Gauges

Training magazine's exclusive analysis of the U.S. training industry.

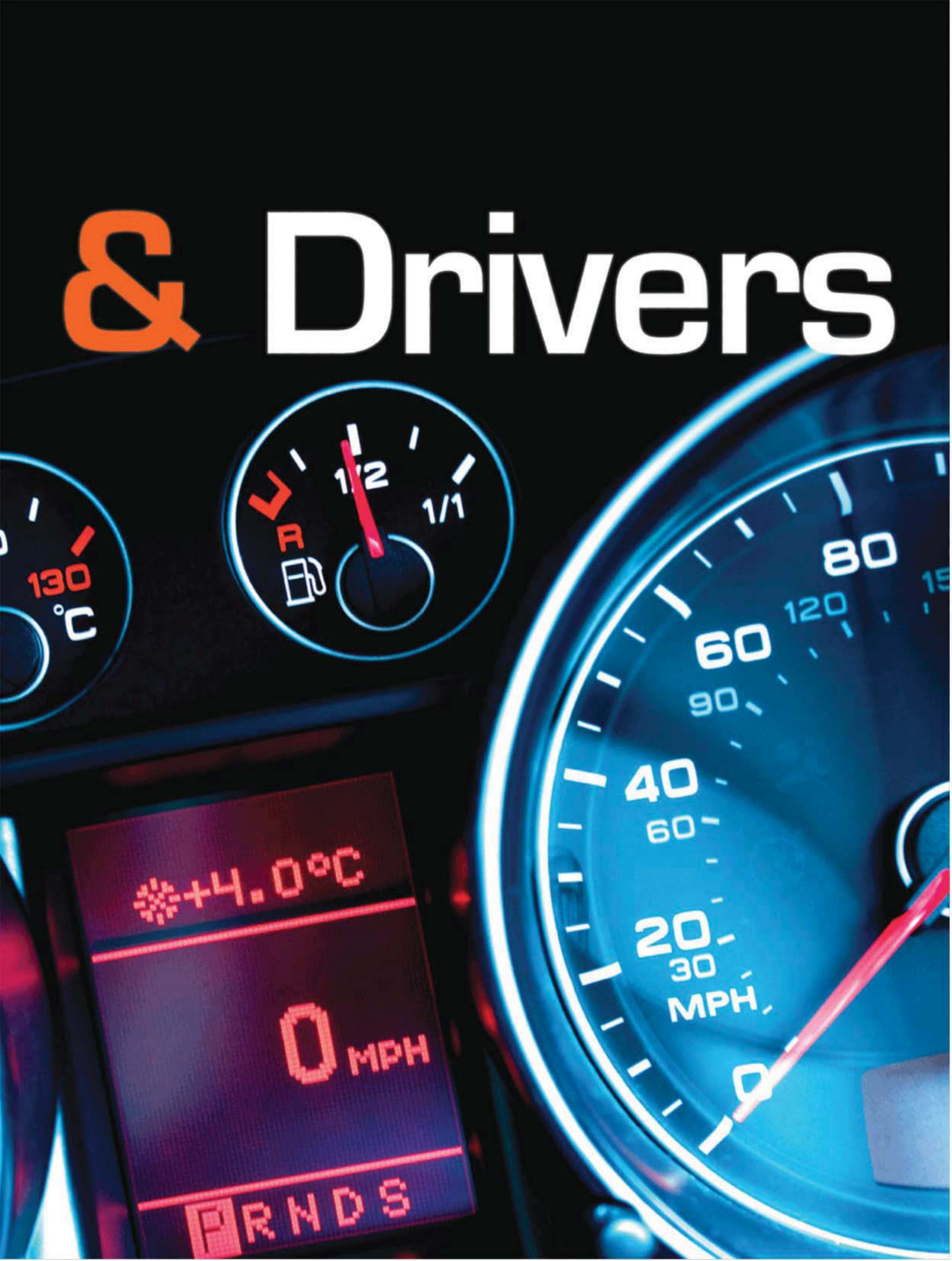
2008 has been a tumultuous year for U.S. companies. The housing and financial services sectors are in a state of crisis. Manufacturers continue to cut their payrolls. Job losses also are mounting in the retail, hospitality, and business services sectors. As the third quarter draws to a close, the unemployment rate is near a record high, and several major financial institutions are close to bankruptcy, sending shock waves throughout the rest of the economy.

When this study was conducted by Bersin & Associates in July-August, learning and development (L&D) organizations already were feeling the ill effects of the troubled economy, with many training organizations reducing their spending and staffing.

As a result, less training is being delivered—and by different methods. The rise of online training has come to a halt, as organizations switch to on-the-job training and less costly methods. Program spending allocations also have changed, with the priorities now on mandatory and job-specific training.

This report outlines some of the major trends facing U.S. training organizations. Data from the current Annual Industry Report is compared with that of previous years, providing an overall look at the state of the training industry today. One thing is for certain: It's not "business as usual."

& Drivers



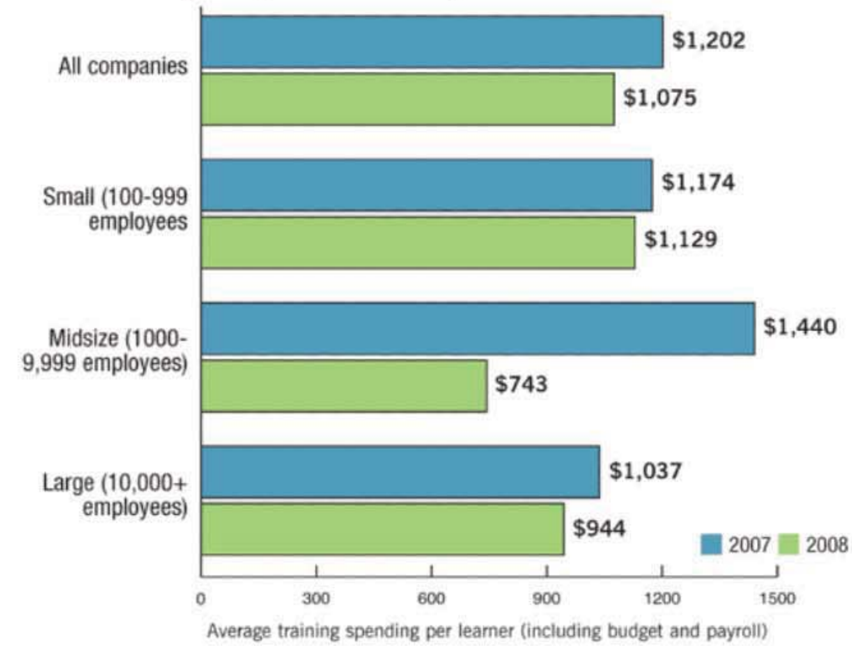
BUDGETS & STAFFING SLASHED

An economic downturn usually spells trouble for L&D. Therefore, it may come as no surprise that the faltering U.S. economy has taken its toll on training organizations. Average training expenditures, which include training budgets and payroll, have fallen 11 percent over the last year—from $1,202 per learner in 2007 to $1,075 in 2008.

