

Discussion paper

## Top companies face extra £67m in credit crunch costs

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### Approach

Able and How have constructed a model to estimate the likely cost to a median-sized FTSE 100 company of poorly handled redundancies and badly executed strategic change, leading to increases in staff turnover and reduced morale and productivity.

### Assumptions

Able and How have estimated the cost of redundancies and recruitment based on figures produced by the Chartered Institute of Personnel and Development (CIPD). Our calculations are based on the median number of employees (23,600) in a FTSE 100 company.

According to research published by the Chartered Institute of Personnel Development the cost of making a single employee redundant is approximately £16,000 per person, and this is the figure we have used.

The CIPD Annual Recruitment, Retention and Turnover survey 2006 estimates the average cost of filling a vacancy per employee to be £8,200. To reflect the economies of scale for large organisations, our model assumes this cost to be £5,000.

Many HR consultancies and senior HR professionals will tell you that the costs of losing and replacing an employee are higher than that. Estimates of 1 to 1.5 times and employee's annual salary are not uncommon. However, we have used the lower figure here in an attempt to show a moderate and not alarmist calculation.

It is amazingly difficult to try to quantify the cost of low morale and/or loss of focus in the business. We have found that when employees do not understand the corporate strategy, they could be doing just about anything, including actively working against it. Some say that only 50% of employees at any one time know what the business is trying to do. And that kind of number is not reflected here in any way. If only half of your employees know how to make consistent decisions based on the strategy, then the crisis will compound that exponentially.

Rather than saying a loss of consistency and focus will impact on your business by any large, round numbers, we have suggested just of 0.5% impact on revenue. That's really quite small. That means that only one out of every 200 decisions or actions of your employees will not bring in the revenue that it should. Managers and executives will know their strategies and their businesses better than anyone else. They will be best positioned to assess what impact the credit crunch may have on numbers. However, we think that 0.5% is very low.

We have made the following conservative assumptions to reach our estimate of costs associated with the credit crunch:

- In this year and next, an equivalent of 5% of the total workforce will unnecessarily be made redundant;
- Over the next 5 years, there will be additional staff turnover of the total workforce beyond normal levels (2%, 5%, 4%, 4%, 2% respectively);
- Lower morale will impact on revenue by 0.05% (based on a median revenue of £4,867m).

Table 1 illustrates the model.

**Table 1**

FTSE 100 Median number of employees: 23,600

FTSE 100 Median annual revenue: £4,867m

Cost of 1 redundancy: £16,000

Cost of 1 recruitment: £5,000

	2009	2010	2011	2012	2013
Unnecessary redundancies as a percentage of the total workforce (UR)	5	5	0	0	0
Increase in staff turnover as a percentage of the total workforce (ST)	2	5	4	4	2
Percentage reduction in revenue due to poor morale (R)	0.05	0.05	0.05	0.05	2.5
Cost of redundancies = (Total employees x UR%) x £16,000	£18,880,000	£17,936,000	£0	£0	£0
Cost of increased staff turnover = (Total employees x ST%) x £5,000	£2,360,000	£5,605,000	£4,259,800	£4,259,800	£2,129,900
Cost to revenue = (Median revenue x R)	£2,433,500	£2,433,500	£2,433,500	£2,433,500	£2,433,500
Total cost to revenue	£23,673,500	£25,974,500	£6,693,300	£6,693,300	£4,563,400
<b>Cost over 5 years:</b>	<b>£67,598,000</b>				

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N.B. This discussion paper is an appendix to a release of the same date called: "PLCs to waste £67m in needless recession costs".

*Able and How is a management consultancy specialising in organisational communications. We help companies improve their bottom line through communications. We bring together the best minds in internal communication, organisational development, change management and human resources communications.*