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THE MAGAZINE FOR GROWING COMPANIES

When you're pulling out all the stops to hire new workers, it's easy to overlook one obvious talent pool: current employees. Slash turnover—as IHS HelpDesk did—and you may uncover a hidden growth strategy

how're you gonna keep 'em down on the firm?

BY CHRISTOPHER CAGGIANO

The company should have been growing like crazy. And there were numbers to prove it.

No matter how long Séan Durham and Eric Rabinowitz spent poring over their exhaustive status reports—supplied each week by the full-time statistician they employed—they couldn't seem to pinpoint the source of one perplexing problem: why IHS HelpDesk Service's revenues were nearly 20% short of their projections. Durham is president of Leveraged Technology, a $21-million computer consulting firm in New York City. Rabinowitz serves as president of IHS, its subsidiary. In the seven years since Rabinowitz had written the business plan for IHS, the company's market segment—supplying on-site contract workers to staff internal technical-support lines at *Fortune* 500 companies—had exploded, which enabled IHS to double in revenues every year. Until 1996, anyway. "We thought we were concentrating on the right things to grow the business," says Rabinowitz, who notes that the two had aimed their efforts at marketing and recruiting. "But we were basically running in place." *(Continued)*

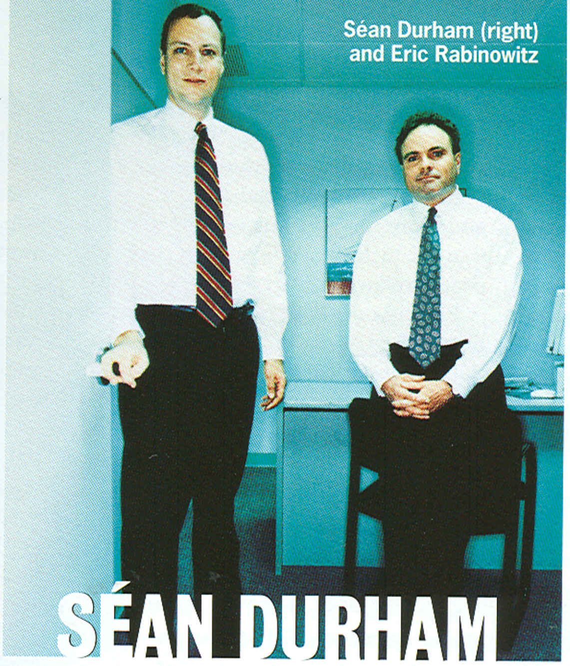
PHOTOGRAPHS: FRANK VERONSKY

Not that their efforts weren't plainly visible in August 1996. Thanks to an intensive direct-mail program, the company had no shortage of customers. In 1994, Rabinowitz had hired a marketing consultant who introduced him to a procedure called "drip." Modeled after hydroponics, a type of farming in which plants are cultivated in a water-based solution, the strategy entailed frequent mailings to prospects and clients to keep IHS firmly implanted in their minds, by showering them with such offbeat premiums as miniature crystal balls, packets of forget-me-not seeds, and worry dolls. What mattered most was not the contents of the message but the continual reminders of the company's existence. The system was paying off: IHS was receiving at least 60 requisitions—orders from a customer for an on-site analyst—a month, a sixfold increase in eight months.

IHS kept up with that demand as best it could. If Rabinowitz couldn't recruit folks with the ideal technical background, he wasn't above drafting particularly friendly busboys and flight attendants. Well aware that it took certain personality traits to work on a help desk—empathy, intensity, endless patience—in 1994 he had begun using personality tests to screen candidates. Unsatisfied with the 12 tests he tried, Rabinowitz enlisted a consultant to develop a customized test.

All of Rabinowitz and Durham's efforts were targeted toward boosting what they considered the company's critical number: the count of employees "on billing," or at a customer site generating revenues. In August 1996, IHS had 139 employees on billing; by December 1996 that figure had risen to 160. Still, Rabinowitz and Durham had projected sales of $13 million for IHS in fiscal 1997, but two months into that fiscal year, projected revenues were running closer to $11 million.