While spending within small businesses is down slightly, midsize companies have experienced a precipitous 48 percent drop in per-learner spending. In some ways, midsize firms are the most vulnerable segment of the market—they are neither as lean as small companies nor have the depth of resources of large enterprises.

Budget cuts within large businesses

Training Expenditures per Learner 2007-2008



About this survey

Organizational size classifications

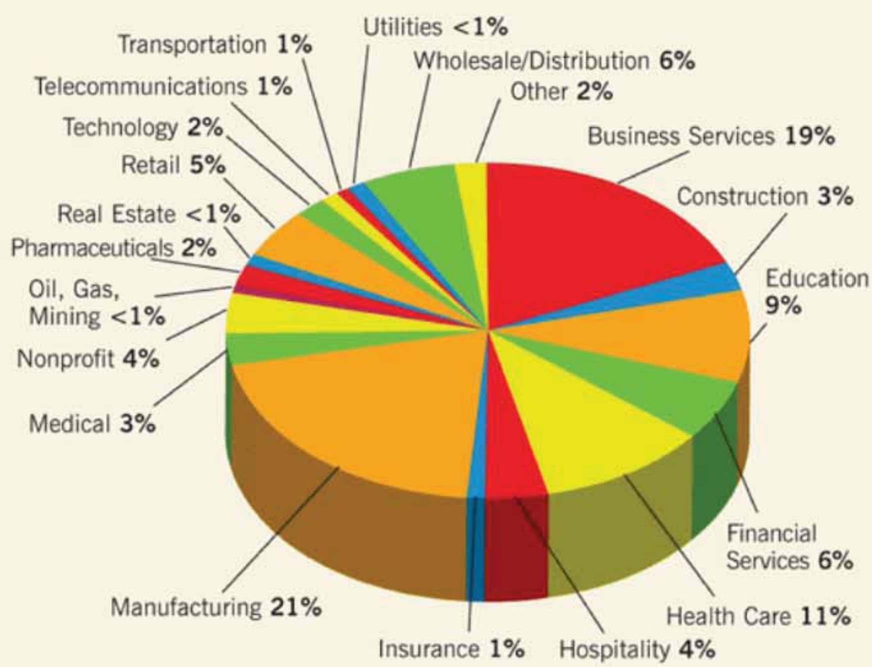
Company Size	% of Respondent Companies
Small (100 to 999)	33.7%
Mid-size (1,000 to 9,999)	36.8%
(Large) 10,000 or more	29.5%
Total number	**100%**

Source: Bersin & Associates

Now in its 27th year, *Training* magazine's Industry Report provides data on training budgets, staffing, and programs. Again this year, the study was conducted by Bersin & Associates, a research and advisory firm focused on enterprise learning and talent management. This year's study was conducted in July/August 2008, when members from the *Training* magazine database were e-mailed an invitation to participate in an online survey. Only U.S.-based corporations and educational institutions with 100 or more employees were included in the analysis. The data represents a cross-section of company sizes and industries (see charts above and right). Note that the overall figures in this report are weighted according to the Dun & Bradstreet database, which favors small organizations since they dominate, in terms of sheer numbers, the U.S. market. Throughout this report, results are broken out by organization size to show the differences between small, midsize, and large companies.

Industrial Classifications

Respondent profile by industry (weighted per Dun & Bradstreet).



are more moderate, with training organizations losing 9 percent of their per-learner spending.

Staffing numbers tell a similar story. Overall, the number of training organizations reporting staff reductions has shown a five-fold increase over the last year.

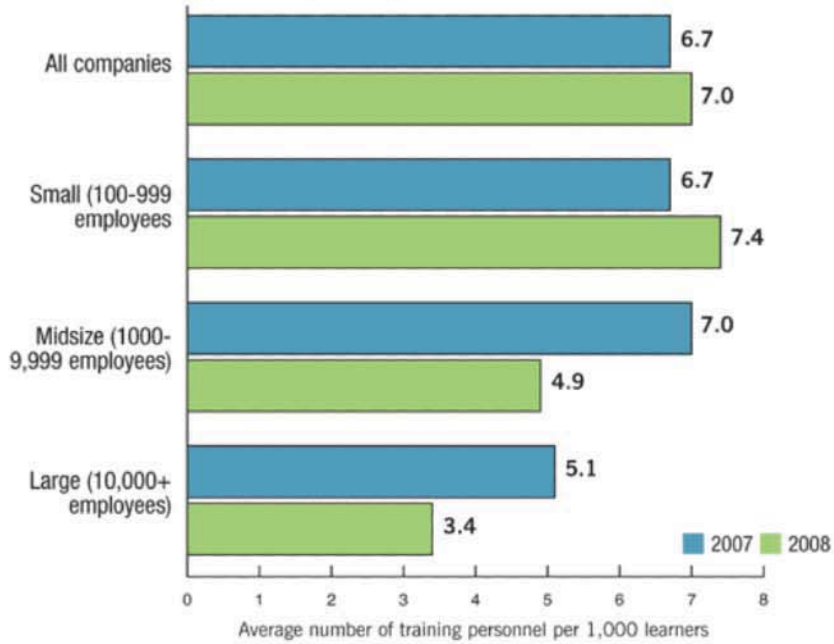
Small businesses have been the least affected, as their staffing ratios have remained fairly steady at 7.4 staff per 1,000 learners. Last year, these organizations employed 6.7 staff per thousand, which is not significantly different from this year's figure. Small businesses typically maintain lean training staffs, with personnel playing multiple training, as well as non-training, roles. Therefore, they have fewer training staff to cut in an economic downturn.

Conversely, the staffing ratios within midsize and large companies dropped significantly. Within midsize firms, the ratio dropped from 7 to 4.9 training staff for every 1,000 learners. For large businesses, training staffs were cut from 5.1 to 3.4 staff per 1,000. These businesses generally have larger staffs playing specialized roles, and, therefore, have a greater need to reduce or redeploy headcount in a budget crunch.

