

Taking the Mystery out of Training ROI

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Topics

- Basic ROI Concepts
- Metrics We Believe In
- Education Department Scenario
- Customer Scenario

Acknowledgements:

Jesse Finn, formerly Interwoven now Taleo

Basic ROI Concepts

- References:
 - How to Measure Training Results – Jack J. Phillips, Ron Drew Stone
 - An outstanding reference with worksheet models to use
 - Expands upon Kilpatrick's prior work
 - Knowledge Advisors – Jeffrey Berk
 - Has some great sample stats from his customers using Metrics that Matter software
 - PeopleSoft Education – a study from 2003

Basic ROI Concepts

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How much will we save?

How much revenue will we get?

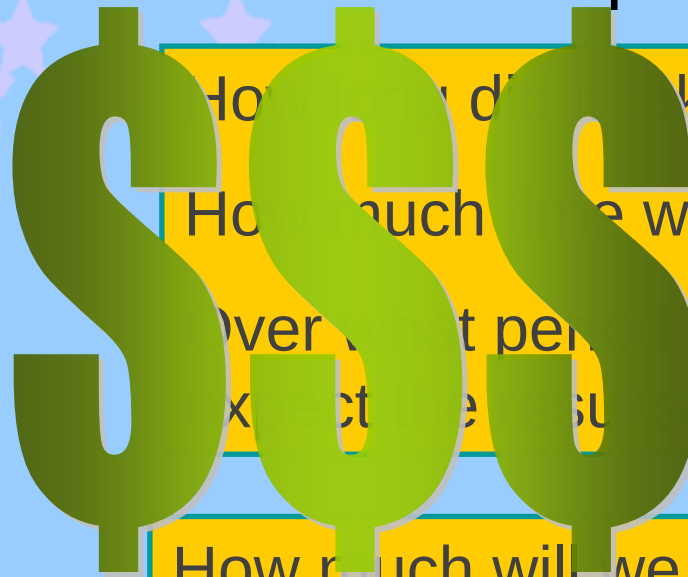
How much more will we earn?

Basic ROI Concepts

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How long does it take to do?

How much time was saved?

Over what period of time do we expect the savings?

How much will we save?

How much revenue will we get?

How much more will we earn?

Basic ROI Concepts

- In each case, there is a Measurable Target Expectation

QUANTITATIVE



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QUANTITATIVE

- BUT. . . There is no one Target – it varies by Situation, Customer, Project
- Your Challenge –



Basic ROI Concepts

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QUANTITATIVE

- BUT... There is no one Target – it varies by Situation, Customer, Project
- Your Challenge –

Establish the Quantitative target meaningful for your project.



Basic ROI Concepts

- Additionally, there is usually a **QUALITATIVE** Indicator
- The “touchy-feely” or “marketing” aspect
- Your Challenge –



Basic ROI Concepts

- Additionally, there is usually a **QUALITATIVE** Indicator
- The “touchy-feely” or “marketing” aspect
- Your Challenge –

Identify a Qualitative Indicator that can be leveraged.