Rabinowitz and Durham couldn't deny that they had been missing opportunities to generate revenues: of those 60 to 80 monthly requisitions, they were typically able to fill only about half. Why was that, exactly? As they cast their eyes over the employee-trend analysis—a report that usually earned not much more than a collective glance—the answer started to come into focus. The report, which listed the weekly count of employee arrivals and departures, showed a distinctly unhealthful trend. During the summer of 1996, rare was the week when newbies outnumbered quitters. And the weeks were adding up. According to the company's statistician, annual turnover for 1996 was likely to set a record: 300%. What's more, 30% of new hires weren't staying even as long as three months. "Our recruiters were working doubletime just to maintain the current level of business," says Durham.



Séan Durham (right) and Eric Rabinowitz

'We figured if we just paid more attention to our employees, we didn't necessarily have to get any more business.'

The two had always fretted about turnover rates, but they resigned themselves to thinking that, unlike the other numbers they tracked, there wasn't much they could do to change them. In the computer business, that level of churn was just an accepted cost of doing business. Except that the generally accepted rate in the help-desk industry was 50%, on average. "It crept up on us," says Rabinowitz. "We had always been generating these reports, but our eyes were always on growth. We figured we could always find more employees."

But now turnover looked like an increasingly insidious threat. Sure, rising requisitions could absorb some of the costs. But for how long? What if new business fell off to the levels they had seen just six months earlier? "We thought, 'If the turnover continues and the reqs die off, we're in deep trouble,'" says Rabinowitz, who is 41. "Maybe even out of business." The key to future growth, Durham began thinking, might depend more than they ever realized on retaining employees. The two scratched out some calculations. "We figured if we just paid more attention to our employees, we didn't necessarily have to get any more business," says Durham, 39. "We could just keep the current customer base, take moderate inbound opportunities, and we'd grow very nicely."

It sounded simple enough. But not quite a year into their ambitious experiment, the most striking result can't be found in hard numbers—much to their chagrin—although annual turnover shrank from a projection of 300% to 25% for 1997. By yanking the thread that began with the shortfall in revenues, not only have Durham and Rabinowitz exposed the hidden toll that turnover can take; they've also tapped into the competitive edge that retaining employees can become. Here's how they've done it, step-by-step:

STEP #1: Calculate the *Real* Cost of Turnover

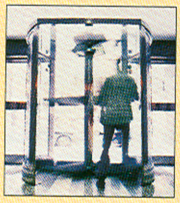
HOT AS THE OPPORTUNITIES WERE, and efficient as the company had become at prospecting for customers and employees, it seemed that IHS was leaving money on the table. But how much? Number-huggers that they were, Rabinowitz and Durham knew that it cost the company $3,000 a head to bring on new hires. That included $2,500 to recruit staffers and an additional $500 to process their paperwork, including paying state unemployment insurance, which Rabinowitz refers to as the "retention tax."

But he and Durham also began to wonder whether turnover was affecting more than acquisition and acclimation costs. Employee departures often have veiled effects on a company's top and bottom lines, such as decreases in customer satisfaction, worker morale, and overall company productivity. Not to mention the drag on managers' time. "We were getting pressure from internal staff," recalls Rabinowitz. "What were we going to do about all these people leaving? Our recruiters had to spend more and more time dealing with people who wanted to leave. When were they supposed to have time to recruit?"

Playing out those numbers in greater detail than ever before, Durham and Rabinowitz calculated that if they could nudge their average employee's tenure from 3.5 months to just 3.8 months, they would see a direct impact on their bottom line to the tune of $60,000. Get the average up to 7 months, and they'd uncover $275,000. And if they could somehow achieve an average stay of 18 months, they'd add a tantalizing $2.9 million to their net. As for the top line, Durham and Rabinowitz gauged the opportunities that the company had missed owing to insufficient staffing. Durham estimated, for instance, that had IHS been better able to retain its staff, its head count could have been as high as 250, rather than 160. So without a significant increase in overhead, IHS could have been nearly twice as large, pulling in $20 million in annual revenues versus $11 million.

