

The Truth about Recruiting Manufacturing Employees

Introduction

- How much should you pay to hire your next manufacturing associate?
- What factors affect recruiting costs?
- How does hiring affect turnover?

Our clients often ask us these questions, so this white paper is meant to give practical perspective to a seemingly complex series of questions. Let's start by defining the key variables that determine recruiting costs for manufacturing associates.

Compensation package versus desired candidate quality. In every company there are some really great workers, some really poor workers, and many grades of average workers. Clearly, manufacturing companies with a high starting hourly pay rate, (e.g. \$19.00/hour or more), attract many more really great candidates than those offering low starting wages. The bottom line is that higher-paying companies attract not only better candidates but many more of them. In addition, the cost to recruit these candidates is the lowest among manufacturing companies because top candidates flock to the higher paying jobs. Conversely, recruiting costs increase exponentially when manufacturing companies with really low wages decide they want the same talent as their higher paying counterparts. This is especially true when there is a strong economy and top talent has its pick of employers. As a general rule of thumb, candidate quality will reflect organization pay status, resulting in an inverse relationship between entry-level wages and cost of recruiting talent.

Work environment and company reputation. While compensation package trumps everything else when it comes to attracting hourly talent, work environment and company reputation are strong secondary influences. For example, a company that has average pay but a great working environment and company reputation, (e.g., safe, clean, stable history, growth industry, reasonable work schedule, strong supervisory leadership, good career opportunities, good employee/management relationship, positive media coverage, etc.) will be able to attract and hire solid performers. On the other hand, a company with above average pay and a very poor reputation will need to recruit very hard to hire solid "B" performers.

Local economy and availability of candidates. The one time when a company that is not considered an employer of choice can hire top talent is when the economy is in a recession. This economic environment is characterized by layoffs and downsizings. Workers are plentiful and jobs are scarce. Unfortunately, this is the time when most companies are least likely to be hiring. All things considered, the local economy is a significant factor affecting recruiting cost. This effect is most severely felt when there is a robust economy and everyone is competing for a limited pool of talent.

Reality check: If the combination of your company's pay, work environment and community reputation dictate that you are not an employer of choice, you won't have a lot of choice in whom you hire, especially if you are competing for talent in a robust economic climate. In fact, if you are truly not an employer of choice, you will likely attract applicants equivalent to those provided by temp agencies. Our data shows that only 3% of temps assess as top talent suitable as long-term hires, only 10% are solid "B" performers, with the rest falling into barely acceptable and poor worker categories. These are not encouraging statistics for companies using temp agencies as their clearinghouse for permanent hires.

Not everyone has the fortune of being an "employer of choice." If yours is an average company, should you just give up trying to hire and retain great employees? Absolutely not! In fact, it just means you need to work harder and invest more to recruit and keep top talent. But first you need to make an honest assessment of where you stand on the Employer of Choice Continuum (ECC).

The ECC will give you a realistic idea of how much effort and cost will be required to hire the workforce you desire:

1. Look at each row and put an X in the box on the 1 – 5 scale that best represents your company or individual facility.
2. Make an overall judgment rating as to where your company is on the total continuum. For example, if you find that your X's are mostly in and around the 3 column, then you may decide that your overall rating is a 3.0.

Employer of Choice Continuum

1	2	3	4	5
Low starting wage with poor benefits. Competing with fast food chains for applicants.		Starting wages are in the 75% when compared to other local manufacturers.		No company in local area with better pay and benefits.
Recent history of closing and moving plants. Declining growth and increasing competition. All plants are in question.		May not be a growth industry but no recent activity that would indicate job insecurity such as down sizing or plant closings.		Good job security. Strong history of growth with clear indications that growth will continue.
Dirty strenuous work or highly boring repetitive work. Some view work as dangerous. History of accidents.		Clean, safe work environment although work may not be viewed as very challenging or interesting.		Clean, safe work environment. Jobs are interesting and challenging. Team environment.
Poor reputation among job applicants. Recent negative media coverage.		Good community reputation among job applicants. No significant detractors.		Stellar reputation among job applicants. Positive media coverage.
Poor employee/management relations. Recent adversarial union activity. History of hostility.		No significant employee/management relations issues.		Employee/management relations are known to be very positive.
Jobs are viewed as temporary assignments verses careers. Employees are not committed. Poor supervisory leadership.		Employees are committed and take pride in their work but this is a dirty, tough industry.		Good career paths and positive supervisory leadership. Employees believe strongly in their company. These jobs are treasured.
Trust and Stability – Both of these factors are rated low by employees		Trust and Stability – Both of these factors receive moderately positive ratings.		Trust and Stability – Both of these factors are rated very high by employees.

