Eduson

Learning. Better.

Online courses for employees with practical cases of leading US companies

Justifying Elearning: ROI and Key Metrics

—

WHY CALCULATE ROI?

Elearning specialists constantly face a lot of 'why' questions:

— **Why is eLearning indispensable for the company?**
— **Why does it need special (and increasing) budget?**
— **Why can't online courses be replaced with conventional mentoring or training?**

It isn't always easy to prove the worth of eLearning.

WHY CALCULATE ROI?

Like any other cost center in the company, L&D department has to show that it delivers real benefit to an organization. If it can't demonstrate such value, then it is likely to not get support within the company.

Every L&D specialist can easily name a number of reasons why a company should take advantage of eLearning programs. Flexibility, standardization, repeatability, accessibility and convenience are the first to come to mind. But not for the senior management.

Studies show that companies are still skeptical about the value of free online courses (today 70% of employers still do not trust the credibility of their completion).**

« There is money for training but it has to show that it improves sales or performance; if it doesn't it's not considered important.*

As executives watch eLearning budgets grow, they need clear evidence showing that eLearning programs can really help performance. To that end, the use of return-on-investment is emerging as an essential part of L&D evaluation system.

*The Learning Insights Report / City & Guilds Kineo, e.learning age
** "Moocs are treated with suspicion by students and recruiters" / Della Bradshaw

3

FOR WHOM?

As a training professional, your view of ROI may vary from the executive team's. Your primary job is to make sure that the budget allocated for training is used in the most effective way: employees get the knowledge they need in the way they prefer. Unfortunately, this isn't always easy to explain to other significant team members.

* 2014 Corporate Learning Factbook / Bersin by Deloitte

CEO/CFO

At the C-level, it's all about quarterly and annual revenue and earnings. Most importantly, managers at this level are first and foremost focused on 'hard dollar' (tangible) measurement. While qualitative value of eLearning may seem quite vague, calculating ROI will provide them with quantitative results and enable decision making.

L&D staff

Corporate trainers can form a strong inner opposition to eLearning development. They often consider digital courses as a competitor threatening their jobs, and their fear is not rootless. The spendings on corporate training constantly grow (over $70 Billion in the US in 2014, according to Bersin by Deloitte) and trainers' fees account for ½ of that costs.* Therefore, they are interested in eLearning (which eliminates most of these costs) being underestimated.

Employees

Sometimes eLearning specialists need to overcome their colleagues' resistance, especially where the elder generation is concerned. In some cases up to 85% of employees prefer traditional instructor-led classes instead of digital learning. Demonstration of ROI can help decrease the level of resistance among the staff and show how it saves the money for the company's rapid growth.

« A sharp increase in sales can be a consequence of a well-thought education. Or that the competitor's store has just closed and consumers have no choice but switch to you.
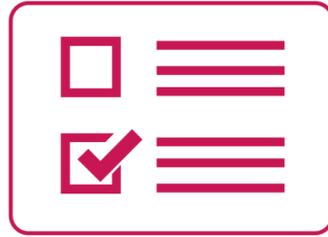
P. Bezyaev
Head of Knowledge Management Department, Gazprom Neft

WHAT WE DO INSTEAD OF ROI CALCULATION

Employees' Feedback

Control Questionnaires and Tests

Control Groups

HR Metrics

WHAT WE DO INSTEAD OF ROI CALCULATION

Employees' Feedback

Often L&D departments collect feedback from the employees to understand how well the training was perceived. Did they feel that the course was a valuable experience? Did they like the topic, the material, the way it was presented? The employees' opinion is definitely valuable but it has nothing to do with the real and tangible impact of eLearning on business goals evaluation.

Control questions and tests

How much has the trainees' knowledge increased as a result of the training? It's important to measure this, but again, the fact that employees know what to do does not guarantee that they apply this knowledge.

Control groups

After the digital course completion the staff who did not take the course is used as a control group. Then the production results of the two groups are compared in order to find any correlations. The use of this approach appears to be reasonable only for the simple and short-termed processes (e.g. lead response time, number of solved tickets, etc.). While most of business processes are much more complex, the control group method proves to be insufficient.