But that growth would require a greater effort and expenditure than the pair realized. "We came to the conclusion that we could spend some money on this," says Durham. The two weren't sure exactly how much they would spend—nor could they have predicted that the cost would run upwards of a half million dollars. From their own experience, they believed it would be wise for them to hunt down external expertise, as they had for their direct-marketing and psychological-testing efforts. "It's easy to think that because you have experience, you know what to do," says Rabinowitz. "But the real geniuses in this world say, 'Do I *really* know?'" Through a recommendation he received from an entrepreneurial peer group, Rabinowitz hired Joyce Gioia of Roger Herman and Associates, a firm based in Greensboro, N.C., that specializes in employee retention.

tackling turnover Staying Power



Those employees marching out the door in droves represent a problem that isn't going anywhere. Fifty-three percent of U.S. workers expect to leave their jobs voluntarily within the next five years, according to a recent poll by Louis Harris & Associates. While some industries are merely feeling pinched (the turnover rate among printing production workers is 16%), others are already badly bruised (for convenience-store employees, the turnover rate is 103%). Still, few industries can afford to ignore the threat—which is why some have mobilized to plot out a strategy. Among them—

Industry: Trucking
Turnover Rate: 10%, and projected to stay at that rate through 2005
Coping Strategy: "We know that truckers like their jobs better if they have consistent, steady routes, so we're encouraging employers to do more in that area," says James Lewis, spokesman for the American Trucking Associations. "We're also looking at demographic categories that are growing—namely, women and minorities—that have not often been the demographic categories our industry has drawn its drivers from."

Industry: Software
Turnover Rate: 18.2% for technical professionals; 16.8% for technical managers
Coping Strategy: "Software companies realize that if good tech folks aren't there, then nothing is going to happen," says Ann Dondanville-Allen, manager of human-resources reporting at Culpepper and Associates Inc., a software-industry-research firm. "So they throw more resources and money into the technical area, in terms of recruiting." They sometimes appear to do so, she points out, at the expense of keeping employees in such nontechnical fields as marketing and accounting, areas that have higher turnover rates.

Industry: Fast-food restaurants
Turnover Rate: 140% among hourly workers
Coping Strategy: "It's important for a restaurateur to recognize the different types of personalities that work in our industry," advises Julie Malveaux, a spokesperson for the National Restaurant Association. "There are some pass-through employees, like students, who want a job only for a short period of time. There are some careerists who are looking for advancement opportunities. And then, of course, there are some people who should not be in the industry. Managers can prepare themselves by learning to recognize what distinguishes one type from the next."

—*Mike Hofman*

STEP #2: Capitalize on What You're Already Doing Well

TRUTH BE TOLD, THE TURNOVER problem didn't come as a total shock. In exit interviews, Rabinowitz had long been hearing that employees felt no special allegiance to IHS. (Ironically, the most personalized attention employees received was when they were leaving.) And the company had made only a few haphazard efforts to address that malaise.

One such attempt was the long-standing "pin program," wherein employees with a two-year record of exceptional customer service could receive a silver IHS pin and a $500 bonus; three-year

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veterans received the pin in gold and a bonus of $2,000. Rabinowitz had also instituted a program he calls the Wall of Fame, whereby customers could acknowledge top-performing analysts, whose pictures would be placed on the company's Web site and whose names were entered in a monthly drawing for $500. In early 1996, Rabinowitz had also hired Tammy Dowling as his assistant. Her mandate: to handle employee complaints. "We were dealing with problems reactively," he says. "By the time we heard about them, the problems were too far gone for us to make a difference."

Rabinowitz had worked on help desks for more than five years, so he knew that such positions were frequently thankless, high-pressure jobs, conducive to burnout. Callers were none too patient about getting their problems resolved. And despite the comprehensive knowledge and customer-service skills the job required, help-desk positions were typically low-respect slots, offering no sense of permanence or career progression. Between assignments, analysts were very often simply let go. Help-desk personnel usually felt like—and were treated like—temps, merely marking time until a "permanent" position came along and often giving as little as one day's notice when they found one.