Basic ROI Concepts – Determining Cost



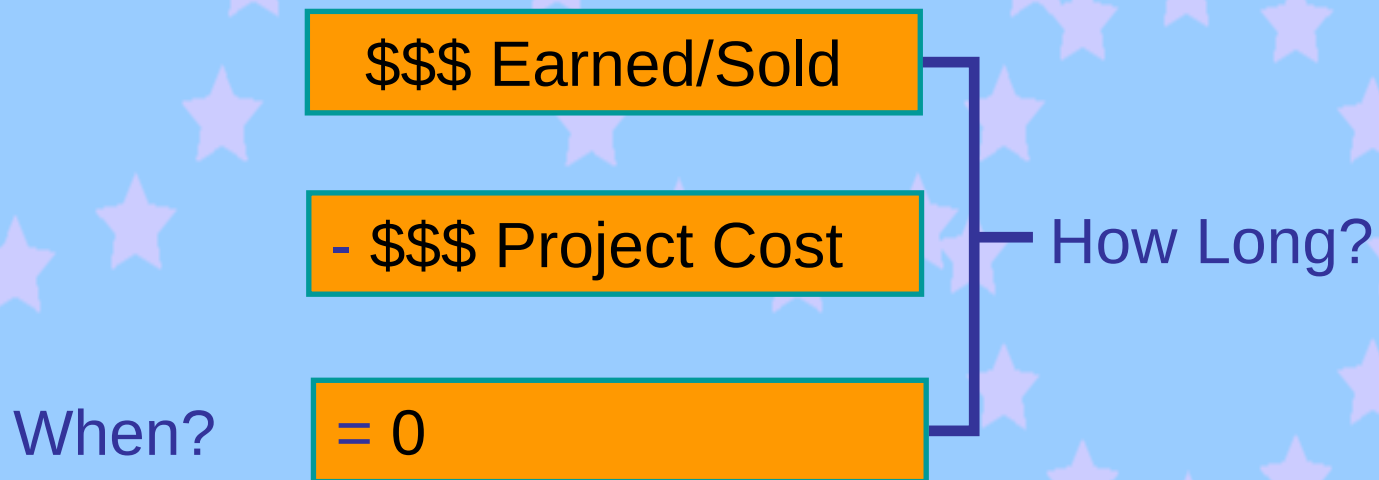
- For our business, mainly Resource costs
 1. Determine fully burdened costs of the project – use:
 - Headcount salary or rate
 - Headcount uplift (benefits, bonus, office space, phone, etc.)
 - Cost of Systems or Tools to be used
 - Other Facilities, Travel or Training costs required
 2. Determine time the project will take
 3. Multiply total of burdened resource costs by project time
- Example: For 3 month project using 1 person + software
$$((\text{Salary} \times 150\%) + \text{Software license annual}) \times 25\% = \text{Project Cost}$$

Basic ROI Concepts - Payback

- Referred to frequently as **Payback Period**
- Length of time it takes to recoup the project costs via the quantitative target results

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- Important for internally focused projects

Basic ROI Concepts - BCR

- $BCR = \text{Benefits Cost Ratio}$
- Compares the targeted benefits to the burdened project cost
- Expressed as a relationship

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- Compares the Targeted Benefits to the burdened Project Cost
- Expressed as a relationship

$$\text{BCR} = \frac{\text{Benefits}}{\text{Costs}}$$

- Example: \$300K new revenue anticipated with \$60K cost

$$\text{BCR} = \frac{\$300,000}{\$60,000} = 5.00 \quad \text{or} \quad \text{BCR is } 5:1$$

Basic ROI Concepts – ROI formula



- Compares the Net Benefits of the project to Project Costs
- Expressed as a % return on investment

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- Compares the Net Benefits of the project to Project Costs
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$$\text{ROI} = \frac{\text{Net Benefits}}{\text{Costs}} \times 100 = \text{___}\%$$

- Example: \$300K new revenue anticipated with \$60K cost

$$\text{ROI} = \frac{\$300,000 - \$60,000}{\$60,000} \times 100 = 4 \times 100 = 400\%$$

- OR one could just use the NET BENEFITS of +\$240K

ROI Targeting

- Phillip's Gives 4 Ways to View Setting an ROI Target
 1. Set the value like other investments, e.g. 15%
 2. Set the value slightly higher than other investments, eg 25%
Training ROI a new concept, particularly for internal projects
 3. Set the ROI at break even (0%)
 4. Set it at the client's expectations
- For the Education business, 2 and 4 are used for ROI, 3 is used for Payback Period

Metrics We Believe In

Determining a Target

Targets For Education Projects

- Need to relate to the overall customer/company result stated
 - What revenue expectation
 - What savings expectation
 - What margin gain
 - Value of a competitive advantage in dollars
 - Etc.
- Need to incorporate credible education outcomes
 - Based on industry studies
 - Sufficient data and reinforcement to be a logical metric
 - Pulled from a comparable business study



Did You Know?