Staffing reductions are helping to further drive down the proportion of training dollars spent on payroll. The percent of payroll spending has declined for several years, due, in part, to the changing composition of training groups and greater funding for learning technologies. In 2003, 73 cents of

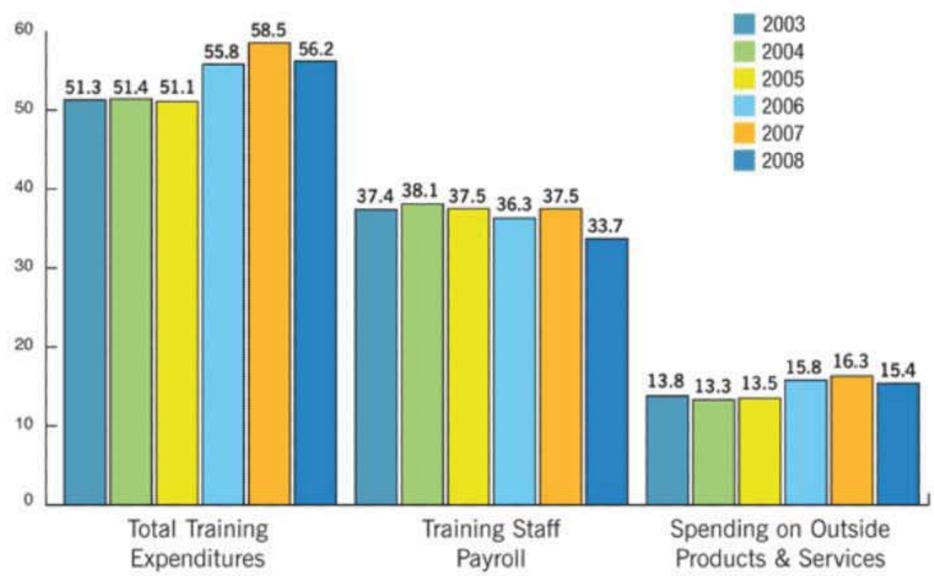
In 2008, training organizations will spend $1,075 per learner, an 11% decline over last year's spending figure.

Training Staff per 1,000 Learners 2007-2008



Training Expenditures 2003-2008

in $ billions



DEFINITIONS

- **Total training spending:** All training-related expenditures for the year, including training budgets, technology spending, and staff salaries.
- **Training staff payroll:** The annual payroll for all staff personnel assigned to the training function.
- **Outside products and services:** The annual spending on external vendors and consultants, including all products, services, technologies, off-the-shelf and custom content, and consulting services.

every training dollar went to payroll. Last year, the figure was 64 cents. Today the figure is just 60 cents, driven in part by fewer training personnel on the payroll.

"Clearly the U.S. economic slowdown has affected training organizations," says Josh Bersin, principal and founder of Bersin & Associates. "But the cuts appear to be moderate, and training organizations are making smart choices about reallocating resources toward their most critical business problems."

These budget and staffing cuts have reduced overall industry expenditures. The amount of total U.S. training industry spending has declined from $58.5 billion in 2007 to $56.2 billion this year. Payroll comprises $33.7 billion of this figure, which is down significantly from last year due to cuts in training headcount. Spending on external learning products and services is also down, now at $15.4 billion. This figure has not declined as much as payroll spending because companies have brought in more outside providers to fill the resource gaps left by staffing cuts.

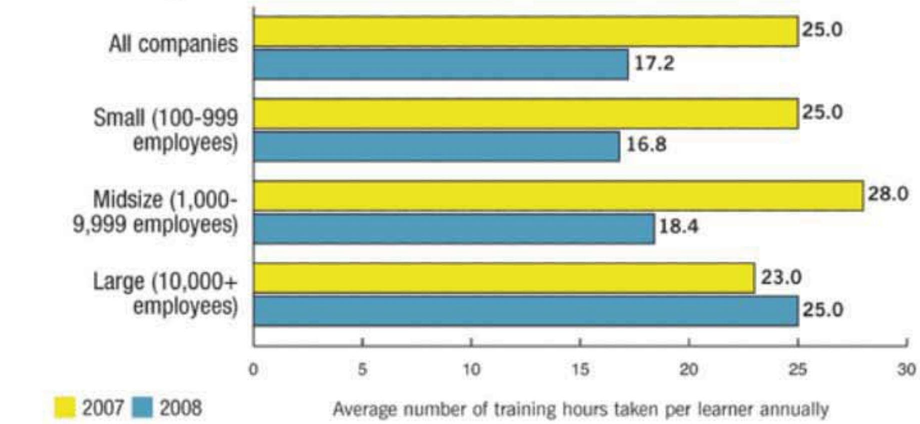
ONLY THE NECESSITIES

With fewer training personnel and less money to spend, L&D organizations are delivering less training. The average number of formal training hours dropped from 25 hours per learner in 2007 to 17.2 hours this year. Training consumption fell most substantially among small and midsize businesses, with learners taking 33 percent fewer training hours, on average, than last year. Among large businesses, training consumption remained fairly steady at 25 hours per learner (the difference from 2007 is not significant), helped in part by requirements for mandatory and compliance-related training.

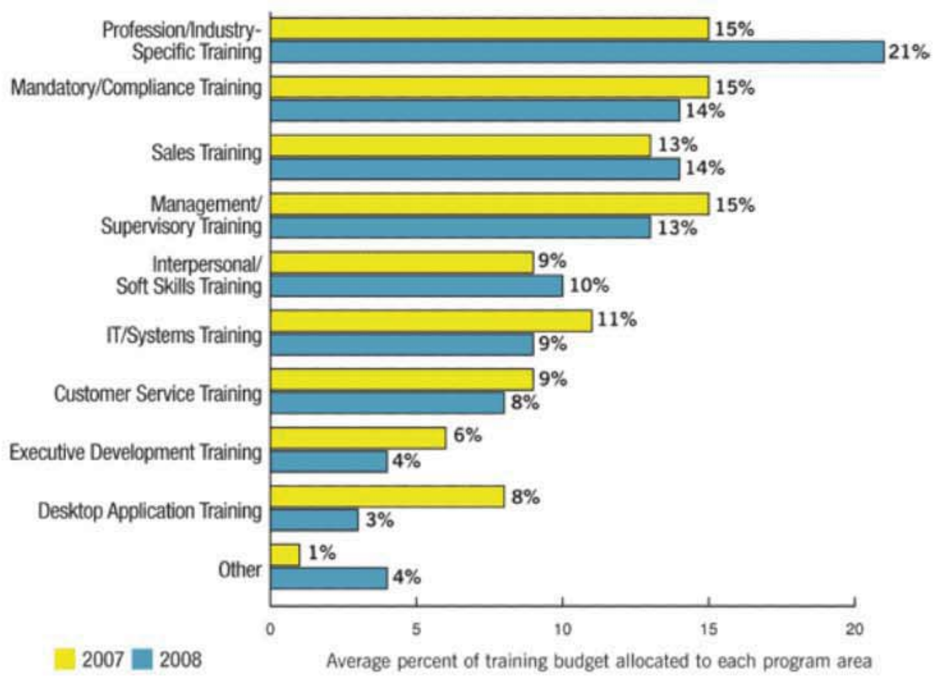
The types of training programs delivered also changed over the last year. Funding has moved toward programs that are either required or directly related to a learner's job or profession. With tighter budgets, organizations are targeting their efforts to meeting compliance requirements and improving skills that are highly specific to a learner's job.

