bottom Line
Retaining your best employees should be viewed as a business strategy. Calculate the cost of losing key talent and then replacing it. For those of you who believe in the “easy come, easy go” philosophy of hiring and turnover, assessing these costs objectively can sharpen your commitment to keeping your most valuable employees.