

PEOPLE

Why You Need to Set Aside a Bad Hire Budget

Uncovering the hidden costs of underperforming hires can help justify an investment in better HR tools



BY DON CHARLTON @Dontrepreneur



IMAGE: Getty Images

A Director of Sales walks into the CEO's office and say his team needs Salesforce. **Done.** The Director of Marketing follows right behind him and tells the CEO she needs ExactTarget. **Done.** The Director of Human Resources comes in after that and tells the CEO she needs budget for recruiting software...

"Why do we need it, again?"

Ah, the poor Director of Human Resources. Despite being the person who saved the

company tons of money by making sure insurance premiums only grew 15% instead of 50%, she has to claw and scratch to get money for just about everything. It's unfair, and it's the reality of many HR leaders in smaller organizations.

When the Director of HR asks for budget to invest in recruiting software, or training, or other useful "people" tools, CEOs envision her throwing gasoline on a huge pile of money labeled, "OVERHEAD" and setting it ablaze. Sales and marketing are the driving forces of revenue of most (if not all) businesses, so it's easy for these leaders to get the budget they need for tools. But anything that adds to the costs of managing employees needs to be scrutinized much more carefully, with the cost-not the value-leading the discussion.

If you're that Director of HR, or HR Manager, or office manager deputized as an HR person, I have a little trick you can play on your CEO or head of Finance to get the resources you need: Create a Bad Hire Budget.

A **Bad Hire Budget** is a calculation of the additional "overhead" your business pays every month because your company has underperforming, underdeveloped or even missing team members. This cost is a hidden line item in every company's budget. The business is "spending" this money one way or another every month, and the only way to eliminate the cost is to offset it with an (often much smaller) investment.

When you uncover the hidden costs of underperforming and missing employees, justifying an investment in HR-related initiatives is quite easy. Ironically, calculating your Bad Hire Budget actually involves the help of your sales and marketing leaders. Here's where to look for those hidden costs:

- **Lack of revenue due to missing, revenue-producing employees.**

If your Director of Sales says it takes 45 days to hire an account executive, and another 60 days to fully onboard them, that's a total of 105 days. So if your company needs to hire two sales people, that's 210 days of reduced sales productivit
NEXT ARTICLE over half a year! If you had recruiting software and better onboarding tools, it's probably you could cut that time by 25%. So without those tools to accelerate hires, that 25% gets added to the Bad Hire Budget.

- **Lack of productivity due to underperforming employees.**

Once a bad hire is working at the company, their underperformance costs money—especially in sales or marketing. Less leads and less sales definitely impact the bottom line. Work with your marketing and sales leaders to quantify the lack of revenue due to underperformance, and add this to your Bad Hire Budget. People make bad hires,

especially when they don't have the structure interview process that recruiting software provides, and performance management tools ensure managers spot bad hires faster.

- **Lack of productivity due to undertrained or inexperienced employees.**

The things your employees have yet to learn, but need to learn, cost the company money. Conferences, coaches, consultants, classes and other learning services are designed to accelerate employee development. What if your sales reps were 20% better at closing deals because of a sales training program? How much additional monthly revenue would come into the door? That number gets added to your Bad Hire Budget.

If you keep looking, you'll uncover more and more inefficiencies and challenges in your company that can only be addressed by investing in how you recruit, align and develop people. Add up these costs and you'll have plenty of ammo to justify getting the budget you need, which is almost always smaller than the hidden costs.

When the time comes to meet with your CEO or head of Finance, introduce them to the concept of the Bad Hire Budget and walk them through how the hidden costs were calculated. Be sure to mention the sales and marketing leaders made the final calculations-not you. You want to cleverly make it clear this is a discussion about revenue-not people.

With some luck, your CEO will get it. And once the two of you agree there are hidden costs of underinvesting in HR, do two things. First, share the (much smaller) budget of tools and resources you would like to invest in that will virtually eliminate the much higher Bad Hire Budget. Second, try and formalize the Bad Hire Budget as your framework for justifying new operational expenses-because it worked.

Yes, my company Resumator sells recruiting software. But we believe strongly in the value of HR software, period. HR leaders need to be positioned to be part of the revenue engine in more businesses, and the Bad Hire Budget is a framework that just might help you get the respect you certainly deserve.

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MAIN STREET

Meet the Tiny Tennessee Company Supplying Pearls to Tiffany

For the founder's daughter, now the CEO, American Pearl Company is a living legacy to her father's vision--and her own grownup priorities.