This year, the largest slice of the budgetary pie goes to profession- and industry-specific training programs. This category includes professional certifications and other training specific to a job or industry. For example, accountants need training

Training Hours Consumed per Learner 2007-2008



Spending Allocations per Program Area 2007-2008



In 2008, tough U.S. economic conditions reduced total U.S. training industry expenditures to $56.2 billion, with $15.4 billion earmarked for external learning products and services.

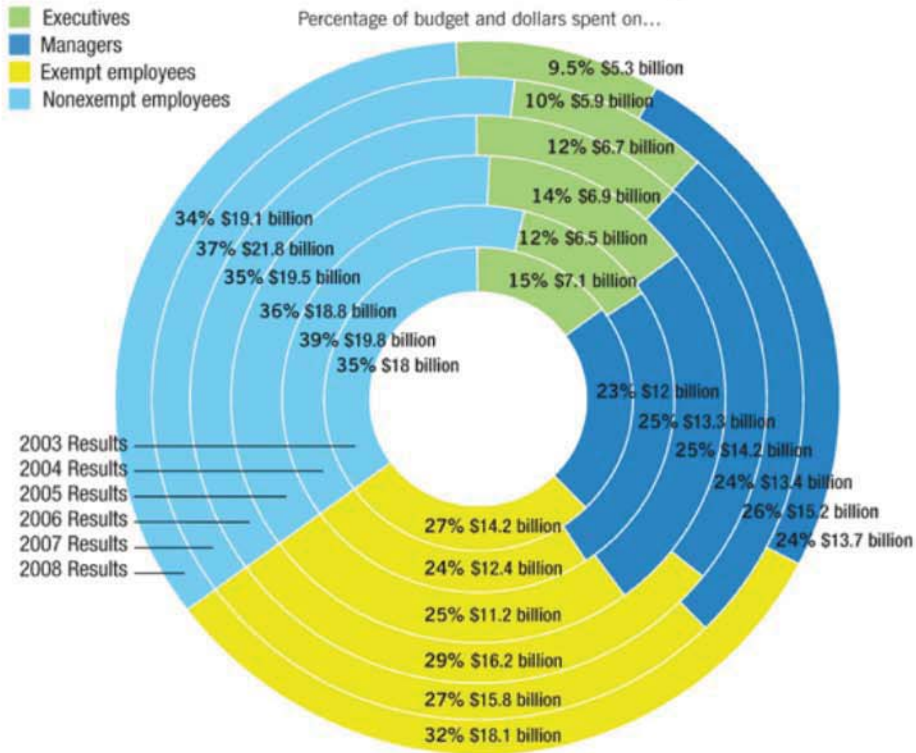
on new actuarial or tax rules. Employees in a manufacturing plant need training on new processes. And health-care workers need updates on new regulations, medical devices, and procedures. This training can be provided internally or through outside conferences, seminars, or classes. As most skilled workers need or are required to complete training in their specific professions, many of these programs are considered "must have" training initiatives.

The proportion of spending on these profession/industry-specific programs jumped from 15 percent of spending last year to 21 percent this year. Much of this growth has come at the expense of IT-related training on systems and desktop applications. Some of this training has been supplanted by help desks and by software-based help or performance support systems. Employees who still need help in these areas may have to rely on co-workers or peer support (often referred to as "the buddy system").

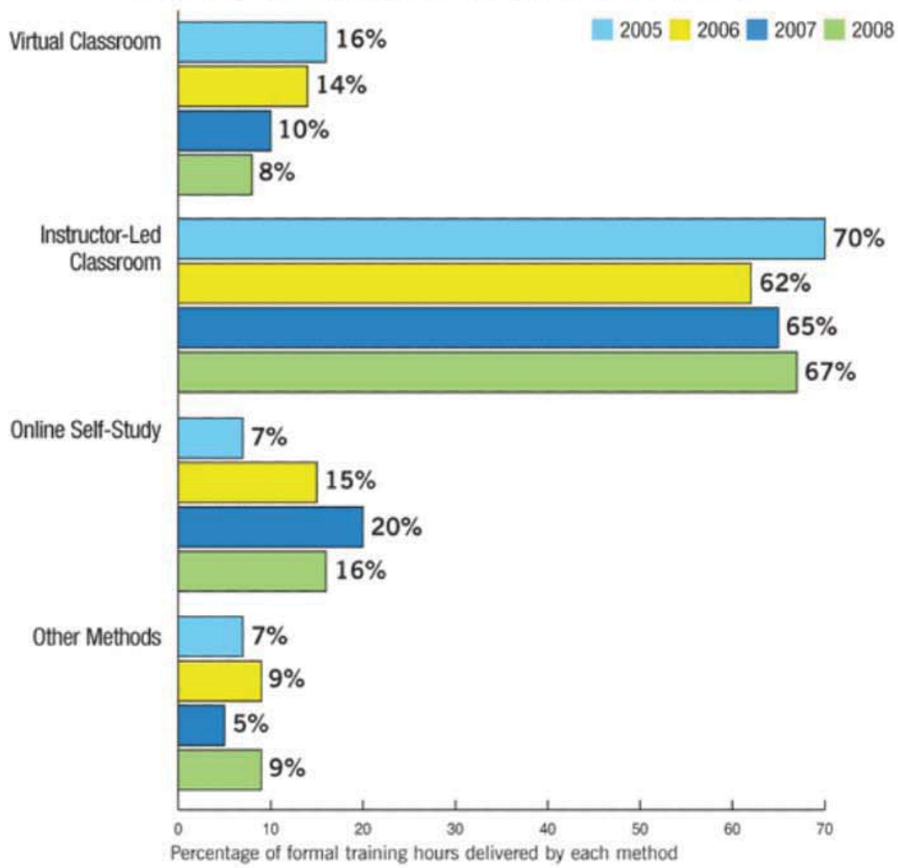
Mandatory and compliance training claims 14 percent of all training dollars. Meeting compliance requirements is a critical issue in most large businesses and especially in regulated industries such as the financial services and health-care sectors. Other types of mandatory training, such as operational safety, are important in the manufacturing sector.