HR metrics

Sometimes the level of employee retention, satisfaction and loyalty may be considered as a result of successful eLearning. But the other factors such as salary, career opportunities, corporate culture, etc. can turn out to be much more important for the people.

WHAT IS ROI OF ELEARNING?

Here the "value" can be viewed from several different perspectives:

- **Efficiency**   *Achieving **the same** results with **lower** costs*
- **Effectiveness**   *Achieving **better** results with **the same** costs*
- **Productivity**   *Achieving **better** results with **lower** cost*

$$ROI = \frac{Value\ (Positive\ Impact\ of\ eLearning)}{Investment\ (Costs)}$$

The "investment" here means the cash devoted to a project, as well as less tangible items, such as the opportunity costs of having employees in training rather than on the job.

8

APPLYING ROI FORMULA

To fully compare the value of eLearning to the value of an instructor-led program you need two comparable studies with the same calculation process in which a string of benefits and costs is developed for both scenarios.

This can result in radically different cost amounts, because of the savings generated with travel, lodging, classroom facilities, instructor cost, etc. If the ROI is higher for the eLearning delivery alternative, then it represents a good approach from the economic perspective.

« *To train 3,000+ employees by sending them to classroom training was both price-prohibitive and not as effective as it could be. We improved the interpersonal skills of our Sales Associates through delivering eLearning solution and dramatically improved our performance results**

* Ken Gregson, Director Variable Operations, Learning & Performance, AutoNation / www.alleninteractions.com

COSTS & BENEFITS

Investment (or cost)

This component addresses the question *"What will it cost me to put eLearning in place?"* and includes:

— **Personnel**
— **eLearning Technology**
— **eLearning Content**

Return (or benefit)

This component of the ROI addresses the question *"How will embracing eLearning help me?"* and includes:

— **Eliminated travel and lodging costs**
— **Decreased instructor costs**
— **Decreased employees' work time spending**
— **Flexibility**
— **Minimum disruption**
— **Personalized learning**

« *According to Bersin by Deloitte, there are over 500 LMS vendors on the market.* Their price may vary greatly from one platform to another, so each company can find a solution at a reasonable price (e.g. Eduson LMS + Course Library price starts at $5 per employee per month).*

THE INVESTMENT

Personnel

This investment unit consists of cost of people (both internal and external consultants) that will be needed to build the program. Personnel costs may seem straightforward to identify and track, but not always, especially when existing staff are pulled into an eLearning team while also playing other (non-eLearning) roles.

eLearning Content

Major costs should also include content development (in case unique content needs to be created), or ready-made content acquisition costs.

eLearning Technology

eLearning is largely a technology driven process.
When calculating the cost for technology, organizations must consider what new technologies (Application tools, Virtual Classrooms, Learning Management Systems, Remote Learning infrastructure etc.) are needed, as well as the cost of changing any existing technology.

Also, in some cases organizations need to tailor newly acquired technology to assimilate it into the company's existing IT infrastructure.

THE RETURN (1/2)

Eliminated travel and lodging costs

Training-related travel and lodging costs are the biggest reason large corporations implement eLearning. These costs are a major component of any ROI calculation, and eLearning can dramatically reduce such costs.

Decreased instructor costs

No matter whether the training is led by a famous coach or a company staff member, it is always much cheaper to have this person record the lecture once than speak in person at each location for many times.

Decreased employees' work time spending

eLearning offers individuals and groups of learners the flexibility to learn anywhere and anytime. As it turns out in practice, a large part of employees prefer to take online courses on their way from home to work, as well as on weekends and vacations.

« *Typically, the time an employee must spend being trained is reduced by about 40% using eLearning (cases of Xerox, IBM and Federal Express)**

* E-Learning Benefits and ROI Comparison of E-Learning vs. Traditional Training / SyberWorks.

THE RETURN (2/2)

Flexibility

The benefit of flexibility can be measured in terms of a cost. For instance: how many employees don't learn (how to follow a new process, or how to operate a new tool) because of a rigid learning schedule, and what does it cost the company as a result?

