

Estimating the Cost of Replacing Employees

By Paul Gibbons and Bob Murray

A worksheet can often be an excellent way to calculate what turnover costs are for a given position in an organization. It should include direct costs, such as the cost of background checks, as well as indirect costs, such as lost productivity. Knowing this calculation can serve as a benchmark for your retention strategies.

The worksheet below is an excellent example of this. It can be used to show the "green money" or actual costs of turnover, and the "blue money" or softer costs of turnover.

Blue Money and Green Money Turnover Cost Calculations	
NOTICE PERIOD	
<i>Green Money (actual) Costs:</i>	
1. Last paycheck, accrued vacation, separation pay	\$ _____
2. Increased unemployment tax	\$ _____
3. Continued benefits	\$ _____
Blue Money Costs (appropriate salary/hour x time spent on each activity):	
1. Administrative costs for processing the separation: process benefits; contact unemployment office, Payroll, IS departments; schedule exit interview; etc.	\$ _____
2. Lower productivity: employee, peers, supervisor, subordinates	\$ _____
3. Exit interview, transition meetings	\$ _____
VACANCY PERIOD	
<i>Green Money (actual) Costs:</i>	
1. Advertising and recruiter fees	\$ _____
2. Interview expenses (meals, mileage, or other)	\$ _____
3. Printing costs for company marketing materials	\$ _____
4. Assessments	\$ _____
5. Criminal checks, reference checks, credit checks, etc.	\$ _____
6. Medical exams and drug tests	\$ _____
7. Temporary/contract employee costs	\$ _____
8. Overtime costs	\$ _____
9. Relocation expenses and salary	\$ _____
Blue Money Costs (appropriate salary/hour x time spent on each activity):	
1. Lost productivity: peers, supervisor, subordinates	\$ _____
2. Advertising creation and placement	\$ _____
3. Recruiter selection	\$ _____
4. Administrative costs: ordering forms and copies of annual reports, scheduling and scoring assessments, coordinating with hiring manager and others, etc.	\$ _____

5. Resume screening	\$ _____
6. Interviews: first, second, third	\$ _____
HIRING/ORIENTATION PERIOD	
<i>Green Money (actual) Costs:</i>	
1. Orientation materials (handbook, video, handouts, etc.)	\$ _____
2. Formal training programs (materials, course fees)	\$ _____
3. Informal one-on-one training (materials, if any)	\$ _____
Blue Money Costs (appropriate salary/hour x time spent on each activity):	
1. Orientation participants' salaries	\$ _____
2. Lost productivity: peers, supervisor, subordinates	\$ _____
3. Administrative costs: orientation setup, ordering materials, etc.	\$ _____
4. Informal training and one-on-ones	\$ _____
HIDDEN COSTS	
1. Missed deadlines and shipments	\$ _____
2. Loss of organization knowledge	\$ _____
3. Lower morale due to overwork	\$ _____
4. Learning curve	\$ _____
5. Client issues due to turnover	\$ _____
6. Loss of client relationships	\$ _____
7. Disrupted department operations	\$ _____
8. Chain reaction turnover	\$ _____
Total Replacement Cost	\$ _____

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