BREAKING THE CYCLE OF TURNOVER IN THE SERVICE INDUSTRY

PART 1

Tom DeCotiis, PhD

Passive acceptance of turnover is puzzling

The US economy is currently experiencing a mixed performance. Retail sales for the recent holiday season showed a slight decline, with January 2025 sales down 0.9% from the previous month. Unemployment is at 4.0%, a slight increase from the previous year. Wages are on the rise, with a 5.7% increase in December 2024 compared to the previous year. However, employees in the service sector continue to quit their jobs in significant numbers, with turnover rates varying widely by industry. If you work in a service industry, whether retail, foodservice, healthcare, or airlines, you're likely experiencing turnover for hourly or frontline roles from 50 to 250%. These high turnover rates cause managers frustration and customers to question your competence and ability to deliver what you promised. While high turnover makes delivering a consistently high-quality customer experience nearly impossible and profitability challenging at best, leaders continue to tolerate it for some reason.

This passive acceptance of turnover is puzzling. Especially since much of the turnover in the service sector is due to employees playing musical chairs with employers. A sales associate at a big-box retailer quits for a 'better' opportunity down the street. A cook leaves one restaurant for another. By our estimation, the annual employee turnover rate in the service sector is about 20 percent of entry-level employees in the service sector leave their industry. The rest are simply moving from you to your competition.

Historically low unemployment makes it exceedingly easy for an employee to quit an employer and begin work at a competitor, never missing a paycheck. Employers have muscled through the problems created by high turnover through the simple expedient of hiring faster than they lose employees; however, that solution won't work any longer as even a mediocre candidate can readily find a job.

High employee turnover is not the only challenge: the service sector is becoming a hypercompetitive ocean crowded with constantly emerging threats. Retailers struggle to get shoppers ‘off the couch’ (and away from e-commerce competitors) and compete to deliver the most memorable experience that separate them from the competition. For restaurants, competitive forces and technology ranging from Amazon to meal-box subscriptions to expanded grocery store offerings have morphed the *restaurant industry* into something larger and more competitive; namely, the eating industry. Healthcare companies struggle to build patient loyalty as amid evolving modes of care and increased regulation. The bottom line is that competing for entry-level and frontline employees has moved from simply being important to being critical. Building employee loyalty is even more challenging with the lure of hot and rapidly expanding employers who offer pay above minimum wage (plus-benefits) and call-your-own-shots side-hustles like Lyft and Uber. The effect of these changes intensifies two intertwined challenges:

1. Hiring, developing, and retaining quality employees

2. Ensuring that a company manifest the defining characteristics of a strong brand: a valued and consistently predictable customer experience

There is some **good news** in all of this: candidates have more options for employment provides an opportunity to grow and thrive. The **bad news**: these options have put employers on probation, so that when an employee expectations for a place to work are not met, they quit.

THE KEYS TO BEING A STRONG AND HEALTHY BRAND

Every business has what I call its competitive keys. These are factors of competition that have to be in place for the business to deliver the heart of a strong and healthy brand; namely, a predictively positive customer experience. Customers do not expect their expectations to be exceeded; however, they can be mighty upset when they ones they do have are not met by their experience. Violate a customer's expectations once and the customer might forgive you; do it twice and you can expect that the customer will not only desert your company, but tell their millions of friends on Facebook, Yelp, and elsewhere what a bummer you are.

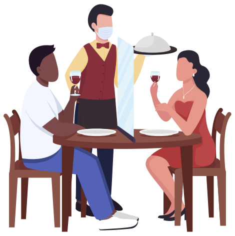
When the business is primarily a service (e.g., restaurants, hotels, healthcare, airlines) there are almost always two competitive keys: Stable Quality Management (SQM) and being fully staffed with fully trained customer-facing employees (FSFT). SQM is no more than qualified managers in the store, restaurant, clinic, or airport hub, who stay and get very good at their jobs and know their employees and customers. FSFT is just what it says: Being staffed for business with hourly employees who know their jobs and, therefore, can provide a predictively positive customer experience.

