Building the Business Case for e-Learning

With Step-by-step ROI Calculations

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2. No reliance on outside sources. With thousands of members updating their profiles and completing surveys, the Guild does not need to rely on outside sources that will bias our reports for contacts to complete our surveys.
3. Self-funded. The eLearning Guild funds its own research. We do not accept any form of sponsorship from vendors and/or suppliers for public research activities.
4. Guaranteed Fresh. We regularly remind members to update their profiles and survey information. If a member goes a year without updating information, we filter that information out of our reports.
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Introduction

E-Learning can feel like a bit of a minefield when first starting. It seems like there are countless decisions to be made, and mistakes can be costly. Overall, however, most organizations do meet their financial goals with e-Learning, and the majority yield positive returns. In an April 2009 survey of eLearning Guild members, 48% reported a positive return on investment (ROI) from e-Learning, while only 5% reported no return or a negative ROI (See Figure 1).

In fact, not only do most members generate a positive return, but 50% report a ROI greater than 15%. (See Figure 2.)

This report, Building the Business Case for e-Learning, will focus on the evaluation phase of investing in e-Learning to determine whether e-Learning is the right delivery method for your organization or project. For most organizations, these decisions are subject to business considerations, so this report will tackle that evaluation from a business management and financial perspective. It will illustrate the early decisions needed, and demonstrate a high-level financial analysis with a detailed ROI calculation.

Figure 1
In an April 2009 survey of eLearning Guild members, 48% reported a positive return on investment (ROI) from e-Learning, while only 5% reported no return or a negative ROI.

Figure 2
In the same April 2009 survey of eLearning Guild members, 50% report a ROI greater than 15%.
Getting Started Series Overview

This report is the first in a new series of Getting Started Guides to help ramp up your organization quickly and successfully in e-Learning. If you’re exploring e-Learning as a new training platform, or are already invested and considering further expansion into a specific project, this report is the place to start. Each report in the series will draw from the wisdom of more than 32,000 eLearning Guild members who have already paved the way to help you make sound business decisions that will produce timely results. Subsequent reports in the series will include the topics of:

- Authoring and Development Tools
- Learning Management Systems
- Measuring e-Learning Success
- Synchronous Learning Systems
- Mobile Learning
- E-Learning 2.0
- Simulations, Games, and Immersive Learning

Each report will provide data, tools, and information to help navigate important decisions such as product market-share trends, selection criteria, feature satisfaction levels, emerging technologies, and costs. The LMS chart below illustrates an example of the type of feature data future reports will provide.

<table>
<thead>
<tr>
<th>LMS Satisfaction Levels</th>
<th>Very Satisfied</th>
<th>Somewhat Satisfied</th>
<th>Somewhat Dissatisfied</th>
<th>Very Dissatisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>37%</td>
<td>44%</td>
<td>14%</td>
<td>5%</td>
</tr>
<tr>
<td>Ease of Customization</td>
<td>19%</td>
<td>40%</td>
<td>28%</td>
<td>13%</td>
</tr>
<tr>
<td>Ease of Installation</td>
<td>29%</td>
<td>45%</td>
<td>20%</td>
<td>7%</td>
</tr>
<tr>
<td>Time to Implement</td>
<td>27%</td>
<td>43%</td>
<td>21%</td>
<td>10%</td>
</tr>
<tr>
<td>Ease for Learners</td>
<td>31%</td>
<td>42%</td>
<td>19%</td>
<td>3%</td>
</tr>
<tr>
<td>Ease for Administrators</td>
<td>27%</td>
<td>44%</td>
<td>21%</td>
<td>0%</td>
</tr>
<tr>
<td>Ease for Designers/Facilitators</td>
<td>23%</td>
<td>66%</td>
<td>22%</td>
<td>9%</td>
</tr>
<tr>
<td>Blended Learning Support</td>
<td>26%</td>
<td>42%</td>
<td>21%</td>
<td>10%</td>
</tr>
<tr>
<td>Usefulness for Learning</td>
<td>26%</td>
<td>63%</td>
<td>16%</td>
<td>5%</td>
</tr>
<tr>
<td>Measurable Business Impact</td>
<td>24%</td>
<td>50%</td>
<td>20%</td>
<td>6%</td>
</tr>
<tr>
<td>Reporting Capabilities</td>
<td>22%</td>
<td>45%</td>
<td>23%</td>
<td>11%</td>
</tr>
<tr>
<td>Assessment Capabilities</td>
<td>21%</td>
<td>45%</td>
<td>22%</td>
<td>12%</td>
</tr>
<tr>
<td>Lives Up To Promises</td>
<td>21%</td>
<td>42%</td>
<td>24%</td>
<td>12%</td>
</tr>
<tr>
<td>Support for Serious Games/ILS</td>
<td>9%</td>
<td>27%</td>
<td>35%</td>
<td>29%</td>
</tr>
<tr>
<td>Support for Web 2.0</td>
<td>15%</td>
<td>28%</td>
<td>27%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Source: eLearning Guild Research
E-Learning Terms and Definitions

