

## How much is turnover reducing your profits?

Base premise: Each position at your property contributes to profits.

**The Contribution Factor** is a ratio on the expected profits each employee should contribute based on the number of years they have been in the **same** job. The Contribution Factor has been applied at hundreds of hotels, restaurants, and clubs, as well as corporate and regional offices. It has always predicted profits with at least 95% accuracy.

How much turnover is reducing your profits depends on which positions turn over and how long the employees were in that exact job when they left. *Many positions have turnover within the first year when expected profits from the employee are the highest.*

### How does The Contribution Factor work?

Years in the Same Job	Expected Contribution to Profit
<b>■ Hotel, Resort, Restaurant, Club, &amp; Conference Center Management Positions</b>	
<b>1st year</b>	Improve operating profit by 5 times their total compensation.
<b>2nd year</b>	Improve profit by 3 times compensation.
<b>3rd year</b>	Improve profit by 1.5 times compensation.
<b>4th year and thereafter</b>	Improve profit by 1 times compensation.
<b>■ Sales &amp; Marketing Positions (including Corporate Sales/Marketing Positions)</b>	
Every year on the job: Minimum contribution to profit of at least 10 times their annual compensation.	
<b>1st year</b>	Improve profit a minimum of 10 times their annual compensation.
<b>2nd year</b>	Improve profit 7 times annual compensation.
<b>3rd year</b>	Improve profit 5 times annual compensation.
<b>4th year</b>	Improve profit 3 times annual compensation..
<b>5th year and thereafter</b>	Improve profit 1.5 times annual compensation..

### Formula to determine how a current vacant position will impact profits each week the job is vacant.

1. Title of the position:
2. Salary/Wage and any bonus you expect to pay this position in the next 12 months:
3. For all positions except sales positions: Multiply line 2 by 5. (Example: \$30,000 salary and bonus x 5 = \$150,000)
4. Divide line 3 by 50 weeks in a year to determine how much this position will reduce profits each week the position is vacant. (Example from above: \$150,000 divided by 50 weeks = \$3,000 profit reduction every week the job is vacant.)

*NOTE: Sales positions multiply line 2 by 10 and then divide by 50 weeks.*

### Formula to determine how much turnover reduced your profits the last 12 months:

Attached is an [Excel Spreadsheet](#) you can use to identify how much turnover reduced profits at your property the last 12 months. Simply enter the information for each job that was vacant one or more times during the last 12 months. There are examples included.

**Annual Lost Profits** – Total up columns J, M, and O. The total in Column J is the total cost of turnover at your property. The best employers have overall turnover of 18-28%. (The hotel industry averages 42% management turnover and 105% hourly turnover.) Everything you do to reduce turnover will directly increase profits.

In Column L, enter the reasonable number of days the job can be expected to be vacant. Column M will show you the lost profits you can reasonably expect. Column M shows you the lost profits that you need to strive to recover by reducing the number of days your jobs are vacant.

**RULE OF THUMB:** Spending 1/4 of the profit dollars lost from turnover, on training, should reduce your turnover costs this next year by 50%. Example: If your lost profits from turnover are \$1,000,000, spending \$250,000 more on training over the next 12 months should reduce your profits lost to turnover to \$500,000. Stated another way. In this example, a property could spend \$250,000 on training and still increase overall profits by \$250,000 just by reducing turnover, plus the increased profits as a result of the increased training.

Column F will give you the average number of days your jobs were vacant over the last 12 months. Total the column, then divide by the number of jobs that were vacant during the year to get the average days jobs were vacant. Divide that by 7 days to convert to average weeks jobs were vacant.

The best hotels fill hourly jobs in 3 weeks or less and management jobs in 5 weeks or less. (From date employee gave notice or was terminated until start date for the new employee.)

Your property needs to determine the average number of days the property is willing to have jobs vacant for different types of job categories. By grouping information on this chart by Department and position classification you can identify which positions have the highest turnover. That information can aid your property in identifying training and motivational needs to reduce the turnover.

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