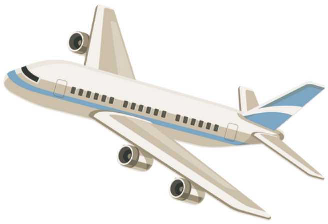
ACTIVE LOYALTY

SQM is the tipping point for FSFT and, therefore, a predictively positive employee and customer experience and the active loyalty of employees and customers. Active loyalty is a concept created by my company to summarize the ultimate goal for your employees and customers. It is decidedly not a loyalty program. By way of illustration, I am a frequent flyer biggie in that I have more than a million miles on each of three airlines. They love me, and to show their love do stuff like putting me on an upgrade list and sending me luggage tags with my name and their logo on them. However, enduring millions of miles and thousands of hours on an airplane is not the same as loving the experience. As a result, I never go out of my way to travel on one airline over another. I describe myself as *passively* loyal to each of the airlines for a couple of reasons.

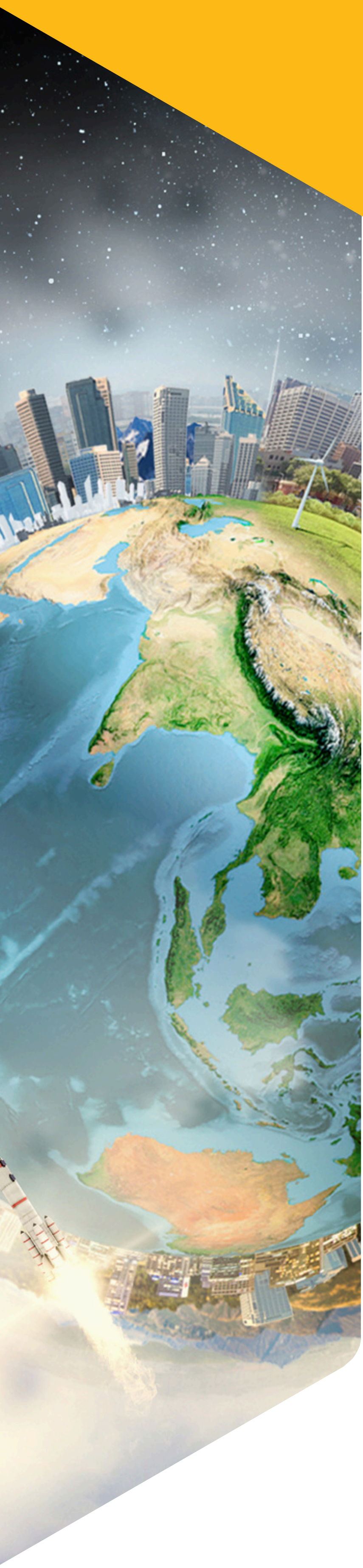
First, the airlines are interchangeable because the customer experiences are interchangeable. The only way I can tell one airline from another is their unique color schemes. **Second**, they compete with one another rather than for the hearts of their customers and make it clear that cost is at least as important as customer happiness. Airlines have turned themselves into commodities and, like other commodity purchases, customers pay most attention to convenience and price. Thus, while three competing airlines count me as a loyal customer, my behavior says that I am not.

But I am an actively loyal Nordstrom customer. I have to drive fifty miles to get to the nearest store and often pay full price for whatever it is that I am buying. I like the stuff they sell, the service they provide, and the fact that they will take back anything with which I am dissatisfied. I am voluntarily going out of my way to make Nordstrom successful by driving by its competitors and spending my money and time in their stores. Thus it is that voluntary behavior is the core of active loyalty for the simple reason that it cannot be compelled or bought! Hence, my definition of active loyalty: The commitment of a person (customer or employee) to go out of their way to contribute to the success of an enterprise and to recommend it to friends and family. An experience that results in actively loyal customers is far less likely under conditions of high employee turnover. There is a component of active loyalty that goes beyond frequency of use to a personal commitment derived from loving an experience and wanting others who the customer or employee cares about to be able to share that experience.





Love is an interpersonal connection that does not occur unless a company has SQM and is FSFT. In this light, tolerating high manager and employee turnover is – to put it simply – stupid. But it's also understandable, given a phenomenon common to the restaurant, retail, airline, and healthcare industries.



WE SEE THE WORLD NOT AS IT IS, BUT AS WE ARE

Facts are things to be manipulated by our perception of them to create a reality that comforts us. There is no other explanation for how the identical facts can be seen as truth by one person and fake news by another. As an example, suppose that you have a young daughter and have to decide whether to vaccinate her against common childhood diseases such as measles, mumps, smallpox, and so forth. Depending upon your beliefs about these diseases, you might act in one of three ways:

1. Pray if you believe they are acts of God
2. Hope if you believe they are chance occurrences
3. Vaccinate if you believe they are preventable

Differences in perception are often the answer to the question of "What were they thinking?" Our perceptions are shaped by many things, but one of the most important influences is our experience. Leaders in high turnover industries are often told, "It is hard to get good employees…there's nothing you can do to stop people from quitting – so you have to be prepared to hire and staff for high turnover."