The e-Learning field is still evolving, and the definitions may vary by company and individual. Historically, e-Learning originated from computer- and Web-based training (CBT and WBT). Today the terms “online training” and “e-Learning” are sometimes used interchangeably. For the purposes of this report, e-Learning refers to any educational or instructional content delivered with Web-based technology. Here is a brief overview of the terminology, and the definitions used in this report.

- **Self-paced** or asynchronous learning is usually delivered in smaller modules or chunks, and can be accomplished independently on the learner’s own schedule.
- **Synchronous** learning occurs on a predetermined real-time schedule where the learners and instructors come together virtually. It can range from a one-way presentation such as a Webinar, to a course in a virtual classroom where the students and instructor have two-way contact with each other.
- **Blended** learning is usually a combination of multiple training modalities organized together into a larger course, and it often includes a mix of both online and traditional methods. An example of a blended learning course would be a combination of asynchronous modules, classroom instruction, and self-study reading, supported with e-coaching and classmate networking through an online forum or community board.
- **Instructor-led training (ILT)** is the term used to describe traditional classroom, or face-to-face, training.
- **Authoring tools** are software products used to create e-Learning courses. They range from commonly used general software such as Adobe Flash or Dreamweaver, and Microsoft PowerPoint, to customized products specifically used for e-Learning development.
- A **Learning Management System (LMS)** is the platform used to deliver and track courses and learners. Features vary by vendor, but a LMS will typically offer registration, course and assessment access, course tracking, learner performance statistics, instructor tracking, and community forums and boards for learners.
- A **Learning Content Management System (LCMS)** is a LMS variation that also allows for the storage, chunking, and tagging of content for ease of repurposing and searching.

E-Learning vs. Instructor-led Training

There are varieties of reasons organizations are investing in e-Learning. As a training method, it provides many benefits over traditional training for the right topics and under the right circumstances. We will explore these benefits later in the report, but whether an organization needs to deliver content to a wide geographic area, educate learners in the field to increase sales, or reduce long-term costs, e-Learning may be the right approach.

While most organizations report growth in their e-Learning budgets over time, e-Learning is still typically part of a larger training budget. Instructor-led training is an important delivery method that will likely always be part of the training toolkit for most organizations. It may supplement e-Learning, provide alternative delivery, or act as a
61% of Guild members report that e-Learning represents less than 30% of their total training budget.

![Percentage of Training Budget Dedicated to e-Learning](chart)

Source: eLearning Guild Research

E-Learning is a growing field within training that gets larger by the day. That said, 23% of eLearning Guild members report that e-Learning budgets are increasing.

When new to e-Learning, the high-level evaluation of project viability and the array of initial decisions can be complex and confusing. The next section will provide both the introductory information needed to prepare a high-level financial evaluation, and an example of an ROI calculation. For your convenience, the information in this report parallels a business proposal outline format, which is available as a supplemental downloadable file.