BY ILAN MOCHARI  [@IlanMochari](#)

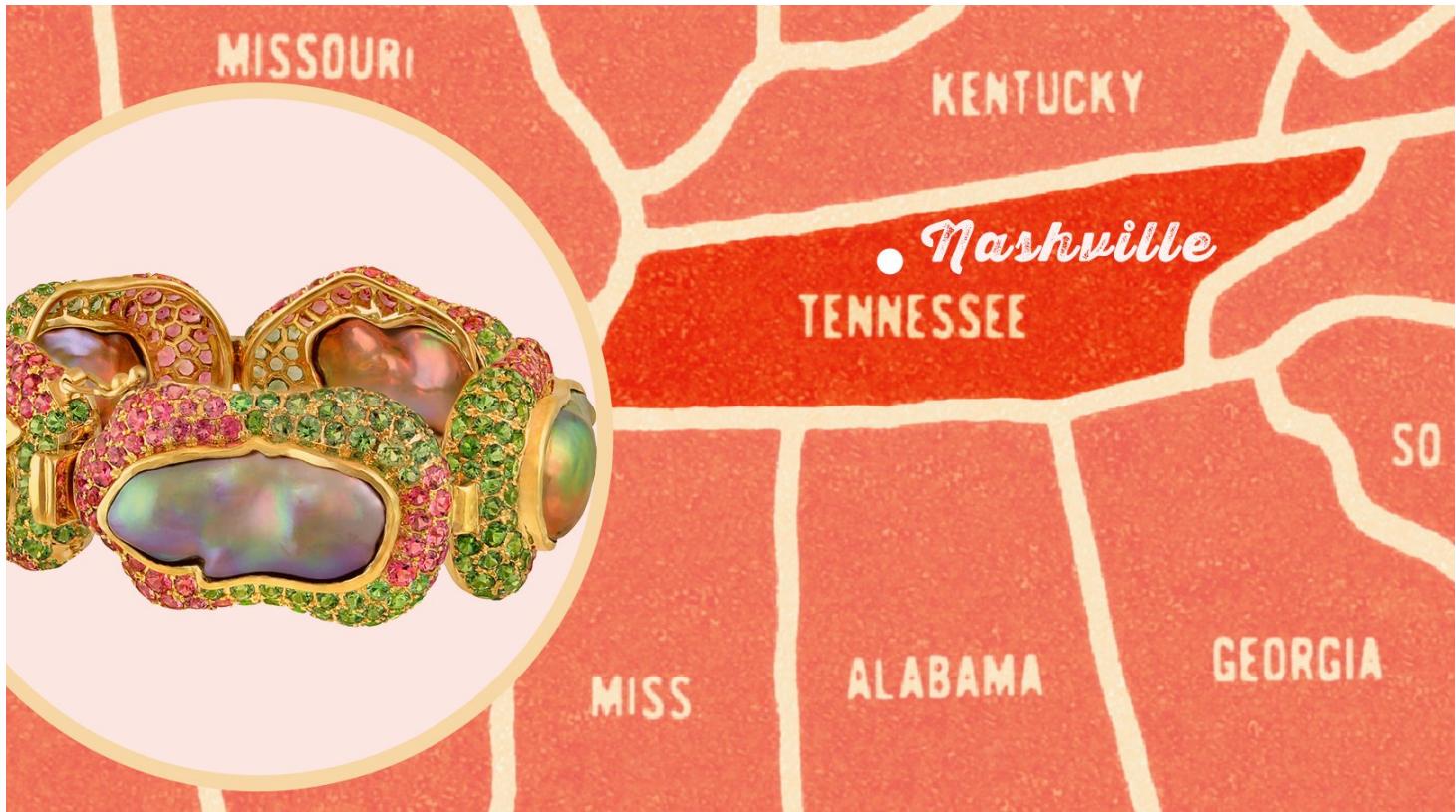


IMAGE: Courtesy company

Editor's note: This tour of small businesses across the country highlights the imagination, diversity, and resilience of American enterprise.

If there were a Henry Ford of the American pearl world, it would be John Latendresse.

Latendresse was a jack-of-all-pearl-trades: exporter, importer, wholesaler, retailer. He bought natural pearls from the divers who found them in the Tennessee River's fertile waters. He also started his own pearl farm, where he cultured pearls by inserting a bead made from a mollusk shell into the tissue of each mollusk. In 1961 he founded American Pearl Company in Camden, Tennessee. The company, now headquartered in Nashville, sells pearls and its own pearl jewelry, and is the largest holder of natural and cultured pearls from North American waters.

John's daughter, Gina Latendresse, grew up in the business. Her father taught her how to measure and sort pearls and regaled her with tales of each gem's lineage. "When he'd take his private collection out--the pieces considered museum-quality--he'd tell me the story about where he got each of them," she says. "What year, what river, why it appeared the way it did, how it came about, or how he was able to obtain it."

Jewelry designer Paula Crevoshay, whose work has been featured by both the Smithsonian and Oprah Winfrey, has been buying pearls from APC for more than 20 years. "I've been able to source different pearls from [Gina] that I could get nowhere else," she says. Crevoshay first encountered the collection at a Las Vegas trade show in the 1990s and was immediately enchanted. "I could not believe how healthy the nacre was," she says, referring to a pearl's iridescent outer coating. Crevoshay's designs often complement the colors of the Latendresse pearls' "orient"--the delicate shimmer of the nacre's secondary and tertiary iridescent colors. Her "Venus Bracelet," shown at the top of this article, features a cultured pearl from APC's collection.

