

How to Measure the Corporate Training Industry (Dec 06)

Written exclusively for Training Industry, Inc. by **Doug Harward**, December 2006



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Perhaps you received, as I recently did, the December issues of two prominent industry publications, *T+D* and *Training* magazines. If so, you probably noticed that the cover stories for both magazines featured respective annual research reports that estimate the amount spent by U.S. organizations on workplace training and development during the preceding year.

Something else may also have caught your eye. There is a dramatic difference between the two estimates of total training expenditures for 2006 – a \$53 billion difference to be precise. While *Training* magazine declares that U.S. organizations spent \$55.8 billion on formal training in 2006, *T+D* reports expenditures of \$109.25 billion on employee learning and development.

Now I would readily agree that no measurement methodologies employed to estimate the industry's size and growth rate represent pure science. All use micro economic data to provide macro market analysis. To be sure, both *T+D* and *Training* studies are valid and have sound reasoning behind them.



Having said that, however, I must respectfully disagree with both industry estimates for total expenditures. TrainingOutsourcing.com also performs research on the size of the corporate training and development market, and we have recently projected the spend for 2006. According to our research, North American organizations collectively spent \$45.9 billion in external training related activities during 2006. Our estimate only includes those monies spent on external training providers, not internal expenditures as is the case with the *T+D* and *Training* reports.

\$55.8 billion was budgeted for formal training in 2006.	7% was the increase in training budgets from 2005.	\$15.8 billion was spent on training products and services this year—up from \$13.5 billion in 2005.	\$1,273 spent per learn companies, incl staff salaries.
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The purpose of this article is not to assert supremacy of any specific research statistics, but rather to explain what we believe to be the most effective way to measure today's corporate training spend and why it might be important to you. Then, we would like to offer a few suggestions on how you may be able to use the data to assist in *enhancing* your business performance.

If you look at the reports published by *T+D* and *Training*, you'll notice that while they differ slightly in methodology, both tend to

organize corporate T&D spending around specific topic areas or curriculums. (*T+D's December article merely previewed ASTD's 2006 State of the Industry report, slated for release early in 2007, however, it is expected that the study will follow past reporting practices.*)

For example, ASTD surveys respondents on such topics as the percentage of learning content devoted to specific subject areas including executive development and compliance. (*ASTD also asks about learning content devoted to customer service, a question Training magazine does not ask. This helps explain the disparity in their total figures.*) They also study training expenditures as a percentage of total payroll.



As interesting as this approach may be, the reality is that chief learning officers, training managers and directors don't spend around curricula, nor do companies allocate training expenditures on payroll. Training expenditures are generally calculated based on projected earnings and revenues, which is why training is traditionally among the first cuts made during times of economic stress. According to our estimates, companies spend up to 2.5 percent of operating expenses, or viewed another way, from .5 percent to 1.2 percent of revenues are budgeted for training. Does this sound high or low to you? Also, ask yourself, do you spend most of your budget on internal resources or products and services from external providers?

Nine Training Expenditures

Let's look at how leaders of learning organizations actually spend their training budgets on external service providers, and the types of contracts included in corporate budgets. And, let's consider it from a customer perspective on training rather than from an employee perspective.

At TrainingOutsourcing.com, we employ metrics that directly correspond with the way companies budget for and spend their training dollars. Because training processes for organizations may be highly fragmented and tend to operate under multiple business models, we have created the [Training Process Framework](#) to help companies standardize and manage their training function. The Framework defines and integrates 22 business processes within four functional process categories -- administration, content, delivery, and technology.