### Evaluating e-Learning as an Investment

When tackling the initial evaluation of viability, and for the development of a business case and a business proposal, the first question to address is, “Why are you investigating this particular project or investment?” What is the problem your organization is trying to solve, or the opportunity it is trying to create with e-Learning?

For example, many organizations report that a major world event such as 9/11 or the economic downturn is the initial push for starting in e-Learning. “With a decrease in travel budgets, attendance at ILT courses was down, which forced cancellations and led to decreased revenue. Converting ILT courses to e-Learning was a way to respond and restore revenue,” reports one eLearning Guild member.

According to Tony Meyaar, Supervisor with Blue Cross Blue Shield of Tennessee, his organization initially began exploring e-Learning in 2000 because of “the headaches involved in continually changing and revising printed manuals.” Each organization will have a catalyst for starting e-Learning.

Structuring this catalyst as a problem statement, an opportunity statement, or a gap analysis will help clarify your focus toward quantifying objectives and results. This format for evaluating the need for e-Learning provides a starting point.

Different situations and companies will warrant different approaches. In general, problems and opportunities are phrased as statements, and a gap analysis is presented as a conclusion from research. However you position it, for the decision makers it boils down to, “What is the reason we should consider this?” Examples of each follow:

- Sample Problem Statement: Our call-center employee turnover rate has climbed to 30% per year, and new hires handle only 50% of the volume of experienced staff in their first year.
- Sample Opportunity Statement: There are over 100,000 pharmaceutical repre-
sentatives distributed across the country that we would like to reach with performance support training in the field to increase sales.

- Sample Gap Analysis Conclusion: Due to home foreclosure rates in the U.S. increasing by 5% – 25% per quarter, there is a growing need to train real estate agents nationally on the legal and procedural issues of selling foreclosed homes.

Ideally, the statement should be backed up with examples and data. This is your starting point. Identifying a problem, opportunity, or gap that e-Learning might address will be the foundation for the business case – every subsequent step should tie back to this. After identifying this statement or conclusion, then the next step is to assess the costs and benefits to calculate a return on investment (ROI) or economic value added (EVA) and determine the financial viability of the initiative.

### High-level Financial Analysis

The financial evaluation consists of three steps.

1. Develop a general understanding of costs to determine financial feasibility, given cash flow and funding limitations.

2. Determine and state the benefits as measurable goals in order to quantify the benefits as a financial improvement.

3. Calculate an ROI or EVA.

### Step 1 - Understanding e-Learning Costs

Calculating the initial fixed-cost investment and the on-going variable costs of e-Learning can be tricky when first starting. There are a multitude of decisions to be made. The list is extensive, and may include: if and when to invest in a Learning Management System (LMS), which authoring tool(s) to use, which delivery technologies best meet your needs, and whether to develop the content in-house or outsource it. This Getting Started series of reports will help you tackle the nuances of those decisions one-by-one. Until you can fine tune your decisions and costs, however, this first report will provide a high-level overview of the costs and benefits of e-Learning to help you formulate the initial proposal, and determine whether you want to take the next steps and investigate further.

It is typical for organizations to start small, and then grow their e-Learning budgets over time. According to Guild members, 45% – 55% of organizations that started with e-Learning budgets under $100,000 grew within the first few years. It is quite common to start with one course, or a small area of focus, and then expand in phases. As you can see from the research results shown in Figure 5 in page 7, most organizations have grown their e-Learning budgets over time.

