WHITEPAPER

The Most Overlooked (But Preventable) Cause of Turnover

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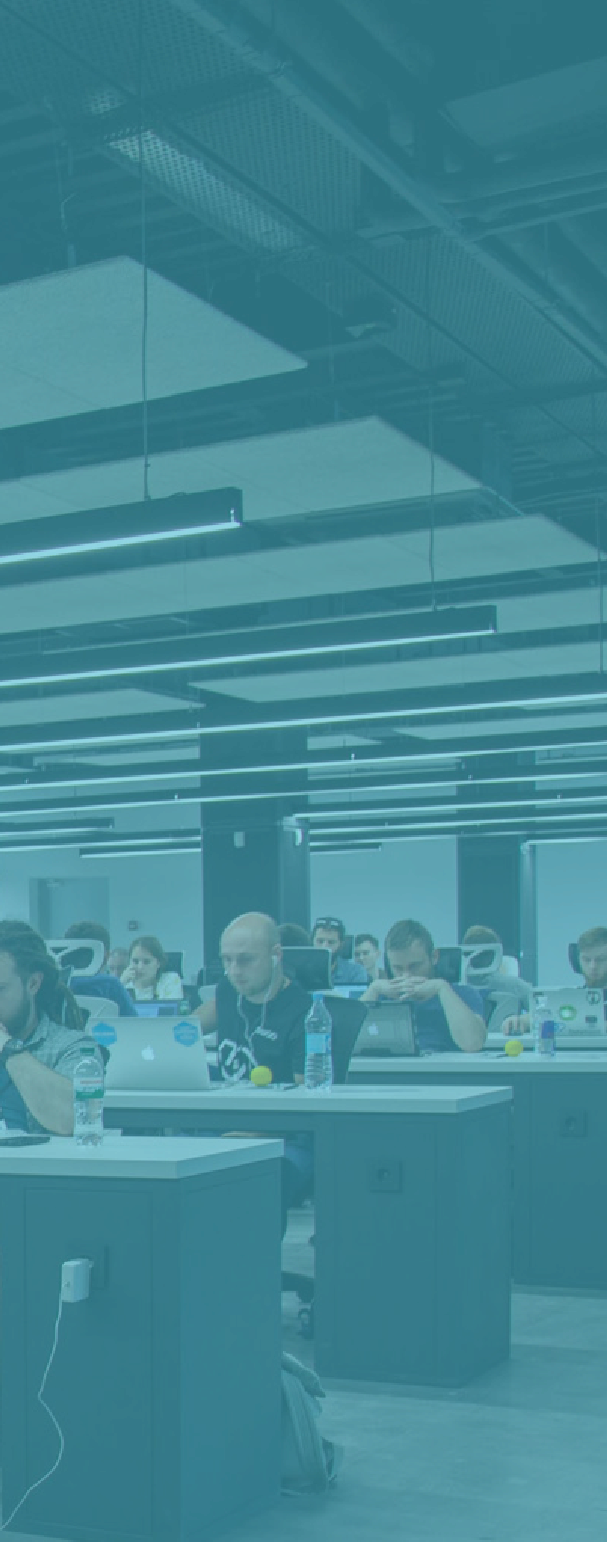

The Highlights

1 in 4 employees will leave their job in 2018, costing the U.S. economy $600 billion. Businesses with large hourly workforces face especially high turnover costs. **StellarEmploy reviewed 8,000 individual employee data points across three labor-intensive industries and identified preventable causes of turnover.**

Up to 60% of new hires leave within 90 days of employment in hourly, entry-level jobs. When the average hire terminates within 90 days, businesses refill those positions at least 4 times a year. **When the average hire terminates within 30 days, businesses refill those positions at least 12 times a year.**

In cases of short job spans, employees are not voluntarily terminating for structural reasons like pay. **The systematic reason is because the job is not right for them, and they are not right for the job.** Talent acquisition leaders have a unique opportunity to eliminate the most expensive driver of turnover by building effective recruiting processes that attract the right hires at scale.

