

THE BUSINESS CASE FOR OUTPLACEMENT

A PRACTICAL EXAMPLE



THE REAL COST OF REDUNDANCY

When most businesses assess the cost of making roles redundant, they calculate the **direct cost** of the redundancy payout and legal fees. Few consider the **indirect cost** [absenteeism, productivity and turnover] or the **opportunity cost** [time invested to manage the separation process].

This business case looks at all three costs to assess the real financial impact of role redundancy.

KEY FINDINGS

- The overall cost of redundancy is over **6 times the direct cost**.
- Cost of outplacement is **3%** of the overall cost of redundancy.
- The cost savings of effective separation are **\$54K** per impacted employee.
- ROI of outplacement is **12 times the investment**.

CASE STUDY

Take a business with 100 people where 10 roles of average salary and tenure are impacted. Here are the financial implications that we can expect.

DIRECT COSTS **\$192,080**

With an average tenure in Australia of 3 years, 4 months [McCrinkle, 2014] and an average salary of \$79,767 [Seek, 2014], the minimum redundancy payout is \$18,408 per person [Fair Work Ombudsman]. For 10 people, this amounts to \$184,080. Legal costs for this project are estimated at \$8,000 [Kemp Strang, 2015], however they are likely higher in a complex or unionised environment.

Adding these two variables, **the direct cost of this project is \$192,080** [or \$19,208 per employee].

INDIRECT COSTS **\$968,287**

Indirect costs are caused by changes in the behaviour and output of remaining staff after a role redundancy. Engagement, job satisfaction, commitment and productivity are all impacted. Here we estimate the real financial implications of this.

The average absenteeism cost across the Australian workforce is estimated at \$2,741 per employee annually [Direct Health, 2013]. On average, this rises by 2.5 times after redundancy [DBM]. With 90 remaining staff at the average salary, this equates to an incremental cost to the business of \$370,035 in the 12 months after the downsizing event.

Unwanted turnover is defined by staff departures that we wish to avoid. While the cost of this turnover has been estimated as high as 6 times salary for senior roles, we use the conservative estimation of 75% of salary [Insync Research]. With only 4 examples of this in the subsequent 12 months [1 per quarter], this equates to a turnover cost of \$239,301 to this business.

Finally, the productivity of remaining staff is significantly disrupted after redundancy with estimates ranging from 20% to 50% and a disruption time of up to 12 months. In this case, we use a conservative estimate of an average 20% productivity drop for only 3 months. This still equates to a total business productivity loss of \$358,952.

As a result, **the indirect cost to the business is \$968,287** in the 12 months after the downsizing event.

OPPORTUNITY COST \$79,688

The time invested to plan a restructure and redundancy, coordinate the separation event itself and manage remaining staff afterward is not just a distraction, there is a tangible opportunity cost involved when managers and HR are not being deployed on their regular duties.

An HR manager on \$80K salary is likely to spend 2 weeks preparing, 1 week managing the event, and 1 hour per employee [on average] managing the post change environment over the subsequent 12 months. A manager on a \$130K salary will spend 2 weeks planning and restructuring, 1 week managing the event and conservatively 30 minutes with each staff member post change managing the impact.

In this case, the cost in time alone is \$19,992. The opportunity cost is calculated by the amount of value that a manager can create for the business in 165 hours and amount of value that an HR manager can create in 210 hours. Each business will be vastly different in this regard however it is generally accepted that staff need to create value at, or above, 4 times salary to be valuable contributors to the business.

In this case, **the opportunity cost to the business is \$79,688.**

TOTAL COST OF REDUNDANCY: \$1.24 MILLION

So the real cost of redundancy in this case is **\$1.24 million or 6 times the direct cost.**

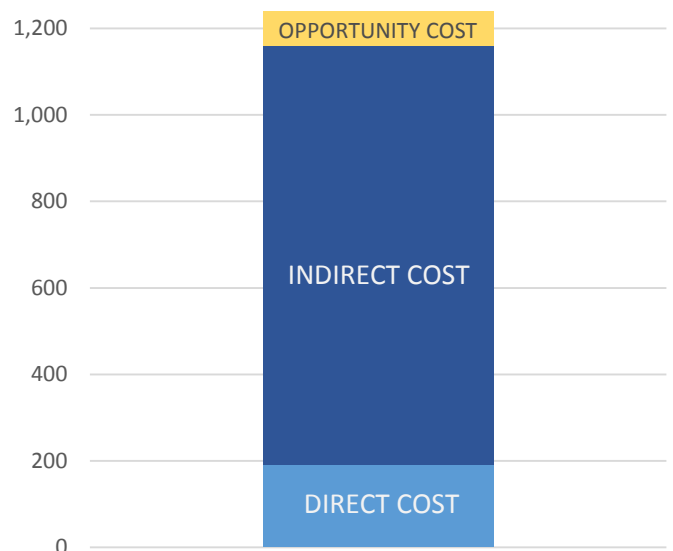


FIGURE 1: TOTAL COST BREAKDOWN [‘000]

THE INVESTMENT IN OUTPLACEMENT SERVICES

Professional outplacement, or ‘Career Transition’ services are provided by firms who:

- ✓ support impacted employees with their next career move;
- ✓ advise the organisation on effective separation process and communication;
- ✓ support remaining staff and managers to adapt and reboot their career with the company.

The rationale for providing outplacement can be divided into three arguments:

- MORAL** “It’s the right thing to do”
- BRAND** “We need to protect our brand / reputation”; and
- FINANCIAL** “Managing this well will protect our balance sheet”.