In general, when developing an e-Learning budget or initial cost assessment, you can use the same methodology to calculate e-Learning costs that you use to calculate ILT costs. An existing ILT training budget provides a good starting template. Here is a list of the additional e-Learning-specific budget categories to consider, with some generalized cost assumptions:

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**E-Learning Impact**

**Blue Cross Blue Shield of Tennessee**

“Blue Cross Blue Shield of Tennessee achieved a very good ROI with e-Learning” according to Tony Meyar, Supervisor with the Organization Development Support department. “Last year the company consolidated five different courses of mandatory training into one online course. We went from four hours of training per employee down to 1.5 hours per employee, and covered the same content, by reducing redundancies and converting the five subjects into one soap-opera-style storyline. Within the two months since the launch, 50% of our employees already completed the course. We are now generating an on-going savings of $363,000 per year for the company from this one project.”
Learning Management System (LMS) - You may not need to invest in a LMS initially. If you have a high number of either learners or courses, however, it will be worthwhile for you to have one sooner rather than later. Most off-the-shelf LMS products require some customization. The costs can vary widely for a LMS with customization, but under $100,000 is a reasonable starting assumption for most organizations with less than 2,000 employees. Keep in mind, however, that for more extensive LMS products and customization the starting cost can go as high as $1 Million.

The types of courses you are producing will also drive the need for a LMS. “Sage Software offered synchronous training to our external customers for supplemental revenue for years, and it wasn’t until we started offering asynchronous training that we needed a LMS,” reports David Dubin, Sr. Curriculum Developer.

Learning Content Management System (LCMS) costs are similar. Some vendors will offer a service to use their LMS system, store courses on their servers, and host classes for you. This type of hosting service ranges in cost, starting as low as $800/year, and

Figure 5: Most e-Learning budgets grow over time.
may be a good lower-cost alternative for some organizations.

**Development Costs** – Development costs are calculated and tracked by course hours. If you are converting an instructor-led course to online, and you are new to e-Learning development, assume that it will take you at least 4 - 5 times as many hours to develop the content online as it did to create the ILT version for most courses. Caterpillar University uses a ratio of 3:1 development hours for asynchronous vs. ILT courses.\(^1\)

Dubin reports, “The average synchronous course we develop takes 100 - 125 hours of development for every course hour.” Highly interactive “serious games” or “immersive learning” will require significantly more hours, possibly as high as 750 hours for a one-hour game.\(^2\)

The multiplier will vary with process, number of decision makers, experience of members, tools and systems used, and complexity of the project. You should assume developer, instructional designer, project manager, tester, and subject matter expert (SME) time and compensation in this multiplier. Often, when first starting, one person will wear multiple hats. “When we first started in e-Learning 11 years ago, I was one of two developers, and in addition to developing the courses, we were also the SMEs and trainers,” says Dubin.

As you get more efficient at developing online courses, that multiplier will decrease. Outsourcing the development is common when first starting if the in-house team doesn’t have the skills needed.

There are many ratios published about e-Learning development times. Development times are continually improving. They get faster and more efficient with employee experience and newer and better tools. Rapid development techniques and tools have changed the landscape significantly, and improved the speed of development. The best practice of repurposing content modules has also improved the development times. Highly interactive, unique, or immersive content, however, will always require longer development schedules.

**Authoring Tool Software** – Most products will cost $200 - $800 per user license. *Guild* members reported using an average of four different authoring tools, including
general software products that are not e-Learning specific, so it’s reasonable to assume you will use different types of software in the development process. Don’t forget to consider the ongoing cost of upgrades.

**Virtual Classroom and Equipment Costs** – If you need synchronous delivery, most virtual classroom and Webinar vendors offer subscription plans where the vendor hosts the content and services for a monthly or annual fee. All vendors offer free trials to test the features. Prices start at $39/month, and go up from there depending on the number of learners, volume of events, and features. The vendor provides most equipment, but you may need to purchase some miscellaneous extras for your learners or instructors such as VoIP (Voice over Internet Protocol) headsets, or Webcams.

**Technical Support** – Whether you are hosting the courses yourself or paying a vendor for the service, you will want to factor in annual costs for technical support and maintenance. Some vendors include this in their package. It is almost always negotiable.

