

# Are You Getting The Most 'Bang' For Your Online Training Buck?

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This white paper provides a blueprint for anyone who wants to determine where online training dollars can have the greatest impact in their organization.

It introduces the E-Learning Predictive Model (EPM), and presents a real-life example of how an EPM analysis uncovered a 2,200% ROI E-Learning opportunity for a \$2 billion company.

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**May 2004**

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## Executive Summary

This white paper provides a blueprint for anyone who wants to determine where online training dollars can have the greatest impact in their organization. It discusses the E-Learning Predictive Model (EPM), a three-step process of 1) identifying a performance issue and determining if training is the solution, 2) using ROI tools to determine the bottom-line business impact, and 3) using gap analysis to determine which specific training solution will have the greatest impact on the bottom line. It concludes with a real-life example of how an EPM analysis found a 2,200% ROI E-Learning opportunity for a \$2 billion company.

# Ever Wonder If Your Online Training Budget Is Being Spent The Right Way?

## The Challenge

In this economy, every dollar counts. Budgets are tight. And you're being held more accountable for your decisions every day.

Especially when it comes to online training. You develop (or purchase) courses for your employees. You let people know they're available. You may get some initial feedback that the courses are fun and that people are actually learning something.

But how do you know if all that hard work is REALLY improving the bottom line?

If your supervisor stuck his or her head in your office tomorrow and said "have a report on my desk in three days with an analysis of how that E-Learning we just launched has directly impacted the bottom line", what would you do?

John Wanamaker, the department store mogul, once said, "I know half the money I spend on advertising is wasted, but I can never find out which half."

Does that hit a little too close to home when it comes to your E-Learning dollars?

## "We Have No Idea How To Measure The Success Of Our E-Learning."

Trying to take a limited budget and spread it across all the requests for training that come from department managers, product managers, sales, marketing – it's tough. Sometimes new product training is the priority. Sometimes it's whatever management fad is currently in vogue. Sometimes the federal government steps in and mandates training - making your decision for you. And once you get training in place, measuring the success of that training can be just as difficult.

## The Problem

E-Learning experts have estimated that less than 5% of the courses offered in corporate America get measured for *bottom line business results*. So most companies have no idea if, or how, their online training investment will pay off.

# Predict The Financial Impact of Any Course – Before You Develop It

## The Solution

There is a method of predicting the bottom-line financial impact of any online training solution *before* you invest the time and money to build it. We call it the E-Learning Predictive Model (EPM).

This model follows a three-step process:

- Identify the current processes and measurements already in place in a department or organization.
- Use that analysis to determine how training could positively impact that department or organization. Develop a Return On Investment (ROI) model to predict the financial impact of that training investment.
- Use “gap analysis” to determine which courses should be offered first for maximum impact.

## 2,200% ROI: A Real Life Example

Here’s how the E-Learning Predictive Model worked for one of our clients: a \$2 billion building products company.

This company makes building products that architects, commercial and residential builders and contractors use every day.

And in interviewing the sales force, we helped identify an inefficient sales process. One that was potentially costing this company hundreds of thousands of dollars in sales each year.

Let’s apply the EPM to this example and see how we found a 2,200% ROI opportunity.

## ***EPM Step One***

### **Identify the processes and measurements already in place.**

Our client's sales force was making a potential tactical mistake - waiting until an architect had already specified this generic category of building products in their plans. The sales force was then forced to concentrate on selling their specific solution to the contractor, whose primary job became to 'shop' for all the materials the architect had specified.

It led to a "commodity product" mindset for both the architect and the contractor, and resulted in an intense competition for sales - sales that tended to be based on price and not value.

Our theory: if we better educated architects on the generic properties of this particular group of building products, we would be providing valuable knowledge to those architects. As a result, they might be more inclined to *specify our particular brand in their plans, rather than a generic category*. The contractor would automatically purchase our brand as specified, and we would pre-empt the competition.

Simply put – by pushing this particular brand further up the decision chain toward its origin, our client would increase sales and steal market share from the competition.

An interesting theory, but would it make financial sense?

## ***EPM Step Two***

### **Use the analysis from Step One to determine how training could positively impact that department or organization. Develop an ROI model to predict the financial impact of that training investment.**

We visually mapped out the process, and began to attach cost savings and revenue gains to that process. We found four main areas where we could either cut costs or increase revenue – simply by offering online product training to architects. A summary of those savings is shown in the table below:

<b>Revenue Source</b>	<b>Financial Savings / Gain</b>	<b>Rationale</b>
1. Eliminate costs of travel and classroom training	\$ 185,000	The client estimated the costs to go out on the road and train architects face-to-face, versus the costs of providing that training online.
2. Increased business from existing architects	\$ 425,000	The client estimated how much additional annual revenue could be gained from the existing client base.
3. Increased business from new architects	\$ 235,000	The client helped calculate how many new architects they thought they could sell to in the first year, based on the competitive advantage of this new training program.
4. Increased lifetime customer value (LCV)	\$ 640,000	We ran a three-year LCV calculation to show that increased loyalty to this brand would result in decreased customer erosion. Contact us for the specific LCV calculations.
<b>Total</b>	<b>\$ 1,485,000</b>	

*Added bonus:* Architects need to complete 18 credits' worth of continuing education each year. The online training courses we identified through this analysis are eligible for American Institute of Architects (AIA) certification, which will provide additional benefits to the architect.

