Calculating the Return on a Training Course

The term, return on investment (ROI), readily becomes apparent when discussing the return on education and training. A recent study conducted in the United States reveals that as many as 67% of the companies listed in the Training Top 100 of *Training Magazine* calculate a return on their investment in education and training. What is the benefit of ROI to a sales manager and what is required in order to produce a simple calculation of the ROI in the case of a sales training course?

by Diederick Stoel

In performance-based organisations budgets are assigned to those departments which can demonstrate the added value of their expenditure. A training manager who wishes to be certain of his educational budget next year, will need to show that his training plan is profitable, preferably with the aid of a ROI calculation. Yet how does one calculate the ROI on a training course? This article will help formulate the answer. It briefly sketches two simple methods which are used by many instructors throughout the world. It will become clear to you that careful consideration can save you a great deal of money, an immediate yield even before the sales training has begun and even before you have produced the final calculation.
Imagine that you spend EUR125,000 on a course. It yields EUR175,000. Your net profit is EUR50,000. This represents a ROI of 40%, namely, EUR50,000 divided by EUR125,000 multiplied by 100%. We will be making EUR0.40 on every euro we invest. This is a simple calculation and therefore easy to perform. However, before we can do this calculation, we will first need to crack a few tough nuts. We can readily list the costs involved but how does one calculate the income? Do we also know that the yield which is evident to us, has been produced by the training?

In order to clarify this, we will monitor the situation prevailing at the car company of Bob Malone, a dealer selling make C vehicles and the proud owner of six branches in the London and Paris regions.

Question	**Example or Answer**
What do we wish to achieve?	Higher turnover.
What results will we achieve?	More orders from sales consultations in which price-based objections are raised.
What do we need to do in order to achieve results?	Financial assistance scheme – deal with price-based objections
What should we be able to do for this purpose?	Go along with things, remove any price-based objections and close the deal promptly.
What is the best way of learning how to do this?	In short courses involving role-plays and actors.

Table 1 Bob Malones' plan

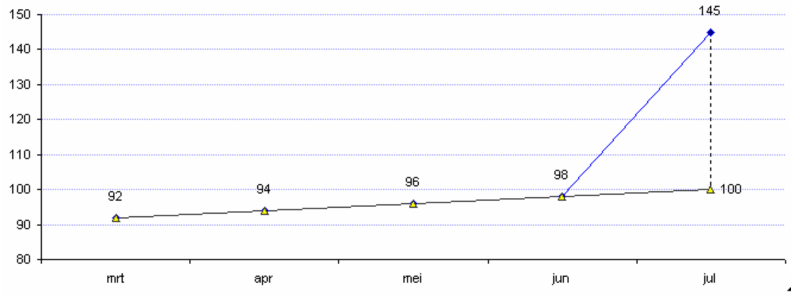

Figure 1 Number of cars sold in the London region.

You will see the impact of training expressed in money and how this impact can be separated from all the other effects.

Operating results
In order to calculate the ROI, you will need to be familiar with your organisation's operating results: the number of quotations, the average value of an order, the number of complaints, share of wallet, productivity, customer retention, rate of turnover, out-of-stock figures, the ratio of fast to slow movers, market share, quality, customer loyalty, customer satisfaction and so forth. If all is well, as a sales manager you will have these figures at your fingertips. You should therefore ensure that your sales administration system, or part of it at the very least, is in good shape. Let us now have a look at how Bob Malone establishes a relationship between the activities in its training venues and its sales figures.

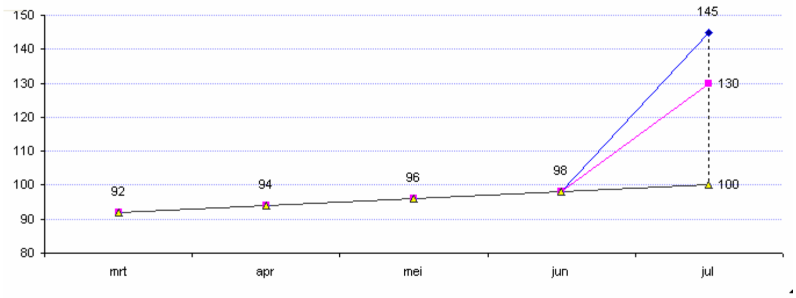

Figure 2 Number of cars sold in the London region compared with the Paris area.