- Training has been determined a key success factor in software implementations –
- “Training and Performance support must reflect the learning needs critical to meeting business objectives. Organizations should realize that if those objectives involve using a new application and/or business process, the proficiency and skill with which people can perform their jobs using the technology and/or business process can mean the difference between organizational success and a wasted investment.”



Did You Know?

- Industry studies over the years have consistently reported that technology training results in. . . .
- . . .average improvements in adoption and task execution speed of between 20% and 30%.



Metrics We Can Use

- Research conducted by New Horizons over a year and a half
 - Their channel training deliveries for Microsoft, Cisco, Citrix
 - **1.5 million** surveys
- . . .38% of productivity improvements directly attributable to training. . .
70% applied training to the job within 8 weeks.

**Validates a 30%
productivity gain metric**



Metrics We Can Use



- PeopleSoft study 2003 – published 2004: Relationship of training on productivity of users (both technical and non-technical)
 - Over 20,000 users surveyed via evaluations and then followed-up 60 days later
- ...reported average improvements in productivity of 18.9% from training - AFTER the 35% Phillips adjustment factor; a 20% improvement in quality.



**Validates a 20%
productivity gain metric**

Source: Knowledge Advisors, and PeopleSoft

Metrics We Can Use



- What is your estimate of lost productivity from lack of training on a new application?
 - Typical knowledge worker struggling with the app
 - “Borrowed” time from the already trained worker
 - Total loss during first month



Metrics We Can Use



- What is your estimate of lost productivity from lack of training on a new application?
 - Typical knowledge worker struggling with the app
 - “Borrowed” time from the already trained worker
 - Total loss during first month
- An industry study conducted 1997 - demonstrated that the lost productivity costs from lack of training were 2 to 3 times the cost of the training \$ proposed.

Gives credence to a 15% productivity loss estimate.





Education Department ROI Scenario

Building a New 1-Day ILT Course

- Parameters and Targets
 - Course needed for key software upgrade of new features
 - Anticipated audience in one year 50% of 300 customers, or 1 student per customer = 150 students
 - Course price to be charged = \$500
 - Revenue target = \$75,000 first year
 - Content Hours = 5.5 hours with labs
 - Development ratio = 30:1, or 165 hours total
 - Project time = 4 weeks (1 month)
 - One course developer assigned – base salary \$75K annually
 - Burdened uplift factor 160%
 - No new tools investment, no other charges
 - Course to be delivered by same instructor for the above deliveries 2X per month to average 7.5 students per class = 15 students/month, 20 teaching days over 10 months

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Costs?

Building a New 1-Day ILT Course

- Benefit = \$75,000
- Project time = 1 month
- Costs
 - Salary x 160% = \$75,000 x 160% = \$120,000 annual
 - Tools cost = \$0
 - Course developer burdened cost for project =
\$120,000 x 1/12 = \$10,000

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 - Salary x 160% = \$75,000 x 160% = \$120,000 annual
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 - Course developer burdened cost for project =
 $\$120,000 \times 1/12 = \$10,000$
 - Instructor burdened cost =
 $((\$75,000 \times 160\%) \times 1/12)) \times 14\% (2/15) \times 10 = \$16,800$
- **Total burdened Project Cost = \$26,800**

Building a New 1-Day ILT Course

- **BCR** = $\frac{\$75,000}{\$26,800} = 2.80$ or **2.8:1**
- **ROI** = $\frac{\$75,000 - \$26,800}{\$26,800} \times 100 = \frac{\$48,200}{\$26,800} \times 100 = \mathbf{180\%}$

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Payback Period:

How long it will take to get \$26,800 in revenue
@ 15 students per month X \$500 per student

$$\frac{\$26,800}{\$500} = \underline{\underline{54 \text{ students}}}$$

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$$\frac{\$26,800}{\$500} = \frac{54 \text{ students}}{15 \text{ per month}} = 3.6 \text{ months} + 1 \text{ mo. dev.}$$