Personalized learning

Even within classrooms of apparently homogeneous learning groups there will be "outliers" who hold back the learning pace of the entire group. With eLearning, individuals can learn at their own speed, due to personalized learning, which is more efficient in delivering content.

Minimum disruption

Any disruption to a company's standard operating procedures has a cost associated with it. ELearning causes minimum disruption to an organization's "routine". For example, orders might be delayed, schedules may be changed, inventory might not be updated – all because staff members are at offline training. Companies could hire extra staff, or pay employees overtime to complete their usual tasks after hours. That adds to costs too.

« IBM eLearning program for managers enabled them learn 5 times more material through eLearning — without increasing time spent on training.

14

EXAMPLE OF ROI CALCULATION

Example of ROI Calculation

Positive Influence of Learning on Business Indicators	Benefit
Increased production performance	$0
Rapid newcomers onboarding (they dive into the work faster)	$2,250,000
Better personnel assessment	$2,160,000
Successful sales and negotiations	$156,000
Better done slides and financial models	$15,600
Correct project management (goals, deadlines, budgets)	$4,680
Higher level of business communications (emails, calls, meetings)	$720,000
Increased employees' loyalty and retention	$150,000
Total Benefit	**$5,456,280**
Annual Eduson.tv subscription price	$100,000
ROI	**5356%**

This is how we calculated ROI of eLearning project for one of our clients (a financial organization).

You can use this template or create a new one for your company.

Download here the excel model to calculate ROI for your company.

15

ROI CALCULATORS

Free ROI Calculators:

No time for creating customized ROI calculation? There are some ready-made eLearning ROI calculators which can be useful for evaluating online training performance:

— www.caelearning.com

— www.bridgefront.com

— www.aadm.com

Complete the fields to calculate and compare the costs of online and instructor-led training.

SO, WHAT SHOULD L&D MANAGERS DO?

Of course, the main work starts after an eLearning ROI is being calculated.

The main questions that should be asked when you know the exact figures are:

« How can we decrease costs?

« How can we achieve better results?

« For each dollar budgeted for corporate training, 80% goes to administrative overhead, and just 20% goes to the core instructional design process.

SO, WHAT SHOULD L&D MANAGERS DO?

Although there could be no universal tips for improving ROI of eLearning, some points are quite common for any kind of organization:

There are always some administrative costs that could be lowered. Identify "black holes" that consume your training budget and get rid of them.

When planning training curricula, address real and high-leverage skill/knowledge gaps, not perceived or just-in-case/just-because needs.

Always consider outside vendors of eLearning courses, especially where the common topics and skills are concerned. Why spend thousands of dollars and hundreds of hours developing a new course, if you can purchase a ready-made one at a reasonable price?

Identify "black holes" in your training budget and get rid of them!

« *The Bank of New York Mellon, discovered that it had more than 9,000 courses in its global training catalog and fewer than 10 percent of those were being used*.*

* Predictions for 2014 / Bersin by Deloitte,

HOW TO APPLY ROI FOR EXECUTIVE DECISIONS?

Try to think like a CEO/CFO

Imagine their arguments trying to influence decision on training objectives, budget and tools. Be able to talk the language of ROI and address hard dollar ROI requirements. Show that you get clear understanding of the company's goals and willing to pursue them – to increase shareholder value through performance and cost containment.

Explain the value of qualitative benefits

Propose your management to consider the contribution of soft dollar qualitative results of eLearning. Work hard to tie your proposals for budgets, timelines and tools to metrics that connect to hard dollar ROI performance and added value. These messages play a significant role in increasing the proportion of annual budgets devoted to eLearning projects.

In conclusion, it is important to understand that eLearning is not only an attractive solution in terms of economic downturn but it is also an efficient and cost-effective solution when employees need to be quickly educated on relevant knowledge and skills, in spite of their location and time zone. By accurately calculating the cost of a training program, eLearning professionals will be able to easily justify the investment in the program and decide if eLearning is ultimately a viable solution.

Eduson

Learning. Better.

Demo for companies