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Retaining Good Employees is Smart Marketing Too!

by

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All agricultural businesses are faced with rising costs but have little control over pricing. This dilemma creates an on-going profit squeeze with which most agricultural businesses are all too familiar. One way to approach the problem is to add value to products to earn a greater share of the “marketing margin” represented in retail prices. Many agricultural businesses have had success in this arena by becoming more vertically integrated through direct marketing or by value-added processing or packaging of otherwise commodity-type items.

Another way to approach the profit squeeze dilemma is to become more efficient on the cost side of the equation. Of course, many of the great production advances in agriculture over the decades have been great examples of increasing efficiency. This notion of “taking costs out of the system” has also been a driving force in the food distribution industry for almost 10 years and the results have produced lower costs and helped maintain industry profit levels. Likewise, food retailers and wholesalers have worked with great success with their suppliers to reduce the cost of delivered product. Much inefficiency has been identified and eliminated, forever reducing the cost of bringing a product to market. Despite huge strides in this area, there are still great opportunities to further reduce costs.

Often overlooked in the quest for marketing efficiency is the cost of employee turnover, a problem plaguing almost all businesses in today’s tight labor market, especially food and agricultural businesses. In light of record low unemployment and a very prosperous economy creating many new entry-level jobs, there is a shortage of people available to work at the entry

level. This abundance of opportunities combined with increased mobility in the workforce creates an environment where many people feel comfortable frequently changing jobs for a wide range of reasons.

A major study of the employee turnover problem in the supermarket industry (*New Ideas for Retaining Store-Level Employees*, Coca-Cola Retailing Research Council, January 2000) estimated that the total direct and indirect costs to replace a supermarket cashier earning \$6.50 per hour was at least \$3,637. Considering that many supermarket companies experience employee turnover rates of 100% or more in some job categories, the total company turnover cost has a major affect on profits. In fact, the Coca-Cola Study estimates that “the annual cost of employee turnover in the supermarket industry **exceeds** the entire industry’s annual profit **by more than 40%.**” While these specific numbers apply to the supermarket industry, similar situations exist throughout the food chain from agricultural production through wholesaling.

In her new book *The Road to Retention: Build and Keep a Strong Workforce* (1999), Ann Jones, Ph.D., states that cost components such as recruiting, interviewing, hiring, processing, orienting, training, supervision, and overtime paid to other associates to cover for the person who left represent the **direct costs of turnover**. These direct costs are relatively easy to measure and quantify in dollars. However, turnover also creates **indirect costs** which are less easily measured but which also negatively affect profitability. Some of these less obvious costs are lost sales due to customer dissatisfaction, inexperience of new employees in suggestive selling and merchandising, decreased quality due to errors, and reduced morale of co-workers who are charged with training another new person. Each of these components must be measured and understood to appreciate the “bottom line” cost of turnover and therefore the economic value of retaining good employees.

In addition to the obvious dollar cost of turnover, marketers should also appreciate the more subtle economic benefit of good employees. Good employees are key to the customer-oriented marketing approach that is so critical to success in today’s overly competitive marketplace where market channel customers and consumers have many choices and options from which to purchase goods.

As competition for their purchase dollar increases, savvy consumers realize that most leading products are available from a wide range of retail stores, catalogs, or internet-based retailers. Today’s consumers are value conscious and are looking for great shopping

environments and experiences. An experienced, knowledgeable, customer-oriented employee is often the difference that sways consumers to choose one outlet over another. The confidence that key employees inspire allays the concerns most consumers harbor about the quality and safety of products they purchase for themselves and their families.

Recruiting and retaining good employees are both formidable challenges in today's tight labor market, however the long-term rewards to agricultural businesses of retaining long-term quality employees are well worth the effort required in this aspect of Smart Marketing. Please contact Rod Hawkes of the Cornell University Food Industry Management Distance Education Program (gh3@cornell.edu) if you have any questions or comments about this article.

"Smart Marketing" is a monthly marketing newsletter for extension publication in local newsletters and to place in local media. It reviews the elements critical to successful marketing in the food and agricultural industry. Articles are written by the faculty members in the Department of Applied Economics and Management at Cornell University

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