

How to Determine Training ROI in a 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.

The Leadership Journey is a supervisory, management, and leadership training system consisting of 24 courses delivered on DVD, CD-ROM, VHS, and Online.

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 Quickly Determine ROI

1. One manufacturing supervisor went through *The Leadership Journey*.
 - He completed the 24 courses in one year.
 - The cost to train him was \$245.
2. Determine what happened to his team's productivity level.
 - Productivity increased by 22% over the previous years.
 - In previous years, the highest increase the team ever achieved was 3%.
3. If the value of the productivity increase is higher than \$245, you can make an accurate assumption that the training paid for itself. In this case study training with *The Leadership Journey* resulted in at least a 19% increase in productivity.

How to Determine ROI

This study involves one manufacturing supervisor who completed *The Leadership Journey* over period of 12 months. This supervisor had twelve subordinates.

- The cost for this employee's training was \$180.
1. Gather pre and post training productivity figures from the supervisor's team of twelve workers.

Productivity before training = 1000 units month including rejects and scrap

Productivity after training = 1050 units month including rejects and scrap

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2. Calculate the increase in yearly units.

$$(1050-1000) \times 12 \text{ months} = 600 \text{ units}$$

3. Get the previous year's productivity improvements.

For the previous two years productivity averaged 7 additional units a month (84 units a year.)

4. Subtract the previous year's increase before training from the new increase after training.

$$600 \text{ units} - 84 \text{ units} = 516 \text{ units}$$

The yearly increase attributed to training with *The Leadership Journey* was 516 units. (Remember this is only for one supervisor from this company.)

The key to factoring past performance is to get a system that works for you and stay with it. It must be consistent between teams and over time.

5. Find the bottom-line dollar value of each unit.

For this client, the bottom-line dollar value of each unit was \$87.

6. Calculate the dollar value of the increase.

$$516 \text{ units} \times \$87 = \$44,892 \text{ year}$$

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7. Figure out the benefit to cost ratio.

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

$$\$44,892 / \$180 = \$249$$

For every dollar invested, \$249 of benefits were returned.

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

$$\$44,892 - \$180 = \$44,712$$

ROI for one supervisor was \$44,712.

9. Repeat the previous steps for each supervisor that received training. Combine their totals. In this study, the company trained 11 supervisors with *The Leadership Journey*.

For every dollar they invested, \$46.52 of benefits were returned.

Their total ROI was \$364,124.

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.