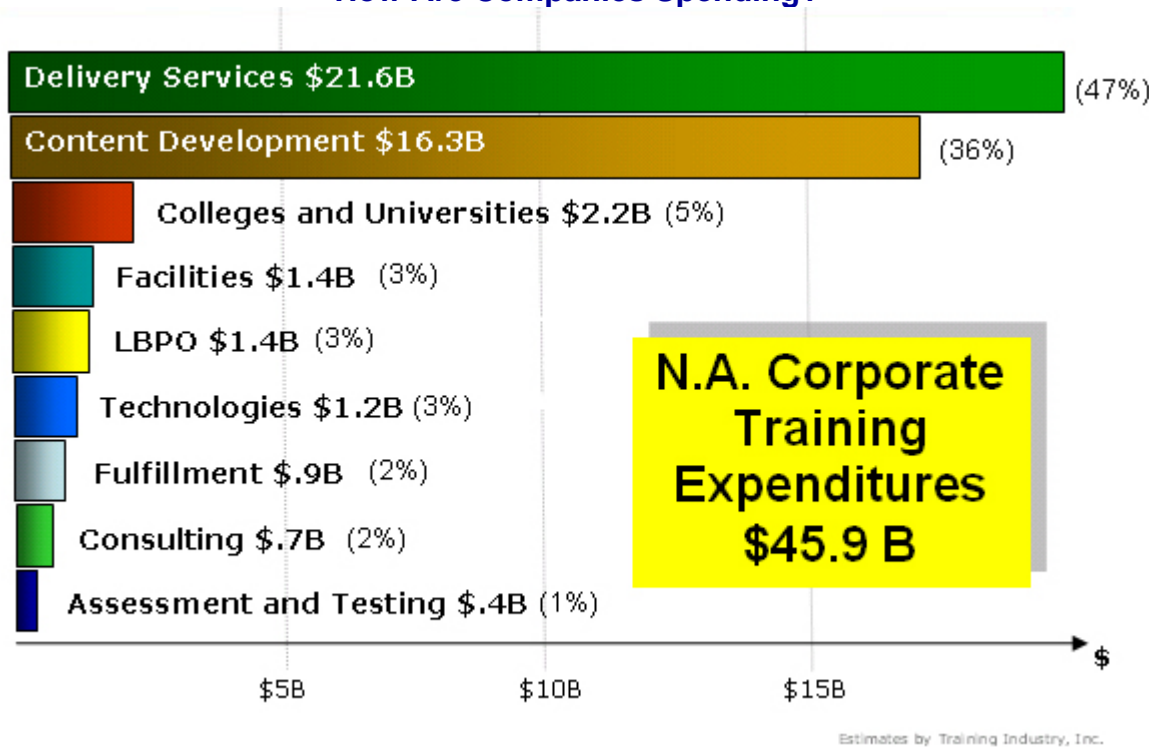
For research purposes, we select nine categories of expenditures from the Framework that are included in most corporate training budgets. We surveyed 30 companies to understand how they allocate their training budget around these line item expenditures. We also study the training supplier market by periodically making inquiries to over 1,900 companies in our supplier database. We sample these supply-side companies concerning revenues and other relevant data.

We examine expenditures in two ways:

First, from the perspective of training suppliers, we look at the total market and the revenue dollars received from corporate and government training organizations on each component. This market analysis indicates a total training supplier market for 2006 of \$45.9B.

Our research organizes the market into nine market segments. Each segment can be viewed as horizontal markets within the vertical training market. Training suppliers who specialize in a particular segment, or who may be niche oriented, tend to market themselves around these segments. Below are 2006 estimates for each segment by total dollars and percentage of market.

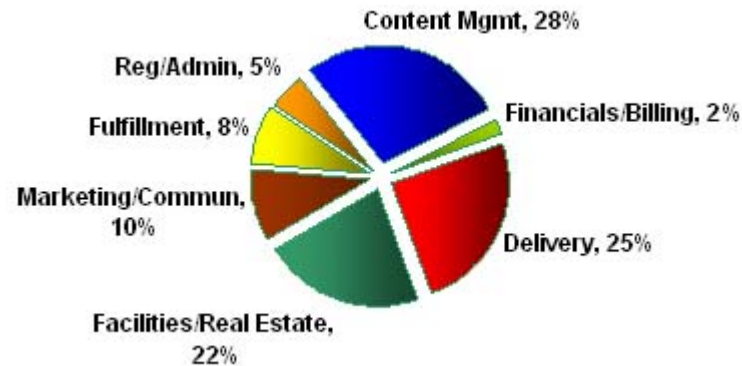
How Are Companies Spending?