Companies are allocating less money to IT and leadership training, and instead are focusing on programs that are mandatory or directly related to a learner's job.

Who Benefits from Training?



Training Delivery Methods 2005-2008



These programs are not optional, and even with tightening budgets, companies must find a way to pay for this training.

Sales training and management/supervisory training both continue to receive large chunks of funding, at 13 to 14 percent of spending. But the total spending on leadership development, which includes both management/supervisory training and executive development, is down slightly, from 21 percent last year to 17 percent this year.

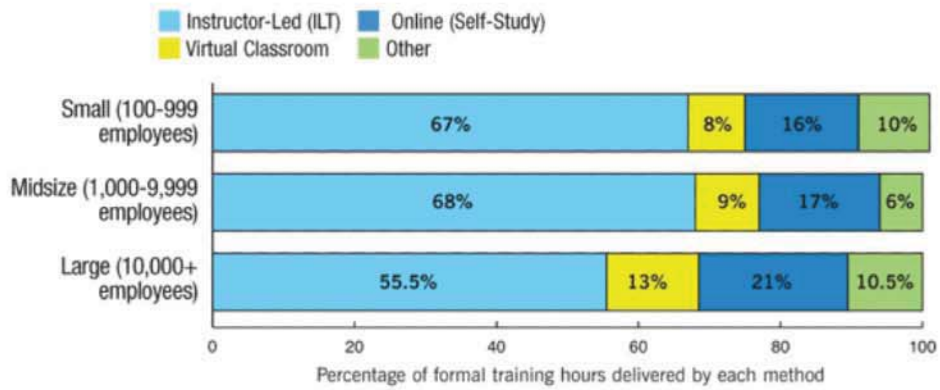
"The reallocation of training funds underscores the fiscal challenges within L&D organizations," explains Karen O'Leonard, principal analyst with Bersin & Associates. "The current priority is providing the 'necessities'—training that is required for a learner's job."

Spending allocations for employee groups also changed slightly over the last year. Exempt employees are getting a slightly bigger chunk of the budget, now at 32 percent of spending, up from 27 percent last year. This increase comes partly at the expense of managers, whose share fell slightly to 24 percent of the spending. This mirrors the program changes discussed above, with leadership training getting fewer dollars this year.

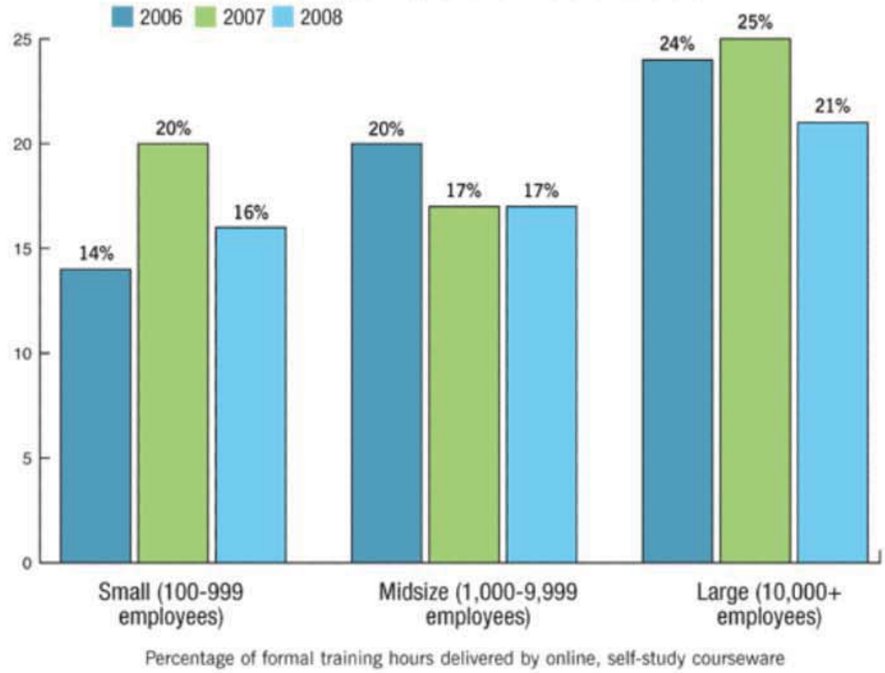
Funding shifted away from non-exempt employees, whose share fell to 34 percent of spending—still the highest of any group, but slightly lower than last year. Organizations may be prioritizing the needs of exempt employees, who generally have higher-level positions and lower turnover than non-exempt employees.

Training Delivery Methods by Company Size 2008

Percentage of total student hours delivered by each method



E-Learning Delivery (Online, Self-Study) by Company Size 2006-2008



DROP IN ONLINE DELIVERY

In a year best characterized as one of change, L&D organizations also are modifying their training delivery methods. Although instructor-led classroom training remains steady, at 67 percent of all training hours, the proportion of e-learning has decreased for the first time ever.

Last year, 20 percent of all formal training hours were taken via online, self-study courses—this year, the figure dropped to 16 percent. Virtual classroom training also fell, from 10 percent in 2007 to 8 percent this year.

Taken together, the total amount of online training (e-learning plus virtual classroom) dropped 6 percentage points, now at 24 percent of all formal training hours consumed.

To some extent, companies may have

Online training fell for the first time ever, as companies turn to coaching, on-the-job training, and less costly delivery methods.