### ***EPM Step Three***

#### **Use “gap analysis” to determine which courses should be offered first for maximum impact.**

Gap analysis is a powerful business tool that can be used to identify and fill training and/or knowledge gaps. There are three main phases in the gap analysis process:

- *Phase One:* map out the actual process architects use in specifying this category of building products.
- *Phase Two:* survey architects to determine two things: how *important* each step in the process is, and how much *knowledge* they have of each step in the process.
- *Phase Three:* look for the areas where “importance” is high, but actual “knowledge” is low. These are the obvious “gaps” in the process. Determine if online training is the best way to plug those gaps. Build curriculums and individual courses if appropriate.

The gap analysis suggested five main knowledge areas where our client could offer training to improve the architects' ability to accurately specify the correct building product. This had a number of benefits to the architect. One benefit was to make them more knowledgeable and professional. A second benefit was to potentially decrease the liability the architect might have by specifying the wrong product, or the wrong application of a product.

A curriculum for architects was developed, and then five individual courses were ranked according to priority. The first course has already been completed and launched, and the second course is currently under development.

Finally, we need to run our ROI calculations for this architect curriculum:

Total financial benefit	\$1,485,000
Online course development costs	\$63,500
Net financial benefit	\$1,421,500
<b>ROI</b>	<b>2,238%</b>

The ROI was calculated by subtracting the course development costs (\$63,500) from the total cost benefits (\$1,485,000), dividing that sum (\$1,421,500) by the course development costs (\$63,500), and then multiplying by 100 to calculate a percentage. Remember, these cost benefits are estimates. The challenge with this model (or any predictive model) is to accurately estimate the cost savings and/or revenue gains, and then measure the actual success of the program when complete. Our client is four months into this program; so actual ROI figures won't be available until FY2005. Your mileage may vary.

## Could You Sell 2,200% ROI To Your Organization?

Maybe not.

2,200% ROI is a pretty outrageous number. Your organization might laugh out loud if you handed them a financial analysis like this.

So here's what we did for our client that *got the program approved on the spot*.

If you really want to be conservative in your predictions, convert your numbers to *net profit*. The net profit margin in the building products industry is about 5%. That means for every \$100 our client earns, it only keeps \$5 as pure profit. The other \$95 goes for salaries, plants, equipment, inventory, etc.

We decided to be as conservative as we could in our analysis. So we took the net financial benefit (\$1,421,500) and multiplied it by .05 (5%) to convert it into net profit.

That comes out to \$71,075. Now, if you run your ROI numbers with this new figure you get a more conservative ROI of 112% ( $\$71,075 / \$63,500$ ).

When our client saw a 112% projected return instead of a 2,200% projected return, they approved the program immediately.

## **A Low-Cost Way To Determine Which Training Courses Can Have The Greatest Strategic Impact On Your Organization**

Remember, you can use this model to predict *ahead of time* which courses will have the greatest strategic and financial impact on your organization. The analysis can be done upfront, before any significant investment in training is made.

In order to completely evaluate *your* situation at *your* organization, you'll obviously want to apply this predictive model to *your* particular business.

And to do that, we'll need to work together – which means we'll be investing some of *our* time and *our* intellectual property.

Our investors won't allow us to do that for free. But here's what we *will* do.

We'll give you a FREE, two-hour initial consultation. We'll come to your company (or do it by phone, if you're not in the Denver area). We'll even bring the coffee.

Here's what you will get: a highly effective two-hour brainstorming session. We'll talk about your company, your departments, your people, and your performance challenges. We'll try to uncover any performance issues in that timeframe, so we can decide together if online training might improve your bottom line.

Here's what you won't get: a two-hour sales pitch or lots of useless questions.

You *want* to do the best job you can for your organization. And you *want* to measure the results of what you do, so you can show value. We have the tools to teach you how to do that, and the skills to help you develop courses that get *results*.

For your free initial consultation, call us today at 303.570.7475, or email us at [info@digital-latitudes.com](mailto:info@digital-latitudes.com).

## About the Company

Digital Latitudes, Inc. designs and develops E-Learning and content development strategies, online learning courses, web-based marketing programs, Learning Management System (LMS) strategies, and curriculum management and certification programs that *get results*. For more information, visit our website at [www.digital-latitudes.com](http://www.digital-latitudes.com).

## About The Author

*Paul Hilbink – Principal, Digital Latitudes, Inc.*

Paul has 20+ years' experience in marketing and business strategy for various companies like Apple Computer, Hewlett-Packard and Sun Microsystems. He also has experience in E-Learning consulting, instructional technology, curriculum design, media selection, authoring, project management and ROI methodologies. Paul has an MBA from Indiana University.