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Challenges with Hourly Recruiting

The Work Institute estimates that 42 million employees, or one in four, will leave their job in 2018, according to their 2018 National Retention Report. That amounts to $600 billion in re-hiring costs including job advertisements, interviewing, onboarding, training and lost productivity.

For years, employee turnover has been a top business priority given how expensive and critical people are. *Why, then, do businesses struggle to solve the turnover challenge?*

At a top BPO, hourly employee turnover reached 120% annually. The VP of Talent Acquisition was responsible for recruiting thousands of Customer Service Representatives annually. She experimented with restructuring interviews and introducing employee appreciation days, but nothing delivered a sustained impact to her retention numbers. Larger organizational changes, such as a pay increase, were hard to justify to executive leadership without corollary performance guarantees.

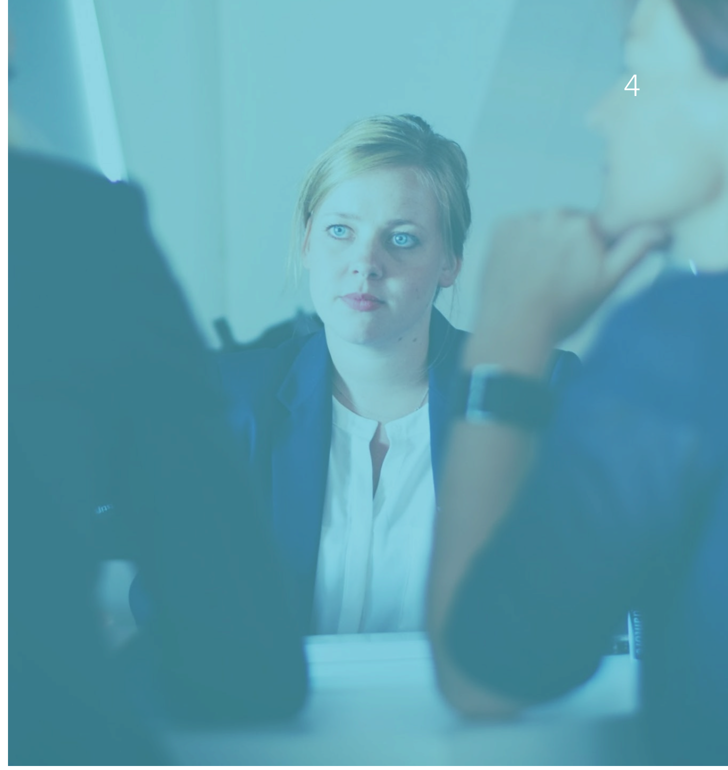
As cost centers, BPOs succeed through quality hiring and lean operations. Reducing turnover is critical to improve customer service and the bottom line.

Yet talent acquisition teams face a difficult task when new employees turn over at such high rates and it remains a mystery why many of them leave.

"We really struggled with hiring. We faced aggressive ramp-ups in headcount, given growth and backfilling. But who would stay was a black box."

VP OF TALENT ACQUISITION, TOP BPO

Nature of Rapid Turnover



HR executives are rightly skeptical of self-reported reasons for job abandonment. If actions speak louder than words, what do we learn from how quickly new hires voluntarily terminate?

To analyze trends, StellarEmploy reviewed 2016 and 2017 termination data of 8,000 entry-level workers. We compared attrition rates in three industries that use high volume recruiting: contact centers, fulfillment warehouses, and quick service restaurants. The data is anonymized and proprietary. The insights from the data point to an overlooked and preventable cause of turnover. Over half of terminations in a year occur within the first 90 days on the job in all three industries. The rate of turnover rises steeply leading up to the 90-day mark before leveling off, as shown in Figure 1. This reveals that the preponderance of turnover occurs early in hourly jobs. For contact centers, 61% of new agents leave within 90 days of employment. For fulfillment warehouses, 45% of freshly hired packing associates leave in 90 days. For fast food restaurants, 32% of crewmembers leave in three months.

