

Training...Is It Worth It?

By Sue Mitchell, CEO, MyDAS, Inc., a Liberty Company
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Trainers and organizations work very hard to keep costs for training low and results high. But how do you determine this? Most organizations have a difficult time measuring ROI (Return on Investment) for what they consider "soft dollars" in the training area.

Training requires some type of evaluation process to determine effectiveness. ROI calculations can help you determine:

- Cost for current training programs
- Cost for training programs you are considering implementing
- Payback period, or how long it will take to realize a return on your training investment

Calculating ROI

Determining ROI should be a useful tool for the training department and the organization. It should not be a process that is time consuming and a burden to the person(s) assigned to the task of calculating it.

A familiar ROI formula includes:

$$\text{ROI \%} = (\text{value of benefits} - \text{cost of training}) / \text{cost of training} \times 100$$

While figuring key costs and benefits are important, it is not necessary to get bogged down with pinpointing every single dollar. Establishing a range of results is adequate. Calculating ROI should allow for showing indicators that performance has improved and the improved performance has improved productivity.

Converting "Soft" Expense to Hard Dollars

The first step in calculating ROI is to determine the cost or expenses for the training. With an up-to-date budget this should be fairly simple. Determine if the costs are a one-time occurrence or will be repeated costs based on the number of participants or the number of times the training is delivered.

Examples of cost factors include:

- Equipment/hardware
- Course design, development, or purchase
- Travel, lodging, and meals for off-site training
- Copying, renting, and/or purchasing instructional materials
- Fees to bring in trainer or consultant
- Salary of in-house trainer and staff, as well as figuring in preparation time
- Facility costs-rented or allocated
- Employee time away from work station and loss of productivity

Once costs are determined, then it's time to convert the benefits or improvements into hard dollars.

Examples of benefit factors include:

- Increased revenues due to training
- Decreased losses due to fraud

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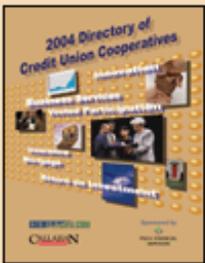
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- Reduced turnover and absenteeism
- “Soft” benefits like better morale, bolstered confidence, and improved communication skills which increase the dollar value of the employee because they are happier on the job and provide better service.

Sample ROI Calculation

To use some tangible, round numbers, let's look at this example:

- Your credit union loan manager, Mary Jones, acquires additional loan-processing skills. These skills will cut her average loan-processing time in half to 10 minutes per loan. Multiplying that by the number of loans she processes in a year, it computes to a savings yield of roughly 250 hours. At Jones' \$27,500 annual salary level, the hours translate into a \$3,500 per year savings to the credit union.
- Also, Jones learns new loan marketing methods that acquired 270 new loans with annual net revenue of \$60,000. Normally, credit union promotions acquire 200 loans with net revenue of \$40,000. Jones earned the credit union an extra \$20,000.
- Add to that the \$3,500 mentioned earlier, and the total benefit to the credit union is \$23,500.
- The cost for Jones' training totaled \$2,500 including tuition, transportation, meals, and other travel related expenses. In addition, there was a \$750 cost associated with Jones' time away from the credit union. Total expenses were \$3,250.
- The ROI calculation looks like this: $(\$23,500 - \$3,250) / \$3,250 = 6.23 \times 100 = 623\%$. The training was a great investment!

Determining Payback

Calculating the payback period is to determine when the training pays for itself. This is done by determining how many months it will take before the benefits of the training match the costs. Payback period can be a measurement that holds a lot of power. If the figure is relatively low, then management will be more willing to invest in the training.

The formula for figuring the payback period is:

$$\text{Payback Period} = \text{Costs} / \text{Monthly Benefits}$$

When looking at ROI and cost benefit analysis, remember that improving efficiency equates to achieving the same results with lower costs. In addition, improving effectiveness equates to better results with the same costs. If one is able to get better results with lower costs, then the ROI will definitely show improved productivity.

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