While all three play a role in the success of a downsizing project, this business case focuses on the financial perspective.

In the business case above, outplacement services are estimated as follows:

- | | |
|---|----------|
| • 10 x Career Transition programs @ \$3,000 | \$30,000 |
| • 3 x Managing Change workshops for remaining staff @ \$1,800 | \$5,400 |
| • 1 x Leading Change workshop for remaining managers | \$4,500 |

So this \$39,990 investment in professional outplacement is 3% of the overall cost of redundancy.

3% Proportion of the total redundancy cost represented by the investment in outplacement.

THE COST SAVINGS OF EFFECTIVE SEPARATION

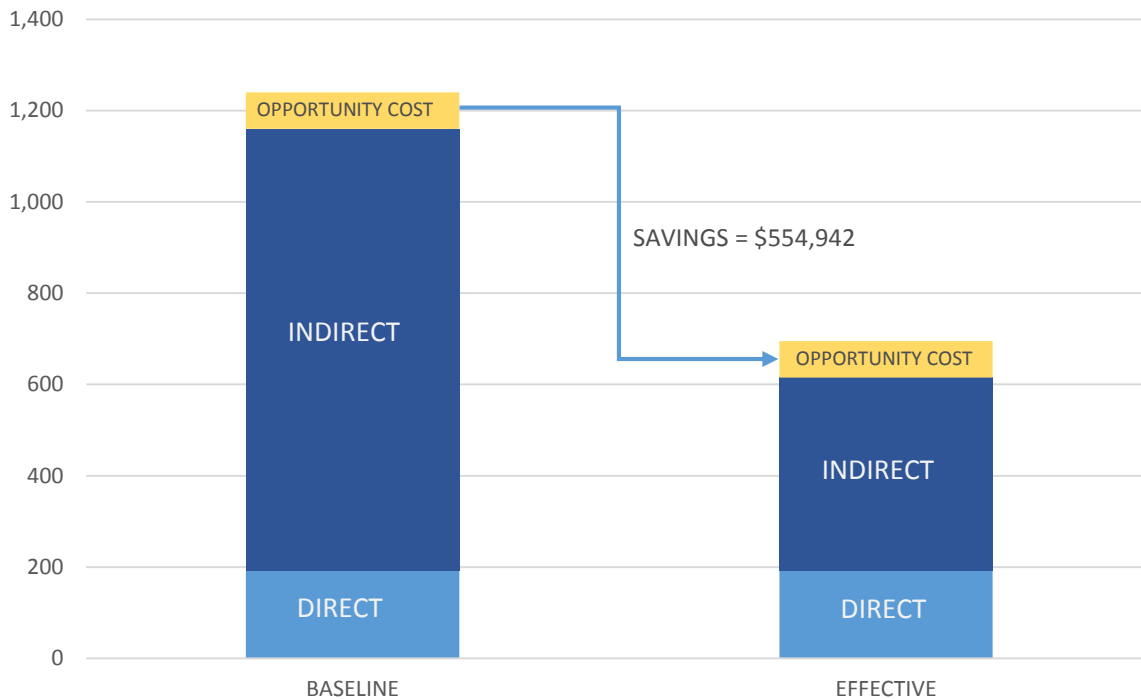
With expert advice and professional support, an outplacement provider facilitates an effective separation process. While the event will always be challenging, the right support ensures that all staff are treated with dignity and respect. As a preventative measure, the experience of outplacement specialists also allows the business to avoid errors that they would have otherwise made.

Using the case study above, here are the expected business implications of an effective separation process.

VARIABLE	BASELINE	EFFECTIVE SEPARATION
ABSENTEEISM	Absenteeism rises 2.5 times	Absenteeism rises 1.5 times
PRODUCTIVITY	Productivity drops 20%	Productivity drops 10%
	Productivity is impacted for 3 months	Productivity is impacted for 3 months
TURNOVER	4 examples of unwanted turnover	2 examples of unwanted turnover
COST OF REDUNDANCY	\$1,240,052	\$695,110
		COST SAVING \$544,942 [\$54,494 per employee]

Even an effective process will not eliminate all of the negative impacts of change and uncertainty, however these are mitigated by managing this well. Above and beyond the moral and branding implications, you can conservatively expect to **save \$54,494 per impacted employee through effective separation.**

FIGURE 1: COST SAVINGS DUE TO EFFECTIVE SEPARATION ['000]



With an outplacement investment of \$3,990 per person, the net saving per impacted employee is \$50,504. This represents a return on investment [ROI] of over 12 times the outplacement expense.

\$54K The net per person cost saving of effective separation.

LITIGATION RISK

Additionally, this case study does not include the substantial cost of potential litigation which is estimated to be between \$13,500 [Productivity Commission, 2015] to over \$1 million per employee. In our experience, strong outplacement support migrates the litigation risk to zero with not a single client taking this action.

CONCLUSION

An investment in the right outplacement partner provides all of the advice that you need to effectively prepare for separation, manage the separation event and support both impacted employees and remaining staff.

In this case, the investment is not only a fraction of the overall business cost, it also represents clear ROI when compared to the substantial cost savings of effective separation.

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ALCHEMY Career Management is a firm of career coaches advising organisations through change and supporting individuals to manage their career transition.

If you are forecasting a need to restructure or downsize, talk to us so we can advise you on effective preparation, separation and career transition options.

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