		Top 5	Sales 01.01-30.06	Forecast 01.01-31.07	Sales July	Sales 01.01-31.07	Difference
1	[2]	B make	31.761	37.055	7.822	39.583	+47,8%
2	[1]	A make	32.650	38.092	5.354	38.004	-1,6%
3	**[3]**	**C make**	28.574	**33.336**	6.111	**34.685**	**+28,3%**
4	[4]	D make	24.172	28.201	3.544	27.716	-12,0%
5	[5]	E make	24.112	28.131	3.555	27.667	-11,5%

Table 2 Figures for car sales in July 2006

The Bob Malone firm

The sales figures for the C make of cars has been stagnating for some months now. Growth is occurring in dribs and drabs. Legislation has also had the effect of pushing up average vehicle prices sharply. The importer of the C make of cars has introduced a financial assistance scheme: buy now and pay next year, interest-free. This stunt is supposed to get people to take the plunge. The campaign launch is scheduled for 1 July 2006. The Bob Malone car company, a make C dealer with six branches, seizes the opportunity to provide short but intensive training for his staff. The subject is closing a deal in the face of a price-based objection.

- **Purpose** to persuade hesitant customers to avail themselves of the financial assistance scheme promptly and smoothly, and in a professional manner.
- **The schedule** first a pilot project running in three branches in the London region at the end of July followed by those in the Paris area at the beginning of August.
- **Cost** EUR75,000 including analysis, and the design, implementation and evaluation of the training course.

Bob Malone has thought carefully about its objective in terms of results: secure more orders from sales consultations in the course of which price-based objections are made. In addition, Bob Malone has established a link between the features of this training and the results which it expects (Table 1). The plan appears to be sound. Let us take a look at how Bob Malone's idea pans out in practice. July was a top month for the London branches. Figure 1 shows the sales figures for the three branches in the London area. These figures rose sharply in the month following the training. If we analyse the trend, we can see how sharply it is reversed: 45 additional vehicles compared with the previous six months. This represents an increase of 45%. Yet can we ascribe this reversal of the trend directly to the training? The financial assistance scheme has also contributed to this success. By the same token, we might also have achieved identical results without any training. This raises the following challenge for us.

Training responsible for success?

What proportion of this success has the training accounted for? We need to know this in order to calculate the ROI for this course. The next question is how we will manage to separate the training's impact from other effects. One can use various techniques for this purpose. Here we will deal with two: a control group and producing an estimate based on a focus group.

Control group

In Figure 2 you can see the sales figures for the three Bob Malone branches in the Paris region which did not receive any training. The turnover of these three 'control' branches also rose in July – by 30% – yet the London branches still managed to sell fifteen vehicles more and this is due to the training. If we assume that all other circumstances were identical, the additional sales success must have been due to the training. Alternatively, did anything strange happen in Paris?

For the sake of certainty, let us check how our fellow make C car dealers performed in July. We have prepared the list shown in Table 2 based on the breakdown that is published in the national daily newspapers every month.

You can see that the financial assistance scheme also had a national impact. In July 28.3% more make C cars were sold compared with the previous six months. This corresponds to the results achieved by the three 'control' branches. Our theory is standing its ground for the moment. The extra increase appears to be due to the training. Yet how sure can we be that this is the case? We will return to this at the end of the article. Let us have a look at what the ROI amounts to so far. First let us consider some facts. Sales of fifteen additional cars represent extra earnings of EUR120,000. The cost of the course, including analysis, development and evaluation, is EUR75,000. The ROI can be calculated as follows. EUR120,000 minus EUR75,000 amounts to a net profit of EUR45,000. Dividing EUR45,000 by EUR75,000 and multiplying it by 100% produces a ROI of 60%.

It would appear that the cost of the course has been recouped within a month. Bob Malone is even left with EUR45,000. This is a nice sum to use to pay the instructor and the course developer in August. Based on these figures, the company proceeds with its training.

Focus group

In practice it is not always possible to work with a control group. In order to isolate the effects of the training, you can also always use estimates. If you proceed with estimates, it is preferable to do this with a group of people who know what factors will determine the success of your sales apparatus based on their experience. We refer to such people as a focus group. So how do we do this?

- Allow the focus group to see the sales figures (45% increase in July).
- List the factors which it is reasonable to assume were decisive for the increase, in this case the financial assistance scheme and the training.

- Have every member of the group estimate the extent to which these factors had the effect of boosting turnover.
- Express their varying breakdown of the impact in the form of a percentage.
- Have everyone state how certain they are of their opinion.