It may also be necessary to provide in-house technical support for learners and instructors with registration, loading of course content, course tracking, and technical access issues. A Web Developer and/or LMS Administrator will be helpful in making online updates. If you are delivering synchronously, consider having a Producer behind the scenes during the course helping the instructor with any technical or learner issues that arise.

**Other IT Costs** – Depending on the size of your courses, if you are hosting in-house, you may need to upgrade your server(s). If your learners are accessing remotely, or are internal but need to view external Websites, firewall enhancements may be necessary. You will also want to evaluate your bandwidth capacity for performance during potential peaks in traffic and volume.

**Staff and Instructor Training** – The technology and best practices in e-Learning are evolving rapidly. Staying current will only enhance the quality of content. In addition, most ILT instructors have never taught online, and will require training in the synchronous tools and skills helpful to deliver effectively.

“When we first started teaching with Webcasts, some of our classroom instructors simply ran through their PowerPoint slides virtually. It has been a major learning challenge for them to redesign their content for an online format, and learn new skills to deliver effectively using our virtual classroom software, but they are making good progress” reports Jennifer Grant, Instructional Design Manager with Western Electrical Contractors Association.

**Cost per Learner** – Once the initial setup and development costs are incurred, there will also be an ongoing variable cost per learner to deliver courses. As Figure 7 shows, 53% of eLearning Guild members reported a cost averaging less than $50/learner. There will also be ongoing costs for course updates and maintenance.


**Decrease in Other Training Costs**

While there are many new training costs associated with e-Learning, those will be offset by a decrease in the following:

- Instructor and learner travel, lodging, and entertainment expenses (may reduce overall training costs by as much as 40% – 80%)
- Opportunity costs of instructor and learner travel time
- Materials and/or handouts
- Physical classroom and equipment charges – this may be an internal overhead allocation cost if in-house facilities are used
- Setup, preparation, and breakdown time
- Learner registration and course administration time
- Food and/or catering costs

Meyyart and his team achieved a 25% reduction in overall training time in one year. They reorganized the content of an ILT customer service and claims course into blended learning, and delivered it online. Staff and instructors now have 25% more time available for other work, instead of spending it in a classroom.

**Step 2 - Quantifying e-Learning Benefits**

After determining your high-level costs, the next step in the financial analysis is to quantify benefits. While there are many benefits to delivering learning electronically, some are easier to quantify than others.

<table>
<thead>
<tr>
<th>Objective Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased skills and professional development</td>
</tr>
<tr>
<td>Increased productivity</td>
</tr>
<tr>
<td>Decreased costs</td>
</tr>
<tr>
<td>Increased revenue</td>
</tr>
<tr>
<td>Increased employee morale and retention</td>
</tr>
<tr>
<td>Decreased risks or losses</td>
</tr>
</tbody>
</table>

![Figure 8](image-url)  
**Figure 8**  
Frequencies of benefits used to measure ROI.

Figure 8 shows that *Guild* members report using these benefits as indicators for measuring and tracking ROI.
Subjective Benefits

The following benefits are more difficult to quantify, but could be a significant factor in the decision to invest in or expand an e-Learning initiative. These benefits include:

- Scalability - global audience or fast deployment
- Performance support
- Improved measurements and training assessments
- Improved learning efficiency
- Improved consistency of content
- Automated and efficient student and instructor tracking with a LMS
- Increased appeal and effectiveness with varied learning styles

To elaborate on some of the items above, scalability refers to the fast and wide delivery capabilities of e-Learning. You can deploy a course globally in a fraction of the time, with significantly more ease than it would take to deploy an ILT course. Even if the audience is not global, it allows for rapid delivery of information to a large number of learners.

Many organizations use e-Learning as a performance support tool, defined as giving the exact content an employee needs when he or she needs it to optimize productivity. It is used on demand for both initial learning and periodic refreshers. For example, a pharmaceutical sales representative in the field can retrieve an online module providing technical information about a specific drug from his or her mobile or PDA device just prior to entering a doctor’s office.

