

The Cost of Understaffing

Over the past decade, many businesses have mastered the art of doing more with less. Quality, re-engineering, and right-sizing initiatives have resulted in unparalleled gains for American business. But the long-standing mantra of running "lean and mean" is resulting in costs that few anticipated. In many instances, understaffing has become a threat-one that can jeopardize future prosperity.

A recent staffing strategies study found that 50% of companies expected to experience personnel shortages during 2000. Yet only 27% of those businesses anticipating staffing shortages planned to do any hiring.* Is the key to success really making due with less, or are the costs and risks too much to bear? Consider the following example of Fairfield Print and Graphics, a mid-sized commercial printer.

AT WHAT COST

Owned and operated by Richard Stafford, Fairfield lost two experienced graphic designers at the end of June. Rather than replace them, Mr. Stafford reasoned that he could juggle schedules and pay a little overtime to get the work done with his remaining staff. He'd save thousands of dollars....

We'll Never Use You Again

Weir Trucking, Inc. contracted Fairfield to format and print its annual report, due to shareholders by July 15th. Preparing the report was a complex job, and because they were short staffed, Fairfield employees worked a total of 120 overtime hours on the Weir project. While the reports were delivered on time, Weir became extremely upset because their logo was printed in the wrong shade of blue, and one of the bar graphs contained erroneous information. Fairfield printed 5,000 correction inserts at a cost of \$250 and refunded Weir half of the \$4,000 fee for the reports, but Weir vowed it would never use Fairfield's services again.

Missed Opportunities

During July, First Community Bank, an existing customer, requested that Fairfield redesign and print an updated mortgage form. Likewise, Josef's Fine Dining wanted a series of new coupon flyers produced. A potential new customer, Sky Hi Tech, was interested in having an employee handbook printed. Because Fairfield's staff was already at maximum capacity, Mr. Stafford had to turn down the work-a revenue loss of \$5,200. Whether any of these organizations will use Fairfield in the future is uncertain.

Not only was Fairfield forced to turn down work, it also had to pass on a strategic business opportunity. Ideas On-Line, creator of Fairfield's Web site, finally had the time to design a new on-line ordering page. However, no one at Fairfield had time to work with Ideas On-Line, so Mr. Stafford had to postpone the project.

Painful Partings

Fairfield's creative director and office supervisor, Cathy Lynn, always did more than her share. However, the added stress she felt during July proved too much. Cathy accepted a position with another company that offered her a comparable salary and a less demanding working environment. Mr. Stafford estimated that it would take one highly experienced full time designer and one part time administrative assistant to replace Cathy.

Adding It Up

At the end of July, Mr. Stafford added up the "savings" that resulted from understaffing and compared them to the cost of hiring two new employees (See the table below entitled, "Fairfield Cost Comparison for July.")

The decision to limp along short staffed during July cost Fairfield \$2,360 more than hiring two new employees. Over the course of a year, the company stood to lose almost \$30,000. As disturbing, it took only one month to lose a valuable team member, several customers, and an opportunity to acquire e-commerce capability. In fact, all Fairfield gained from the decision was an office full of over-worked and over-stressed employees. Realizing his mistake, Mr. Stafford reconsidered and decided to hire three graphic designers (one to replace Cathy) and a part time administrative assistant.

FAIRFIELD COST COMPARISON FOR JULY

Cost of Understaffing		Cost of Hiring	
Weir insert correction	\$250	Monthly salaries of two graphic designers (173 hrs. x \$18/hr.x2)	\$6,228
Weir refund	\$2,000		
Overtime(60 hrs. x \$15/hr.avg.)	\$1,800		
Lost revenue from turning down work	\$5,200	Monthly benefits costs of two graphic designers (\$850 x 2)	\$1,700
Monthly salary of an extra part time administrator (86.5 hrs. x \$12/hr.)	\$1,038		
TOTAL COST OF UNDERSTAFFING:	\$10,288	TOTAL COST TO HIRE:	\$7,928

RISKS OF UNDERSTAFFING

Fairfield's story may be fictitious, but the costs of understaffing aren't. While sometimes a boon to short-term profitability, understaffing may expose your organization to unforeseen and unacceptable risks, including the following:

- **Scrap and Re-work**
When organizations attempt to force more work through already constrained production processes, attention to detail tends to suffer. As a result, error rates typically rise.
- **Late Deliveries and Failure to Complete Projects On Time**
Staff shortages affect production capabilities, which impairs your ability to meet production and project schedules.
- **Increased Stress**
As employees are stretched to meet job requirements, their stress levels rise, and they become incapable of maximizing their performance.

- **Customer Dissatisfaction**
Delivery and quality problems invariably result in decreased customer satisfaction, which may be compounded by poor service from over-worked and over-stressed staff.
- **Increased Personnel Costs**
Stress increases expense. As tension in the workplace rises, so does absenteeism, workers' compensation claims, and the need for more management.
- **Increased Turnover**
Burned out employees don't stay complacent. Even the best compensation packages may not make up for the decreased quality of life. With current levels of employee demand, dissatisfied employees aren't likely to stay around for long.
- **Inability to Capture New Opportunities**
A company hard-pressed to meet its current commitments cannot hope to undertake new endeavors successfully.
- **Competitive Disadvantage**
Without the capacity to ensure exceptional quality and service and to explore new business opportunities, lean and mean organizations place themselves at a serious long-term disadvantage, compared to competitors that do not operate understaffed.

PENNY WISE, POUND FOOLISH

Don't be fooled into believing that running lean always saves you money. The costs associated with lost business, reduced productivity, and increased workplace stress are often far greater than the cost of hiring. A well-staffed business allows your employees to do their best work, which gives you the best chance of remaining successful in today's competitive marketplace.

CALL YOUR STAFFING PARTNER

It's important to maintain adequate staff levels. But for most organizations, hiring is not a core competency. If you're spending lots of time finding and screening job candidates, your attention to critical business responsibilities becomes diverted.

Help is available. The right staffing service can become your hiring partner. Such firms can help you determine your personnel needs and suggest a number of alternatives to satisfy those needs. Options that all reputable staffing companies can offer you include the following:

Temporary Personnel Services - Staffing firms can provide qualified temporary personnel who work on assignment at your company during peak work periods.

Direct Hire Services - Staffing companies can assume responsibility for finding qualified candidates for your direct staff openings.

Temporary-to-Direct Hire Services - You can initially "try out" a promising candidate by placing him or her on assignment through your staffing services supplier. If you are satisfied with the temporary employee's performance, you can then offer that person a direct position.

BIBLIOGRAPHY

"As Downsizing Abates, Record Number of Companies Say Understaffing is Creating Severe Business Problems." Ameritech. <http://www.ameritech.com/products/custom/topic/archive/2/news.html>.

"We Need More Workers." The News-Times Business News. <http://www.newstimes.com/archive96/jan3096/bze.htm>.

"What is Understaffing Costing Your Firm?" Smart Business Supersite Survey Center. <http://www.smartbiz.com/sbs/surveys/sur20.htm>.