Cumulative Percent Of New Hires Turning Over By Days On The Job

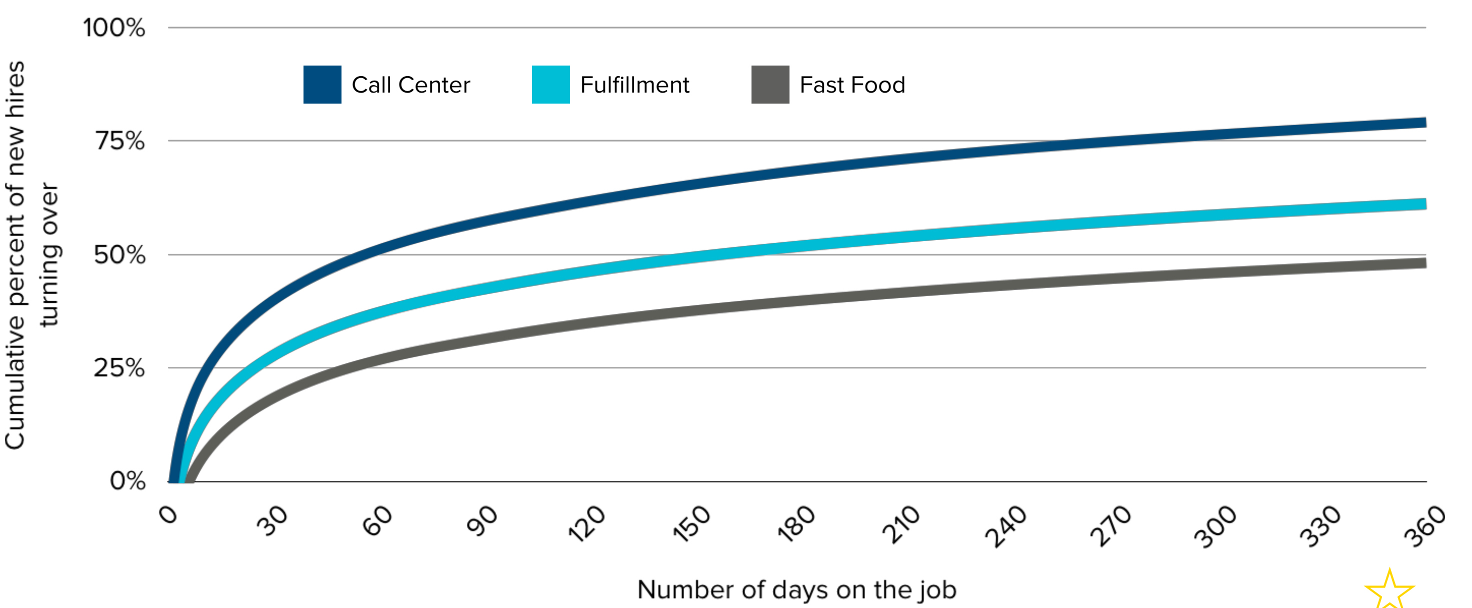


FIGURE 1

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A review of daily termination rates confirms the pattern that employees are most likely to quit a few days into the job and less likely to quit the longer they work. Figure 2 shows the daily turnover rate decreasing every additional month of employment across the three industries.

Daily Percent Of New Hires Turning Over Grouped By Month

	MONTH 1 *1 to 30 Days*	**MONTH 2** *31 to 60 Days*	**MONTH 3** *61 to 90 Days*	**MONTH 4** *91 to 120 Days*
Call Centers	1.23%	0.47%	0.30%	0.15%
Fulfillment	0.79%	0.40%	0.28%	0.13%
Fast Food	0.42%	0.35%	0.27%	0.17%