- **Payback Period = 4.6 months**

Customer ROI Scenario

Buying Training for New Software



- **Parameters and Targets**
 - \$500,000 in software being implemented
 - Typical training recommended first year for System Administrators and End Users in Finance = **\$50,000** price tag
 - Time to completion of training =
 - 5 Administrators = first 2 months after shipping
 - 35 End Users = go live at month 4 to month 6 of implementation
 - Assumption = customer workers at avg. \$120K annual burdened cost
 - Customer targeting **\$1,000,000** cost savings annually from software automation and tracking of Finance processes
 - Inherent dependency = Finance starts productive use

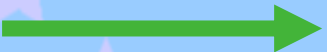
Buying Training for New Software



- Metrics We Will Use – 2 scenarios:
 1. Training = 20% improvement in productivity/use of software
 2. Lack of training = 15% loss of productivity
- Customer target of **\$1,000,000** cost savings annually

Buying Training for New Software



- Metrics We Will Use – 2 scenarios:
 1. Training = 20% improvement in productivity/use of software
 2. Lack of training = 15% loss of productivity
- Customer target of **\$1,000,000** cost savings annually
- 20% Improvement in Productivity = **\$200,000** of the customer's expectation forward  potentially pulled

Buying Training for New Software



Scenario 1:

- Benefit = \$1,000,000 annually
- 20% improvement = \$200,000 from training
- Cost = \$50,000
- **BCR** = $\frac{\$200,000}{\$50,000} = 4.0$, or **4:1**
- **ROI** = $\frac{\$200,000 - \$50,000}{\$50,000} \times 100 = 3.0 \times 100 = \mathbf{300\%}$

Buying Training for New Software



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- **ROI** = $\frac{\$200,000 - \$50,000}{\$50,000} \times 100 = 3.0 \times 100 = \mathbf{300\%}$
- Potential impact on results from customer's software investment:
 - First year of go live = $\$1,000,000 + \$200,000 - \$50,000 =$
 $\frac{\$1,150,000}{\$1,000,000} = 15\%$ improvement

Buying Training for New Software



- Metrics We Will Use - 2 scenarios:
 1. Training = 20% improvement in productivity, use of software
 2. Lack of training = 15% loss of productivity
- Customer target of **\$1,000,000** cost savings annually
- 15% Loss of Productivity = 15% of total workers' burdened cost x 1/12
$$((\$120,000 \times 15\%) \times 1/12) \times 40 \text{ workers} =$$
$$(\$18,000 \times 1/12) \times 40 = \$1,500 \times 40 = \textbf{\$60,000 for one mth}$$

PLUS 8.33% of expected return from the software = **\$83,333**

Total Cost of NOT Training = \$143,333

Buying Training for New Software



Scenario 2:

- Benefit = \$1,000,000 annually
- 15% lost productivity = \$143,333 from NOT training
- Cost of training = \$50,000
- **B/RCR = $\frac{\$143,333}{\$50,000} = 2.866$, or 2.9:1**
- **The customer RISKS losing \$2.90 for every \$1.00 they would have spent on training.**

Remember the 3
to 1 study?

Buying Training for New Software



Scenario 2:

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 $\underline{\$856,667}$ = only get 85.67% of targeted Benefit
\$1,000,000

Buying Training for New Software



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\$1,000,000
- *What happens to payback period?*

Summary



- Know what the targeted benefits are for the project
 - Ask LOTS of questions to get this information
- Use training related measurements that are credible and validated
- Use your own measurements where possible
- Don't be afraid to “borrow” where it serves your purpose
- Lay out the case in \$\$\$\$\$\$, use ROI-related language
- Let ROI projections:
 - Help you determine and sell viable projects for your team
 - Help you sell your customer on larger training investments



WHEW!

- Questions?