Compounding the problem, most IHS help-desk staffers worked at customers' sites, so they naturally felt more a part of the customer's culture than that of IHS. "I used to get calls from people saying, 'Everyone at Johnson & Johnson just got a raise. Why didn't I get one?'" recalls Rabinowitz. "We just gave them their paychecks." Even those paychecks were imprinted with a name employees didn't identify with: Leveraged Technology.

Rabinowitz and Durham knew that competition for help-desk staff was increasingly fierce. Annual surveys indicated that average salaries had reached $35,000 nationwide, and IHS was attempting to keep pace. But looking over the company's own data—there were *always* data—Durham noticed that most people who left didn't choose "more money" as their reason, instead opting for "other." When Durham asked the statistician to break down that category further, it turned out that people left because they didn't view their job at IHS as a full-time, permanent gig. Durham was very encouraged; that was a shortfall he felt the company could address. "It meant there were things we could do without necessarily giving them more money," he explains.

IHS had some atypical perks and programs—including a three-year-old employee stock ownership plan, in which workers could become fully vested after seven years—but some employees didn't even know about those benefits. Rabinowitz recalls an exit interview during which he asked a departing employee whether the ESOP had made any difference. He got back a quizzical stare, followed by a question: what ESOP? After Rabinowitz explained, the employee responded, "You know, if I'd known about that, I probably wouldn't be leaving." And the things that people did know about didn't seem to matter to them much. "Benefits, vacations, recognition programs—it didn't mean a lick to them," says Rabinowitz. "All these things needed to be packaged and presented to them as something that was part of a special company."

In February 1997, Rabinowitz began doing just that, applying the company's marketing expertise to its "internal clients," so to speak. "We needed to systematize what we were doing about retention," says Mark Dingley, an analyst whom Rabinowitz promoted to director of retention. "All the pieces were there, but the puzzle wasn't together yet." Rabinowitz also culled members of the management staff—including those from the recruiting, training, and human-resources teams—and asked them to join him in retention meetings every Friday at 9:30 a.m. to implement and track Joyce Gioia's recommendations, the most pressing of which was to improve communication within the company. "We really do care about these people," Rabinowitz says. "We just have to keep reminding them of that."

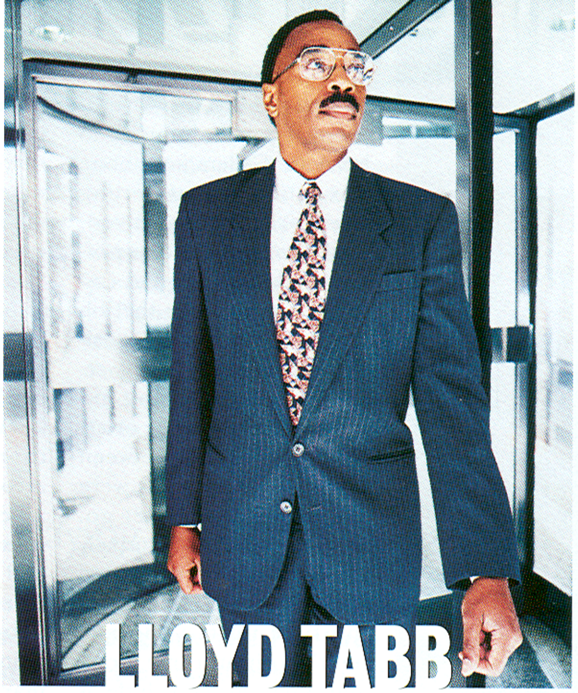
Gioia suggested instituting some form of regular reminder. So Rabinowitz created *IHS Daily Helpings*, a newsletter that has been faxed to all employees every morning for the past 10 months, offering technical tips and information about the company's various programs and incentives, along with trivia, quotes, and contests. In addition, Dowling began placing weekly calls to each of IHS's field employees to keep people abreast of new policies, ask them whether they were going to the company picnic, or even just say a quick hello. Gioia hoped that would help staffers put a face—or at the very least, a voice—on their formerly invisible employer. It mirrored the "drip" marketing program that worked so well with customers: what counted wasn't so much any individual action as the cumulative effect of constant contact. "The home base really maintains a line of communication with me out in the field," says Derrick Begin, who has been a help-desk analyst for one year. "I never really felt a tie before. There was no sense of camaraderie."