Learning Business Process Outsourcing (LBPO) Services: This is a separate category since organizations often hire vendors for broader management capabilities that we refer to as outsourcing. Yet, they don't buy from a "BPO perspective;" they buy from the other eight categories. The BPO service provider generally manages these as operating expenses or as pass through expenses.

- Second, from the perspective of buyers of training services, TrainingOutsourcing.com studied the budgets of corporate training organizations to understand how expenditures were allocated. We found that more than 53 percent of corporate training budgets is directed to managing and developing the intellectual property or content of training and delivery of that training to employees and customers (Content Management and Delivery). The remaining 47 percent of their budgets goes to managing the administrative processes of training from registration services, marketing/communications, fulfillment, to financials and billing activities. Below is the breakdown of expenditures by percent of budget.

Training Expenditures by Percent of Budget



Our research and analysis has also determined that companies spend an average of 38 percent of their training expenditures with external suppliers. The other 62 percent is classified as in-source spend and includes training staff salaries and other internal expenses related to training.

Why is this information important to you?

Quite possibly, this data might not be significant for all organization. Surely it doesn't much matter which billion dollar estimate of the training industry market you subscribe to. Broken down to a micro basis, however, the figures do become relevant since the data can be used to benchmark your organization.

To do so, there are certain principles you'll need to observe. For example, if you want to understand how your company should allocate its training dollars, it is important to benchmark against companies that share similarities to yours. Do they have the same maturity of workforce? Are your attrition levels similar? (This is a significant cost driver of training.) What about the culture of your workforce? Is it largely comprised of industrial or manufacturing workers? Or, it is comprised of mostly professional staff? How

technology-oriented is your company? What about the market requirements for training? Are employees required to be certified or licensed? These are some of the key factors that drive budget allocations for training.

Another important consideration involves customer training. In our opinion, the costs to produce training for external customers are much higher than the costs to produce employee training. While the processes for the training customers are similar to those used for training employees, the level of expectation differs significantly with much higher quality of training expected for customers. And, the corporate organizations that manage customer training are usually different from those that manage employee training.

We find that companies tend to put greater emphasis on the dollars they spend on customer training. They demand better trained instructors, higher quality materials, and more comfortable and aesthetically pleasing facilities. Since there is a marketing element to customer training, the investment of 'environmental' factors is generally higher. In addition, the amount of dollars expended per student day or learning hour is often higher because organizations can usually measure more accurately their return on investment for customer training than they can for workforce training. The revenue dollar related to training is often more aligned to customer training, whereas, the productivity dollar is the measure for employee training.

Another important driver of customer education is liability. Companies often view money spent on customer training as protection from law suits and as a way to mitigate risk. Where the improper use of a product could cause bodily harm, companies spend many more dollars to train customers to prevent litigation, or to act as an insurance policy for when an accident does occur. The courts are typically more lenient in these situations because the customer was properly trained.

But perhaps the most striking figures related to training expenditures deal with how much the market spends on intellectual property. For suppliers of training services, revenues for content development and delivery account for a whopping 84.7 percent of revenues. Whereas, for buyers of training services, budget allocations for content development and delivery consume as much as 53% of their allocated dollars. Almost half of the corporations' budget for employee and customer training is earmarked for pure administrative services, the non-core activities that are highly available on the open market. Why the difference in numbers? Because buyers usually insource the administration of training.

In conclusion, we believe it's important to view training activities in the perspective of employee verses customer training, and to fully appreciate the real cost drivers. If the majority of training activities in your organization are customer oriented, you will likely spend more for training as a percent of revenues than those organizations that focus most of their training programs on employees. And be wary of the non-important metrics. Viewing training as a percent of payroll is a bit like measuring the results of a basketball game on the number of rebounds each team gets instead of the points scored. Rebounds have impact, but they are not the final measure of success. If there's anything these metrics do for our industry, it is that they continue the debate for finding the Holy Grail of Training - ***what is the best measure of the value of learning?***