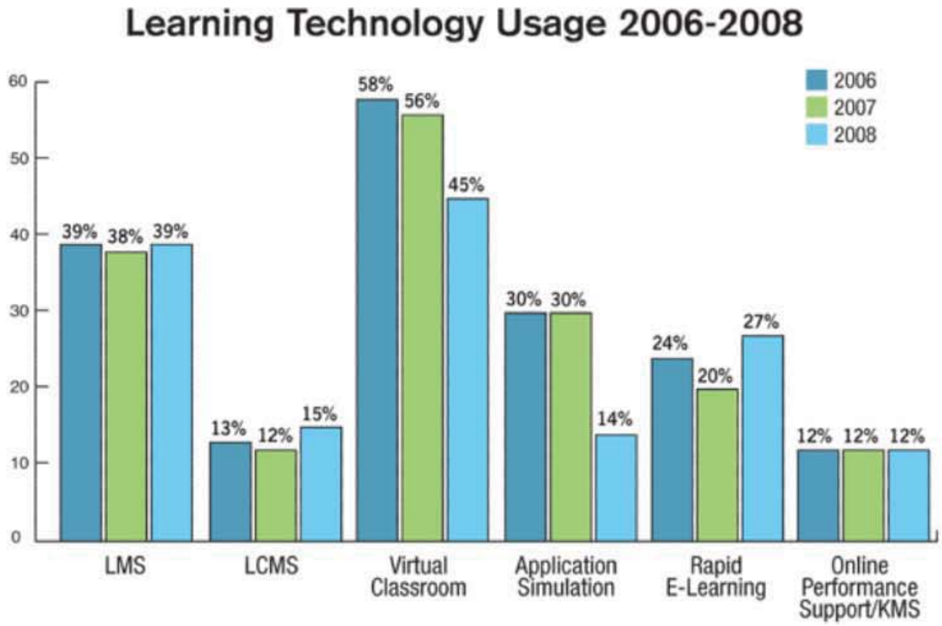
reached a plateau with their online learning. A great deal of courseware is available within most companies today. Off-the-shelf course catalogs are popular, as are virtual classroom tools. Easy-to-use, rapid authoring tools enable developers and subject matter experts to produce massive amounts of online content. Learners are becoming overwhelmed by the amount of online content available, and there is a limit to how much they can absorb. Companies are struggling to encourage usage of the courses, and realize that for many training problems, online courses by themselves are not effective. Companies are searching for the right blend of training methods to maximize their effectiveness.

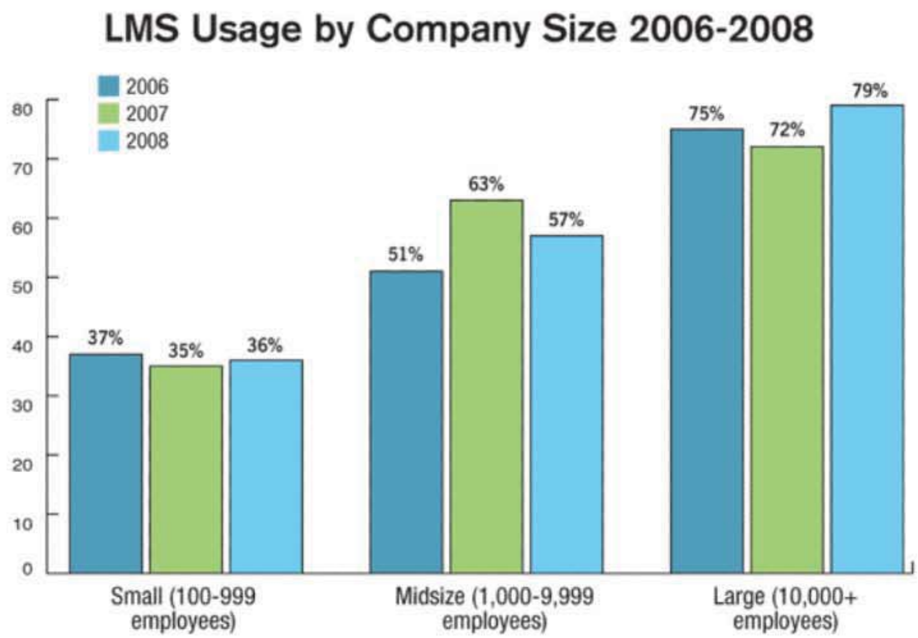
But budget and staffing cuts are more likely driving the shift away from online learning. This is somewhat ironic, since many companies originally turned to online learning to save money from their classroom programs. But the investment in learning technology, content, and internal staffing resources adds up, and now companies are looking for less costly delivery methods.

The most noticeable shift away from online training is in the small business segment, where online usage fell from 29 percent last year to 24 percent this year. Although last year saw a jump in online delivery among small businesses, some of these programs now have been replaced by coaching, on-the-job training, and less costly methods such as videos and paper-based workbooks.

Coaching is a popular training method in all segments, but particularly among small businesses. This is the first year this study has tracked use of coaching in training delivery, and the research found that formalized coaching is incorporated into approximately 20 percent of training programs within large businesses, and 30 percent of programs within small businesses.

"Coaching can be an extremely effective method of training," notes O'Leonard. "But to be fully effective, coaching must be consistent, structured, and formalized into a learner's development plan."





LOWER COSTS, LOWER INTERACTIVITY

To save money, the online training companies are delivering is becoming less interactive. Use of virtual classroom tools is down significantly—from 56 percent last year to 45 percent this year. In

Today, only 13% of large enterprises are still running multiple learning management systems.

addition, use of application simulation tools dropped by nearly half, with just 14 percent of companies now using these tools in their online training.

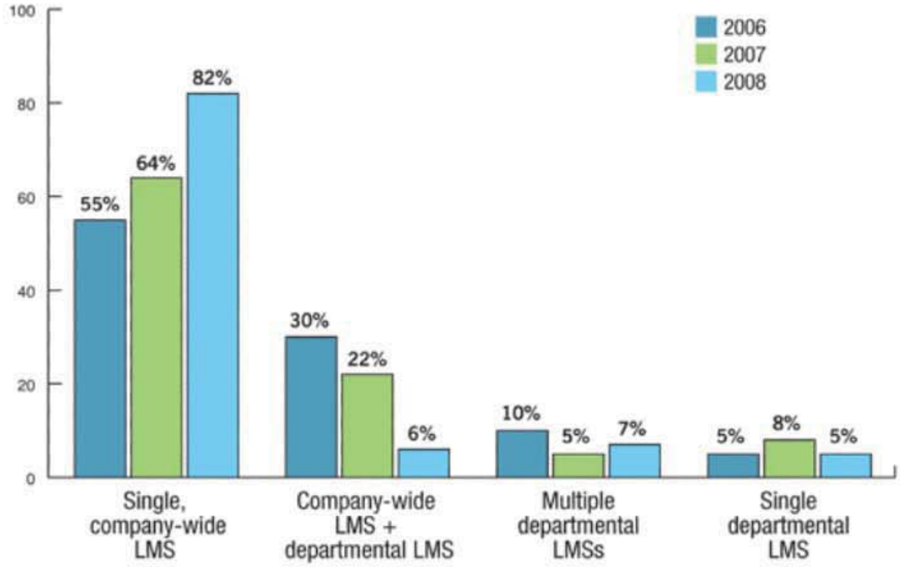
One technology that has gained popularity is "rapid e-learning" tools, software that converts PowerPoint documents into online learning materials. Use of these tools has grown from 20 percent last year to 27 percent this year.