What makes the Latendresse pearls special? Talent, for one thing. John Latendresse was a prolific and inventive farmer. Changing the shape of the bead inserted into a mollusk changes the shape of the pearl, and Latendresse tinkered endlessly with his beads. As a result, he created pearls with all kinds of fanciful shapes: bars, drops, coins, even loaves of bread and duck wings.

Geography is the other contributing factor. The Tennessee River's mineral components cause a particular staining in mollusk shells. When those shells are used to make beads, they help produce pearls with healthy nacres and dazzling orients. In addition, the Kentucky Reservoir once was farmland; that generated lots of plankton--mollusk food--at the bottom. "The American pearl industry grew up around the fact that the healthy mussels were already there," notes Dona Dirlam, director of the Gemological Institute of America's research and information center.

Japanese boom and bust

Among the shapes John coaxed his mollusks to produce was the button, and that's appropriate. Before plastics, the button industry called Tennessee home. Button makers used shells supplied by divers to give their products a pearly sheen.

But for decades much of APC's growth was fueled by interactions with Japan, whose cultured pearl industry--led by entrepreneur Kokichi Mikimoto--played a big part in the country's recovery from World War II. Taking advantage of the boom, John exported shells to Japan's pearl makers--who used them to make their own beads--and imported Japan's pearl products, selling them to retailers in New York City, including Tiffany. Meanwhile, he kept adding to his company's inventory, harvesting thousands of cultured pearls a year on his farm and buying the best of the natural pearls that caught his eye. His company grew to 65 employees.

All the while, Gina watched and learned. There were years in the 1990s when 80-hour weeks were routine. She estimates she spent 25 percent of her time traveling, usually to buy or sell. She also gave pearl presentations at garden clubs and industry conferences. By the time she reached her late 20s, she had a lifetime of knowledge to share and a world-famous family collection to illustrate it.

But then in the late 1990s, Japan's cultured pearl industry began to decline as a disease killed millions of mollusks daily. By 2001, Japanese pearl production had fallen to 20 percent of 1993 levels, and the Asian financial crisis of 1997 had made matters worse. At the same time, China was emerging as a supplier of both shells and cultured pearls. For Japan's dwindling industry, China's low-cost products were preferable to the higher-priced imports from Tennessee.

John died in 2000, and Gina took over the company. Two years after her father's death, doctors found she had breast cancer. "I was told I had 18 months to live," Gina recalls. She was 35 at the time. Her daughter was 2. She outlived the original prognosis and then a second one after that. In 2007 she reached the critical five-year mark.

With markets and her own life changing, Gina chose to focus on what most energized her: honoring and selling the pearls in her father's collection, and spreading the gospel of pearl quiddities to groups hungry for those details. She decided to shut down the farm, something she could do without killing the company. Over decades of production her father had set aside as much as 20 percent of the farm's yield each year for APC's inventory. Gina won't divulge how many pearls are in the collection but says they could "fill a room." Today, that inventory accounts for 80 percent of the company's sales. The other 20 percent comes from pearls that Gina seeks out and imports.

The wholesale price of cultivated pearls in John's collection ranges from \$50 to \$5,000.

The wholesale prices of APC's natural pearls range from a few hundred to tens of thousands of dollars, depending on such factors as size, shape, nacre, orient, and colors.

Determined to live a more balanced life, Gina downsized the business to four people, herself included. She also refined the company's wholesale mission, continuing to serve the high-end retailers (such as Tiffany and Mikimoto) and museum and gallery gift shops that she felt appreciated her family's collection. At the same time, she withdrew from generalists, such as Walmart, JCPenney, and Zales. She still imports and sells pearls from Japan, China, Tahiti, and Australia. On balance, though, the company exports more than it imports, shipping pieces from John's collection to specialty retailers and jewelry artists worldwide.

The bodyguard of pearls

Ask Gina Latendresse about her childhood memories of the business, and she'll describe her 8-year-old self as "the bodyguard of pearls." At conventions, she made sure no one would pocket the displayed gems while her father spoke to a potential customer. If a second customer approached, she was more than capable of answering the person's questions.

John taught her to listen to what people said about his prices as they walked away from the table. "He'd say, 'Now tell me, did they say my prices were higher or lower?'" she recalls.

Now Gina is enjoying similar experiences with her own daughter. Sabrina, 15, has watched her mother give many a gemological presentation. At the conclusion of those talks, Gina will often pass around a real pearl and a fake pearl for the audience to inspect. "Now that you've heard my talk, can you tell the difference?" Gina will ask. "More important, can you tell me *how* to tell the difference?"

Six years ago, before a presentation in Tennessee, Sabrina said: "Mommy, I'd like to close your seminar today." There were 45 people in attendance, and the 10-year-old had never spoken in front of a group before. "So I said, 'OK,'" recalls Gina. "I was curious what she'd do."

Her daughter nailed it, Gina says. "And I still get comments from that group today about my daughter going up there."

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