Buying into this explanation for high employee turnover is a comfortable way to pass the blame for not being a good enough place to work. Indeed, if you believed that employee turnover was something you could control, you would have a whole other list of things to do besides recruit and hire.

HIGH TURNOVER AND LOW RETENTION ARE NOT THE SAME THING

Despite the obvious importance of SQM and FTFS to any service company, high turnover has largely been accepted by leaders as a fact of life, cost of doing business, and something they simply have to work around. Unfortunately, all of the workarounds I have ever seen come at the cost of compromising the customer and employee experiences by reducing employee autonomy through rules and job replacement, being short-staffed, asking undertrained staff to perform as though they were trained, overtime, and hiring *warm bodies*. If you believe that a compelling customer experience has to include a competent and motivated employee who knows your customers, why would you tolerate high turnover? If you like pictures, then my bucket metaphor for the craziness of staffing for turnover will ring a bell with you.

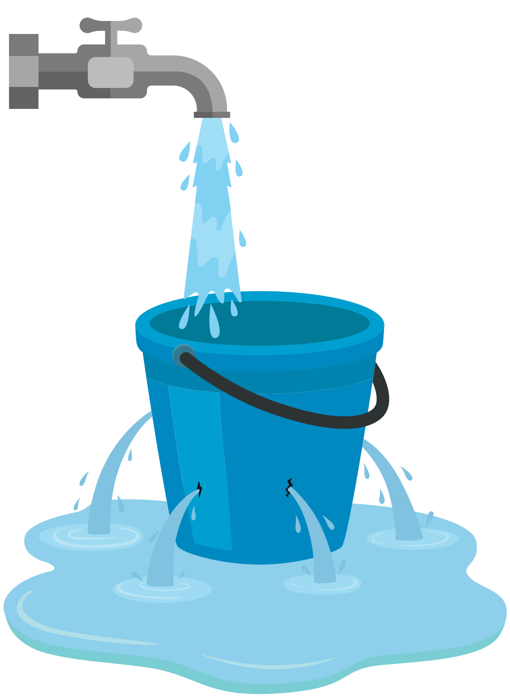


Figure 1. The Staffing Numbers Game

Your team is in the bucket and kept fully staffed through recruiting and hiring. The holes represent employee – the more and the bigger the holes, the higher your employee turnover rate and the recruiting and hiring take up your time and resources. As your turnover rate climbs, staffing becomes a numbers game where your primary focus is on filling the bucket, rather than training and developing people – and the replacement cycle spirals increasingly faster and out of control. In this scenario, SQM and FSFT are illusionary even with lowering your standards and all of the labor saving, recruitment, and hiring technology available. There comes a point where there simply is no labor pool to pull from even with the best of recruiting and hiring tools.

WHAT ARE WE THINKING?

I've never met a successful manager who is short on mental horsepower. So why is it that smart people behave as though it's possible to operate a successful business with one arm tied behind their back: being chronically understaffed with subpar and poor employees? And why is it that company leaders act as though they believe that a company can be successful simply by asking unit-level managers to do more with less? I think the answer is amazingly simple: They really haven't thought about it!

For the leader of a business that thrives or dies on the ability of its people, it's time to take a deep breath and determine what it is that will ensure a valued and consistently predictable customer experience. I believe that something is to systematically focus on building Stable Quality Management (SQM) at the business unit level, and from that to build FSFT restaurants, clinics, stores, airliners, etc.

In Part Two I'll cover the path you can take to achieve SQM, active loyalty, and increased sales and profit.

DON'T MISS PART II OF THE SERIES

BREAKING THE CYCLE OF TURNOVER IN THE SERVICE INDUSTRY PART II

About Corvirtus

Corvirtus provides a range of innovative, science-based measurements and services that tie a company's culture and core values to talent processes. Corvirtus solutions have enabled hundreds of companies to strengthen and scale their corporate cultures, and to identify, develop and retain those employees with the characteristics and capabilities essential for business success and customer satisfaction. For more information, visit www.corvirtus.com or schedule a demo by using this link:

Schedule time for us to connect.