The rise of rapid e-learning tools is driven primarily by the need to reduce costs and to enable subject matter experts (SMEs) to produce learning materials. With tighter budgets, companies are reducing the number of expensive, highly interactive programs in favor of inexpensive, quick-turnaround programs with lower levels of interactivity.

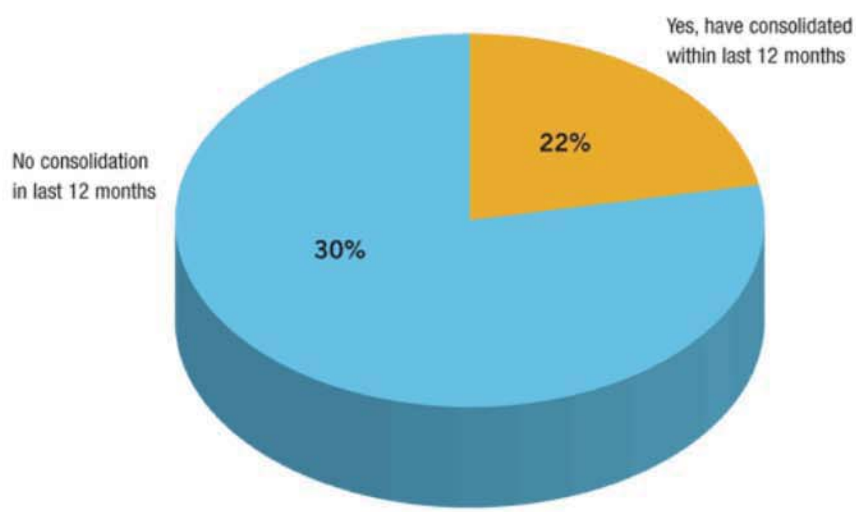
Use of learning management systems (LMSs) has remained fairly steady in the small and midsize business sectors. Until recently, the mid-market was the hottest segment of the LMS market. But this year, usage leveled off in this segment.

Among large businesses, LMS usage increased slightly over the last year. The increased adoption was driven, in part, by consolidation of systems within large enterprises, which are striving to standardize on a single, enterprise-wide platform. This consolidation is slowing, however. Among large companies using an LMS, 82 percent now have a single, company-wide LMS. Just two years ago, this figure was 55 percent, underscoring the consolidation that has happened within corporate infrastructures. Today, only 13 percent of large enterprises are still running multiple learning management systems.

LMS Infrastructure
Among large enterprises with one or more LMS installed



LMS Consolidation 2008
Among large enterprises with one or more LMS installed



MORE COLLABORATIVE APPROACHES

Last year, our research began tracking usage of several new learning technologies. Training managers continually must rethink how they develop and deliver learning to meet the needs of younger audiences and an increasingly mobile workforce.

Mobile learning is one way companies are providing access to training while learners are on the road. Use of mobile learning increased during the

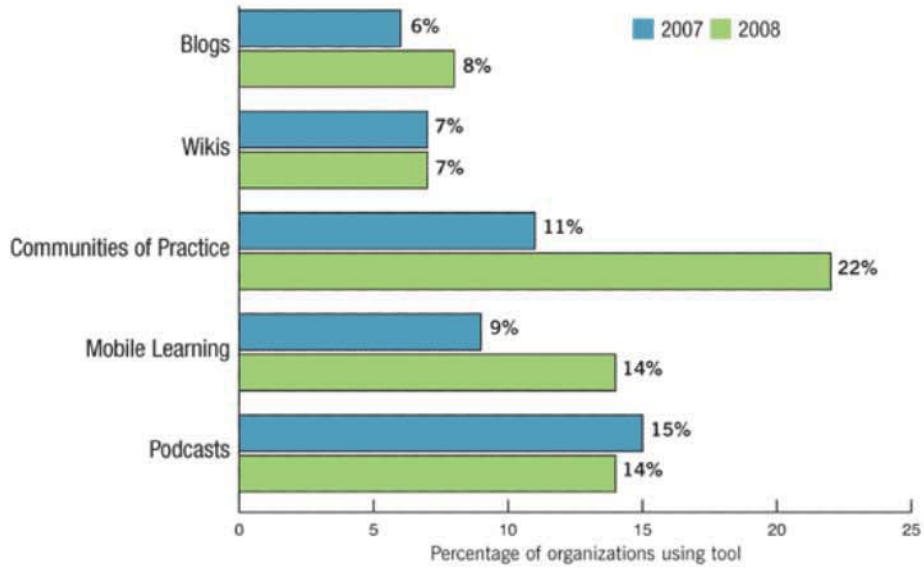
Companies are reducing their use of virtual classrooms and application simulations in favor of less costly, less interactive programs built with "rapid e-learning" tools.

last year, with 14 percent of organizations delivering learning on mobile platforms today.

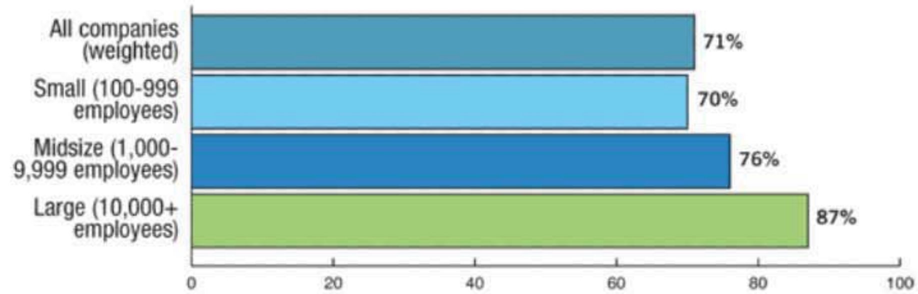
Podcasting is another example of how organizations are providing learning "nuggets" that can be accessed from almost anywhere. Usage of podcasting for training purposes grew from 5 percent in 2006 to 15 percent in 2007, but has remained stable over the last year. Training organizations likely will continue to experiment with podcasting and vodcasting (video podcasting) to find the right content and learner populations for this training medium.

Collaborative learning is another relatively new approach, designed for the younger generation of workers accustomed to social networks and cooperative learning. Structured collaboration is used by approximately 70 percent of all organizations, but is especially prevalent among large businesses. This is likely due to the proliferation of online collaboration tools, such as communities of practice. Use of these tools doubled over the last year—from 11 percent in 2007 to 22 percent today. This is the fastest growing segment of the learning tools market today. Using communities of practice, learners can interact and share ideas in an online "community." This group learning format appeals to younger, socially conscious learners and is built around the notion that "many minds are better than one."