STEP #3: Identify What You—and Your Customers—Can Change

WHEN RABINOWITZ AND DURHAM studied why 30% of recruits left within 90 days, they found another encouraging answer: frustration. As the newcomers left, they complained of feeling unprepared. "It was like we were throwing them onto the trading floor at Goldman Sachs, because that's the type of companies they were dealing with," says Durham. "They could have a massive coronary at the age of 24." New customers were often expecting new help-desk personnel to be experts in every aspect of their technology, including their proprietary computer systems. The resulting impatience drove the new staffers out the door with incredible efficiency.

Employees needed to know that the first four to six weeks would probably be difficult but that they should be patient. Gioia suggested expanding the company's employee-orientation program—which had consisted of informal one-on-one meetings with the human-resources staff, the time spent mostly filling out forms—to include a mandatory, all-day-Saturday group orientation. Groups of new employees would meet the staff, learn about the company, and even take a tour of nearby Madison Square Garden. "We wanted to make it a memorable experience," says Rabinowitz. The recruits noticed. "I've worked for numerous *Fortune* 500 companies," says Lloyd Tabb, a help-desk analyst since early 1997, "but this company had the longest orientation I've ever had."

Once employees were aboard, it was important that they not feel like temps. For the first three months of the new retention program, Rabinowitz and Durham met with each customer, adjusting expectations by explaining what learning curve was reasonable for new help-desk arrivals. (Customer-service reps have since assumed that function.) They even warned customers that if they referred to IHS staffers as temps, the troubleshooters would view themselves that way. "But if clients would just coddle them a bit," adds Durham, "it would keep our costs down, and they could spend less money for this kind of consultant."



'I thought there was no way they were going to pay me when I was between assignments. But they have. That was the true test for me.'

STEP #4: Improve Employees' Prospects, Not Just Their Jobs

BUT IF EMPLOYEES WERE GOING TO regard their jobs as permanent, full-time gigs, Durham and Rabinowitz needed to *turn* their jobs into permanent, full-time gigs. When they were between assignments—"on the beach," in the industry lingo—employees needed to know that their jobs were secure. Previously, IHS let analysts go if they lingered in limbo for a couple of weeks. "It was a big mistake," says Rabinowitz. "We lost a lot of good people that way."

Now Rabinowitz and Durham promise their employees that when they're on the beach, they don't have to worry about being washed away. They can take that time to use the company's training materials to catch up on new software, learn about Web design, or even follow a company-paid self-study course for Microsoft or Novell network certification. About six months before they began focusing on retention, Durham and Rabinowitz had decided to beef up training. "We had considered it more a recruiting strategy," says Rabinowitz. "But we hadn't really thought about training in retention terms."

Tabb, for one, was at first unsure of what he though about the management's new training policy. "I figured it meant they'd make sure I was working all the time," he says. "I thought there was no way they were going to pay me when I was between assignments. But they have. That was the true test for me, and that's what has kept me here."

Based on her discussions with IHS employees, Gioia suggested that in addition to training, IHS should offer its staff more long-range career prospects. "Employees felt that we didn't know and respect them as technical people," says Rabinowitz, who understood that few people wanted to sit at a help desk indefinitely. So last February he started to chart out career options at IHS, including a managerial route and a technical path, that would enable employees to become full-fledged consultants at Leveraged Technology.

Rabinowitz also began visiting each employee for annual check-ins, which gave him the chance to help employees set short- and long-term goals. At the sessions, Rabinowitz draws a T on a piece of paper, listing on one side what IHS will do to help employees reach their goals. On the other side he lists what IHS expects in return, such as professionalism and punctuality. "I also stress that if we are fulfilling our end of the promise, we expect them to remain employees of IHS," says Rabinowitz, who asks employees to sign the paper. It's hardly legally binding, he admits, but it does help firm up expectations. *(Continued)*

STEP #5: Institutionalize Retention as a Management Function

TO ENSURE THAT THE RETENTION tactics become a part of the company's regular processes, Rabinowitz and Durham have kept the retention team's weekly meetings as a permanent fixture. The team will also oversee the next phase of changes, which include a formal mentor program.

