

How to Determine Training ROI (Non Manufacturing Environment)

Determining Training Return on Investment (ROI)

There are many models to follow when determining Return on Investment (ROI). Very often you can look at your business performance indicators before and after training to determine if training was a success. **ROI answers the question, “For every dollar invested in training how many dollars do I get in return?” Studies show that this figure is nearly always positive.**

- ROI should be measured before and after training to determine the true effect of using *The Leadership Journey*.
- Use conservative numbers so it is easier to sell the ROI figures within your organization.
- Use assumptions that are important to your organization and its’ goals.

Two Common ROI Formulas

Two common formulas for calculating return on investment are a benefit/cost ratio and Return on Investment (ROI).

To find the benefit/cost ratio, you divide the total dollar value of the benefits by the cost as shown in the following formula:

$$\text{Benefit/Cost Ratio} = (\text{Total Dollar Value of Benefits})/(\text{Cost of Training})$$

ROI is determined by subtracting the costs from the total dollar value of the benefits to produce the dollar value of the net benefits, which are then divided by the costs and then multiplied by 100 to develop a percentage:

$$\text{Costs of Training} - \text{Total Dollar Benefits} = \text{Dollar Value of Net Benefits}$$

$$\text{Dollar Value of Net Benefits} \times 100 = \text{ROI Costs of Training}$$

For example, a training program at Magnavox produced benefits of \$321,600 with a cost of \$38,233. The benefit/cost ratio is 8.4. For every dollar invested, \$8.40 in benefits are returned.

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The net benefits are $\$321,600 - \$38,233 = \$283,367$. ROI is $\$283,367$. Using the ROI formula, for every dollar invested in the training, there was a return of \$7.40 in net benefits. (Karl M. Kapp, *Transforming Your Manufacturing Organization Into a Learning Organization*)

How to Determine ROI

We will walk you through the steps to determine ROI. We will use an example from an actual client of ours in the business services industry. They had five managers complete *The Leadership Journey* in a period of 12 months. Those five managers oversee 65 employees. Their training investment was \$5000.

1. Determine what benefits you want to quantify. (See the white paper titled “Quantifying the Benefits of Training” at www.btedemo.com for assistance)

This client was measuring:

- Employee Retention and
- Absenteeism

2. Gather pre and post training statistics for the benefits:

Benefits	Pre Training	Post Training
Employee Retention	95%	98%
Absenteeism	6200 hours yr.	5900 hours yr.

Note: Absenteeism hours are calculated for the 65 employees.

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3. Calculate the dollar value of the benefits.

Employee Retention

- The average employee earnings before overtime are \$45,000.
- The cost of employee turnover from *The Wall Street Journal* is 50% of the employee's annual salary. (Some studies use a figure of up to 150%)
- The dollar value to replace one employee is $\$45,000 \times 50\% = \$22,500$

Turnover before training was 5% or $(65 \times 5\%) = 3.25$ employees year

Turnover after training was 2% or $(65 \times 2\%) = 1.3$ employees year

The difference is $3.25 - 1.3 = 1.95$ employees stay

As a result of training the managers, an additional 1.95 employees stay each year.

The dollar value is $1.95 \times \$22,500 = \$43,875$

Absenteeism

We need a few statistics to use in our calculations.

- 2080 work hours in a year for one employee. (40 hour work week)
- 135,200 hours in a year for 65 employees.
- The average hourly employee wage is \$21.63. ($\$45,000/2080$)

Subtract post training absenteeism from pre training absenteeism.

6200 hours - 5900 hours = 300 hours

After training, employees worked an additional 300 hours.

The value of 300 additional hours is \$6,489. ($300 \times \21.63)

4. Calculate the total dollar value of the benefits from employee retention and absenteeism.

$\$6,489 + \$43,875 = \$50,364$

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5. Figure out the benefit to cost ratio.

Total Dollar Value of Benefits / Cost of Training = Benefit to Cost Ratio

$$\$50,364 / \$5,000 = 10.072$$

For every dollar invested, \$10.07 of benefits were returned.

6. Calculate the net benefits or Return on Investment (ROI)

$$\$50,364 \text{ in benefits} - \$5,000 \text{ cost of training} = \$45,364$$

ROI is \$45,364.

You can use the above examples to help guide you in determining if your training pays! For additional information on *The Leadership Journey* training system, please call Business Training Experts at 1-800-541-7872.