Use of OnDemand/Collaborative Learning Tools 2007-2008



Use of Structured Collaboration in Learning Programs 2008



EXTERNAL PROVIDERS REPLACE SOME STAFFERS

As companies downsize their training staffs, many are turning to external providers to fill the resource gap. Large businesses, in particular, are outsourcing more functions to third-party providers, as their staffing numbers were the hardest hit this year.

One area on the rise is the use of external instructors and facilitators. Some 69 percent of large businesses now use outside professionals for some of their facilitation and teaching needs, up from 42 percent a year ago. Traditionally, companies have brought in outside instructors or "experts" in the areas of leadership and technical training, rather than retaining these skills in-house. Now, with leaner staffs, they are turning to outside instructors for a broader scope of programs.

A second area of growth is outsourcing of custom content development, which is up among both large and midsize companies. Today, 61 percent of large and 52 percent of midsize businesses use external providers to produce

Communities of practice are the fastest growing segment of learning tools today, with 22% of companies now using these tools for learning purposes.

at least some of their custom content. As with instruction, these organizations are turning to outside content developers to help with specific projects, while paring down their in-house staffs. Companies may choose not to maintain the staffing resources for a function they don't consider to be a core competency. By using outside suppliers, companies have greater flexibility to bring in resources as needed.

Outsourcing of LMS administration, which includes managing learner registrations and uploading data, also is up sharply this year. Today 28 percent of large businesses are outsourcing this function, double the figure from a year ago. This is an area that saw some decline from 2006-2007, but now is coming back in popularity as companies look to third parties for their resource-intensive, yet non-strategic, activities.

Finally, the research shows that outsourcing of LMS operations, or using a hosted LMS solution, increased over the last year among both large and small businesses. Last year, the midsize segment showed a steep jump in adoption of hosted solutions. This year, usage leveled off among midsize companies, while growing in the other two segments. Most LMS vendors now offer tailored hosted solutions to customers ranging from highly sophisticated to simple, low-cost solutions—a strategy that seems to be paying off.

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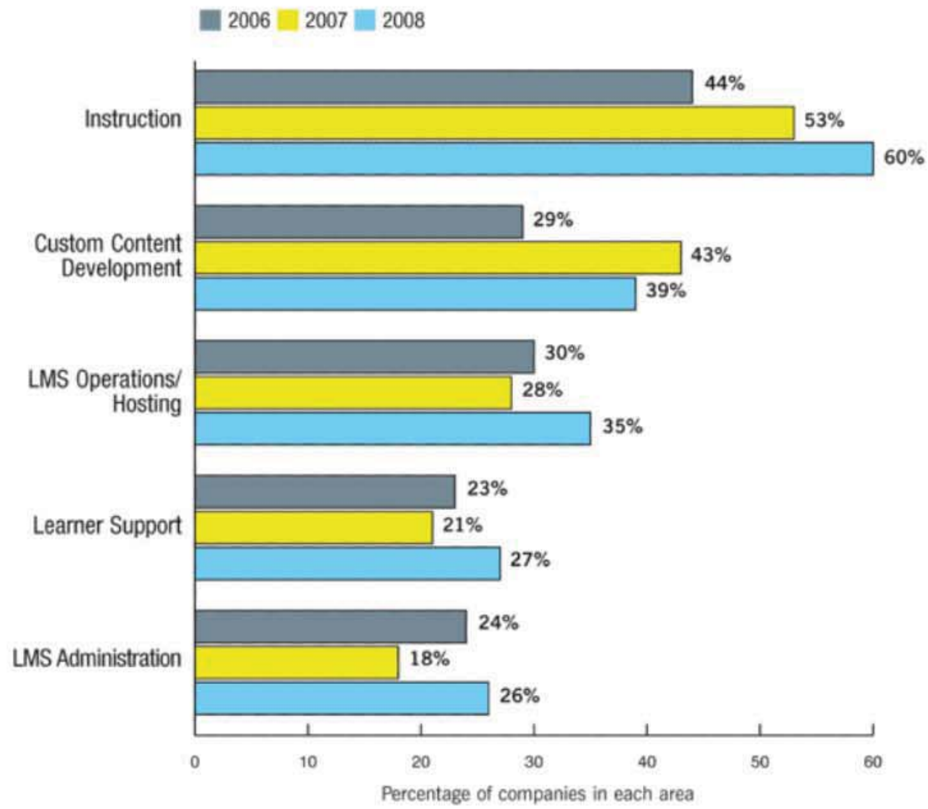
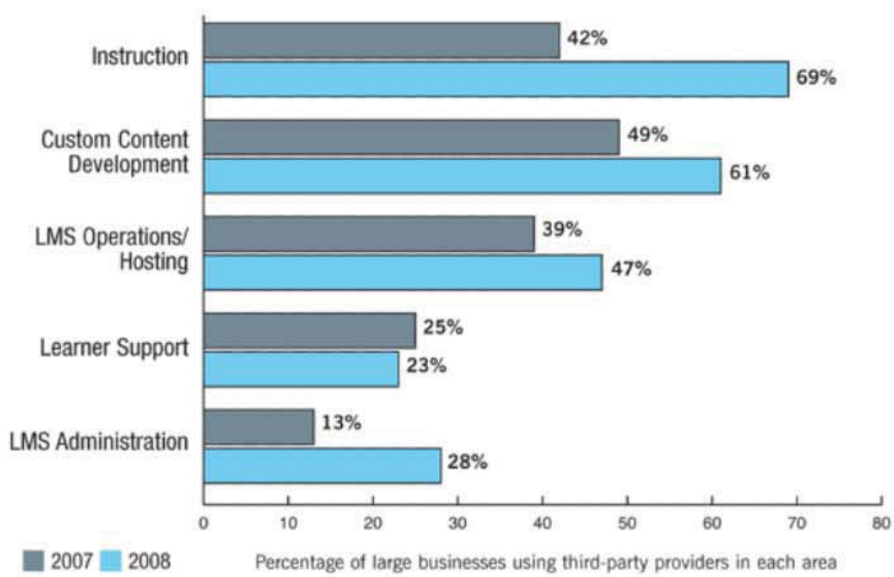
Outsourcing Practices 2006-2008



Outsourcing Practices 2007-2008 Among Large Enterprises



More detailed data from this study will be published in "The Corporate Learning Factbook: 2009"; go to **www.bersin.com/factbook2009.** For previous *Training* Industry Reports, visit **www.trainingmag.com/digitalproducts.**