FIGURE 2

Number Of Replacements Per Year Given Average New Hire Tenure

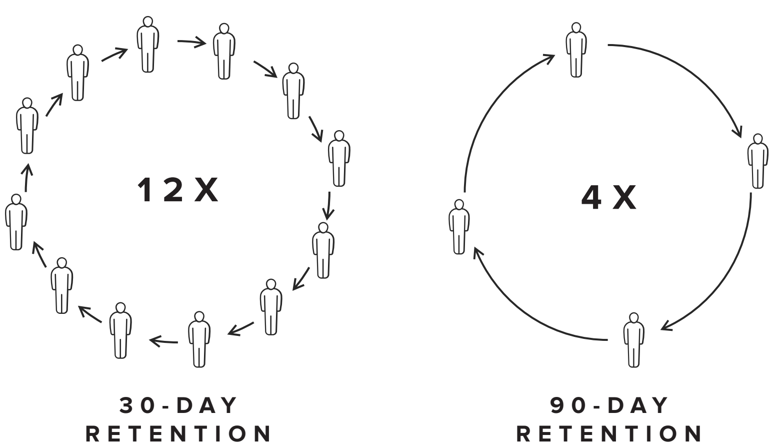

FIGURE 3

Early attrition is especially costly for businesses given compounded re-hiring. When the average hire terminates within 30 days, the position must be refilled twelve times a year or more. That's twelve times the cost of recruiting and training a new hire. By comparison, when employees remain on the job for at least 90 days, businesses only need to replace them four times a year or less. That's a third of the annual replacement costs.

When the average hire terminates within 30 days, the position must be refilled twelve times a year.

Causes of Early Attrition

In cases of short job spans, new hires are not choosing to leave for embedded structural reasons such as wage rates or life changes. Rather, the systematic reason is fit and recruiting process. The job is not right for them and they are not right for the job.

When employees leave quickly, the systematic reason is the job is not right for them and they are not right for the job.

The job's primary factors such as pay or hours don't generally shift within the first 90 days of hourly employment. Instead, the biggest difference is that new employees start experiencing the day-to-day of the job. Employees may find the tasks are more difficult than they realized or don't come as naturally as they expected. The commute or the uniform could be more unpleasant than anticipated.

As a result, it becomes that much harder to show up and that much easier to try another option on the market. The change is subtle, and the employees themselves might describe it differently. They might say they didn't get along with their manager rather than the work environment was chaotic and disorienting. They might say the pay wasn't enough when in fact the pay was higher than their previous job but didn't require overnight shift work.

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So employees leave a new job shortly after starting despite the high switching costs. As job seekers, they face new unemployment and more job interviews. Meanwhile, their former employers spend thousands of dollars because they lose newly minted employees before they reach job proficiency.

As an HR leader, the good news is early attrition can be solved with a better recruiting process. It represents an actionable segment of turnover, where HR executives can demonstrate results in a few months' time and introduce significant cost savings. Hourly recruiters have the opportunity to experiment with improving job explanations and selection during the application process. For ideas to get started check out "Tips to optimize hourly recruiting."

Effective targeted recruiting will only grow in importance as labor markets become more competitive and hourly jobs incorporate more technology. By matching the right applicant to the right job, talent acquisition teams can make a sizeable dent in the age-old turnover problem.

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Tips to Optimize Hourly Recruiting

A benefit of volume recruiting is the quantity of data generated at high velocity. Even if site recruiters have not historically tracked hiring outcomes, HR executives can gather the needed data within a few months. This will enable drawing and acting on the right conclusions. Below are three practical steps you can take to get started to (1) quantify your business' early attrition, (2) select a target tenure outcome, and (3) optimize the recruiting funnel:

1. Graph when hourly workers are turning over by tenure. You will need individual start and end dates for a meaningful period of time. We recommend at least 100 data points (if not 500) over a full calendar year. Be sure to separate different positions and sites since trend lines may vary. What percent of your business' hourly turnover occurs in under 90 days?

2. Decide on a tenure marker that is impactful for the business and actionable for gauging recruiting outcomes. Is 30-, 60- or 90-days a key goal for this position? When do new hires complete training or reach job proficiency? Don't forget to include your Operating counterparts in this discussion. It will be valuable to learn the perspective of Supervisors who most interact with new hires.

3. Evaluate your teams' recruiting funnel based on the outcome to step two. What sources correlate with the most number of 90-day employees? What screening tools are most predictive of early retention? Involve multiple sites or recruiters in the evaluation process so it feels like a team effort. Identify new initiatives to experiment with and track their results for three to six months.