Topic Brief - Calculating the Cost of Vacancy

Start planning now for the economic recovery

Managers intuitively know that vacant positions on their teams can increase the workload of other team members, reduce overall productivity, affect customers, and impact employee morale. Yet even with all these impacts, few organizations know the financial cost of a vacancy (COV). To prepare for an economic recovery, managers must know the true cost of an empty position to make informed decisions to recruit internally, hire temporary help, engage a professional search firm, or leave the position open.

Calculating COV is a daunting challenge; the position's salary and business impact varies based on industry, position, expertise, and impact on projects or products at the firm. It would be cost-prohibitive to conduct this analysis on all positions in a company.

The best practice in calculating the cost of a vacancy is to partner with the finance and accounting departments to determine an average or approximate value that will be used for HR and personnel budgeting decisions. The entire company can then operate under the same cost assumptions.

Four Formulas for Calculating Cost of Vacancy

Average Revenue per Lost Employee

When no position-specific information is available, this formula provides the average revenue each employee produces per day. The formula assumes 220 working days in a year.

$$\text{Average Revenue per Lost Employee} = \frac{\left(\dfrac{\text{Total Annual Revenue}}{\text{\# of Employees}}\right)}{\text{220 Working Days per Year}}$$

Salary Multiplier of Lost Revenue

When no position-specific information is available, this calculation assumes that each employee generates a certain amount of money above their salary (the salary multiplier). This multiplier can then be used to determine average lost revenue per day, per vacancy. First, calculate the salary multiplier:

$$\text{Salary Multiplier} = \frac{\left(\dfrac{\text{Total Annual Revenue}}{\text{\# of Employees}}\right)}{\left(\dfrac{\text{Total Annual Payroll}}{\text{\# of Employees}}\right)}$$

Next, use the salary multiplier, which is generally between two and seven, to calculate lost revenue per day:

$$\text{Daily Revenue Loss} = \text{Salary Multiplier} \times \left(\frac{\text{Position's Salary}}{\text{220 Working Days}}\right)$$

Simple Salary Multiplier

A Harvard study and industry analysts have found that on average, each employee generates revenue and/or adds value at a rate of three times their salary. By working with the finance department, managers can determine an appropriate simple salary multiplier for their company, usually between one and three, and then calculate:

$$\text{Daily Revenue Loss} = \text{Simple Salary Multiplier} \times \left(\frac{\text{Position's Salary}}{\text{220 Working Days}}\right)$$

Revenue Lost

For revenue-generating positions, this formula provides a direct measure of lost revenue, per day, for a vacant position.

$$\text{Daily Revenue Loss} = \left(\frac{\text{Total Annual Revenue Generated by Position}}{\text{220 Working Days}}\right)$$

Improve Forecasting in an Uncertain Market

Companies who will succeed through the current economic cycle are watching not only headcount and associated personnel expenses, but also the opportunity cost of key positions left vacant when the economy rebounds. Cost of vacancy provides a standard format for organizations to measure this opportunity cost and recruit new employees accordingly.

For more information on workforce management tools, strategies, and solutions, please contact your Volt representative.