At the end of such a session, which need not last longer than one and a half hours, you will have isolated the course's impact. The focus group estimates that the training accounted for 31% of the success and is 71% certain of this on average. In the opinion of those people who understand these matters, the added value generated by the course amounts to no less than 22% (71% of 31%). For the sake of caution, we will calculate the ROI based on 22% of the net profit, hence 22% of 45 additional vehicles multiplied by a profit margin of EUR8,000. This represents a yield of EUR79,200 thanks to the training. If we compare this income to the cost involved – EUR75,000 – it is the focus group's view that the ROI amounted to at least 5.6%. In this example the focus group has also come to the conclusion that Bob Malone recouped the cost of the training in one month.

Attendees Focusgroup

Mr. Bob Malone - dealer	80%	20%	60%	isolation
Semantha Garner- zone manager	70%	30%	70%	factor
Rebecca Sanders- salesmanager	60%	40%	60%	Max.
David Maguire - salestrainer	70%	30%	80%	43,7%
Karen Rutherford- manager	70%	30%	60%	
Timothy Maher - manager	80%	20%	90%	
Richard Keane – salesrep	70%	30%	70%	
Robin Aitken– salesrep	60%	40%	70%	Isolation
Kylie Wansborough - salesrep	70%	30%	80%	Factor
Blake Turner- salesrep	60%	40%	70%	Min.
	69%	**31%**	**71%**	**22%**

Table 3 Focus group results

Which ROI?

We have calculated the ROI in two ways, once with a control group (60%) and once with a group of experts (5.6%). So now we have two ROI figures. Which is the correct one? In scientific terms, the method using a control group is the more reliable one for research purposes, but a ROI of 60% in a single month? The focus group method is not as objective as the one using a control group, yet the people who have any say in the Bob Malone organisation, fully support the training. If Bob Malone has managed to generate support for the training in any way, it has been with the aid of the focus group. Which ROI do you prefer: 5.6% or 60%.

Accuracy

Both ROI figures are correct in any case. The difference lies in the method used and the precision with which one draws a conclusion about the course's yield. This accuracy is important if you need to choose one of these two methods in practice. Let us go through the facts again one by one. The focus group has concluded that the added value amounts to about 31% of net profit. They are 71% certain of this. It could therefore be more but, by the same token, it may be somewhat less. In order to express this uncertainty, we can say that the course yielded between 22% and 43.7% of net profit. This is to say that the experts estimate that income amounted to between EUR79,200 and EUR157,183. Rounded off, the ROI lies somewhere between 5.6% and 110%.

A control group's findings are much more precise. We will ignore the statistical reasons for this here but the data reveals that we can say with 95% certainty that the ROI for the course varies between 48% and 75%. The variation in accuracy is shown in Figure 3. The truth literally lies in the middle.

Precise knowledge

Let us return to your own situation. Now which method should you use to calculate the ROI? This depends on whom you wish to show the figures to. Do your stakeholders take your word for it that the course pays? Alternatively, would they prefer to see a ROI figure with a reliability factor of 95%? What is required in order to prove that your training courses produce added value? Also, how much money are you prepared to earmark for this purpose? The answer to these questions will determine how you will demonstrate the return on your investment. The moral of the story is that there is a world of difference between faith and knowing something for sure. It is worth one's while to investigate this world.

In this article you have briefly seen how you can calculate the ROI for a sales training course. You also know what you will need for this purpose: a sales administration system, reliable sources, a healthy dose of common sense and a proper sense of perspective.

In addition, you have seen what a ROI calculation can produce. With the aid of systematic evaluation you will discover your training 'darlings' and 'disasters'. Large profits can be achieved by utilising your

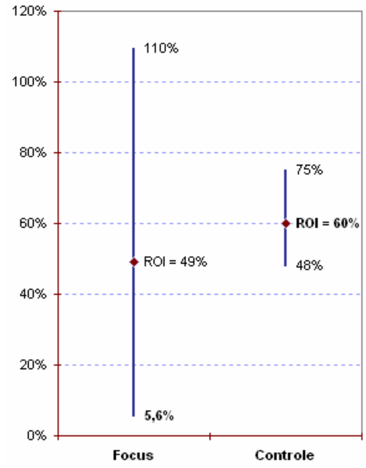

Figure 3 The truth lies somewhere in the middle.

ROI calculations to improve your training programmes. This will ensure that you will later emerge from the recession with your sales team more rapidly than your competitors. Here is one last tip: have your sales staff express their view of the ROI of their training after they have attended a course, as in the case of the focus group. You will then not only have an indication of your anticipated return but you will also be facing in the right direction, namely, looking forward to profit!

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