Also in the works is a process to formalize the training and career-path components in what Rabinowitz calls a "career orchestration." That will involve a two-year timeline for each employee, with benchmarks for when various phases will kick in. While the key components of the retention strategy are up and running in the company's eastern region, Rabinowitz and Durham have yet to roll the program out to all of their six national offices; Atlanta and Chicago, for instance, don't have it yet. "The problem is the training," says Rabinowitz, who hopes the program will be fully implemented by mid-1998. "We need to have a facility for people in different regions to go to for that."

Treating retention as they would any management discipline also means running numbers on it—constantly. But math mavens though they are, Rabinowitz and Durham claim that they haven't yet been able to calculate the program's return on investment. "We've been having problems with the calculations because of some lost data," claims Rabinowitz. "So we don't know exactly how well it's worked except from a gut feeling and some very basic stats that make it seem it's working very well."

Preliminary results show that annual resignations, which had been projected at 300% for fiscal year 1997 (which ended August 31), landed at only 25%—where they remained during the first quarter of fiscal 1998. And the percentage of new hires who fled within three months dropped from 30% to 12.5%. The number of people who are billing is currently up to 165 and rising, says Rabinowitz, possibly because customer satisfaction, as measured in surveys, has inched up to 3.3 (out of a possible 5) from its earlier average of 2.75. And Durham is encouraged that the company's growth seems to be resuming, with projections of $15 million for fiscal year 1988.

But there is no way to quantify some of the changes Rabinowitz and Durham are seeing. "More people have been asking for business cards," Rabinowitz says. "They want to show people that they work for IHS." The number of employee referrals is also up. Although employees do still leave, they at least give two weeks' notice. Last July the company picnic—which Rabinowitz had considered canceling, for lack of attendance—drew employees at comparatively Lollapalooza-like proportions: 175 showed up. "And I don't get people calling me and just bitching anymore," says Rabinowitz. "If they have a problem, usually Tammy will hear about it in her weekly calls. So in many cases, we preempt any need for them to leave."

Clearly, Durham and Rabinowitz still have employees to win over. As late as October 1997—eight months after the retention effort had begun—employee Tabb was sure that the company provided a 401(k) plan (which it doesn't) rather than an ESOP. "Either way, it doesn't mean much to me," says Tabb. "I'm not sure I'll be here long enough to benefit from either." Colleague Jeff Menzies, a help-desk supervisor for the past two years, observes that "not much has changed in my relationship with the company." By contrast, analyst Joanne Lutz says she can imagine leaving only if "all the communications and niceties stopped as the company grows." That, of course, remains the challenge for IHS: Rabinowitz and Durham are hoping that the company's retention efforts will spur growth. But as the business expands, maintaining that focus will likely become increasingly difficult.

Not that Rabinowitz and Durham are likely to simply drop it. So far, they estimate that the program has cost $600,000, mostly in consulting fees, travel costs, funds for training, and management time. Even if the company lost money in the short run, Durham claims, it was worth doing because "it forced us to think about all the elements that go into this 'simple' business—especially the human-resources processes—and to make it systematized."

JOANNE LUTZ

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And there's been another, unanticipated payoff: IHS's focus on retention has helped the company differentiate itself from its competitors. "We use it in our sales pitch," Durham says. At least one client claims to have chosen IHS because of its retention record. "I was hoping to see less turnover than I had previously," says Rich O'Brien, help-desk coordinator at Warner-Lambert, in Morris Plains, N.J. "It's nice to have a company that retains people. Getting support staff fresh off the street makes it harder for us to manage our services."

So, from what Rabinowitz can tell, the company's retention program is helping it generate revenues—which was the goal all along. "By stopping our rigid focus on sales," says Rabinowitz, "we've actually found a way to improve them." ■

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