Your Overall ECC Rating

Based on your answers above, place an X on the scale below that you believe best represents your company or facility.

1	2	3	4	5
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Now you have at least some idea of where you are in relation to being an employer of choice. But what bottom line dollars and cents effect will this have on your recruiting budget? The answer to this question depends on the type of manufacturing associates you need to hire. For example, if you are targeting non-skilled, fairly uneducated applicants with low conscientiousness and few problem-solving skills, then your rating on the ECC will have little recruiting cost implications. In fact, we would suggest placing an ad and simply hiring the people that show up. Believe it or not, some well-known manufacturing companies have used this exact strategy – with obvious disastrous results. On the other hand, if you need to hire solid, long-term manufacturing contributors, then your ECC rating will have significant impact on your recruiting budget.

To begin, let’s define “long-term manufacturing contributors.” These are individuals who generally possess the following characteristics:

Thinking ability. Able to reasonably learn and apply what they are taught during training. They have inductive and deductive reasoning skills suited to dealing with the everyday issues and challenges faced by manufacturing associates.

Relationship skills. Get along with people and do not create interpersonal conflicts or morale issues.

Personality traits. Have normal, stable personalities. They do not possess personality “derailers” that would result in unsafe or high risk behavior, shrinkage, unanticipated blow-ups, etc.

Work ethic. Believe in work standards and will perform their job to the acceptable standard set by the company.

Job Fit Motivation. These individuals are suited to the work they are performing and will stay in their jobs on a long-term basis.

What we have described above is a solid manufacturing associate profile. It is not the highest level profile, but rather a very strong “B” level, and it provides a reasonable profile to gauge recruiting costs. You can use the chart below to determine how much effort and cost will be necessary to hire the above profile in a manufacturing company with your ECC rating.

Cost to hire the above profile (long-term manufacturing contributor) in a growth economy

Your ECC Rating	* Cost to recruit and hire one associate	Expected Turnover	Number of people that will apply per opening	% of applicants that fit profile
1	\$20,000	50%-100%	3 - 5	2%
2	\$15,000	25% - 50%	4 – 6	4%
3	\$5,000	15% - 25%	5 – 10	7%
4	\$1,400	Less than 8%	15 - 30	10%
5	\$1,200	Less than 4%	>30	10%

* Costs include advertising, testing fees, interviewer time, administrative time, background checking fees, drug and physical assessment fees. Not included are orientation, on-boarding, and training fees.

Summary

Based on our experience of helping hundreds of manufacturing clients hire people over the past 15 years, we have drawn the following conclusions:

1. If you have an ECC rating of 1 or 2, you are simply not going to hire the long-term manufacturing contributor profile described above. You will not do it because the ROI is not there. It is too expensive to recruit these individuals and too costly to lose them to turnover. These contributors are precisely the people that will leave first because they will have the most options. This does not mean that you are not going to hire good people that will stay with you for years. You can and should hire the best available people, but their profile needs to be in line with your company's profile. For example, they probably will assess lower in areas of problem solving and certain interpersonal skills.
2. As your rating moves from the 4 to 5 level to the 3 level, you must invest significantly more in recruiting to hire good, long-term talent. As you can see in the above chart, a company at level 3 must spend three times what a company at level 4 spends to hire the same profile. Because the number of very good applicants drops off significantly when your ECC rating drops from 4 to 3 to 2, it is important to find the optimal hiring profile and then invest into recruiting for that profile.
3. When your ECC rating drops below 4, expected 60-day turnover increases significantly, especially among top new recruits. These individuals simply have more job opportunities with higher paying companies. In addition, lower paying jobs are simply less valued by employees in general and therefore, result in higher turnover. This is true across all industries and job levels.
4. If you are a 2 or 3 on the pay scale, you should strive to be a 5 on the work environment scale. Average pay and a great work environment is a good recipe for reasonable recruiting and low turnover.
5. Every company should not be a 5. Yes, it is a tremendous recruiting advantage if your company is truly an Employer of Choice in every way, but there is also a significant payroll expense that

accompanies this advantage. Many companies cannot afford to pay the high starting rate that would give them this advantage.

The chief lesson we have learned after helping more than 1,000 facilities recruit and assess over 4 million people is that almost every company can successfully recruit, regardless of their ECC rating. But they must understand the profile of employee that will have long-term success in their company and then invest appropriately into recruiting that profile. They must also understand that both recruiting cost and employee turnover increase with lower ECC ratings, but this tradeoff can be well worth the savings experienced from a less burdened payroll. Finally, while many companies cannot be a top tier payer, every company can provide a great work environment, which makes recruiting great people a whole lot easier.

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