Regarding improved measurements and assessments, it is easier to test skill-level increases and get substantive and time-sensitive feedback on courses and instructors online. The rapid nature of the feedback allows for immediate adjustments in course delivery to enhance the knowledge transfer, customize to the learner’s specific needs, and provide faster content improvements.

Relative to learning efficiency, according to Brandon Hall, online learners are twice as efficient in learning times as ILT learners. In other words, depending on the structure of the course, online learners may be able to acquire the needed information in half the time they would in a traditional classroom. If a learner can jump ahead or skip around in an online module to get exactly what they need, instead of sitting in a classroom for a designated amount of time, he or she will potentially save the organization time and money.

Setting Measurable Goals and Quantifying Benefits

Setting measurable goals is the key to quantifying benefits. A measurable goal is one that has a specific numerical target identified as an outcome. The outcome can be time-based, procedural, or financial. The goals should be aligned with both the business priorities and the problem, opportunity, or gap. When the goals include a numerical target to measure performance, then you can calculate a financial benefit.

Many organizations require data to make investment decisions. Since 67% of eLearning Guild members report using increased skills or professional development to measure ROI, that benefit will be further explored as an example below.

One can argue that increased skills and professional development lead to faster new-hire ramp times, higher productivity, error reduction, and potentially longer employee retention thus reducing job vacancy and recruiting costs. Any one of these benefits could be set as a measurable goal and quantified. Building off our earlier problem statement, restated below, here are three examples of measurable goals:
Problem Statement:
Our call center employee turnover rate has climbed to 30% per year, and new hires handle only 50% of the volume of experienced staff in their first year.

Potential Measurable Goals:
- Increase new-hire productivity by 40% within their first year
- Reduce errors by 30%
- Decrease employee turnover by 20% per year

If you know the current new-hire productivity rates, error rates or employee turnover rates, then you can calculate quantifiable improvements or benefits.

Taking this example a step further, let’s assume that new hires working a customer service help desk typically start by fielding five calls per hour in their first month, increasing by one call an hour monthly until the end of their first year. They make at least one error per day requiring supervisory attention, and work an average 22-day month. Current staffing requirements are satisfied with 100 Customer Service Representatives. Using the goals outlined above, in a given year, you can assume:

<table>
<thead>
<tr>
<th></th>
<th>Before e-Learning</th>
<th>After e-Learning</th>
<th>Difference</th>
<th>Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calls/new hire/yr</td>
<td>22,176</td>
<td>31,046</td>
<td>8,870</td>
<td>40% more calls</td>
</tr>
<tr>
<td>Errors/new hire/yr</td>
<td>264</td>
<td>185</td>
<td>79</td>
<td>30% fewer errors</td>
</tr>
<tr>
<td>Turnover/yr</td>
<td>30</td>
<td>10</td>
<td>20</td>
<td>20% less turnover</td>
</tr>
</tbody>
</table>

The increased number of calls and reduction in errors can then be converted to financial cost savings. There are other savings with this example that you could also include in the calculation, such as reduction in supervisory and error correction times, and increased customer satisfaction. With the increased productivity, there is also a potential decrease in staffing needs. Given those other savings are beyond the scope of this example however, we will not include them here.

In our example, it will take one year to develop and launch the online course. Benefits and savings will begin in the second year. With the assumptions outlined above, combined with additional savings assumptions of $0.75/call and $5.00/error, we calculate the financial cost savings as:

<table>
<thead>
<tr>
<th></th>
<th>Benefit</th>
<th>Year 2 Savings</th>
<th>Year 3 Savings</th>
<th>Total Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Call Savings</td>
<td>8,870 * $.75/call * 20 reps</td>
<td>$133,050</td>
<td>$133,050</td>
<td>$266,100</td>
</tr>
<tr>
<td>Error Savings</td>
<td>79 * $5.00/error * 20 reps</td>
<td>$7,900</td>
<td>$7,900</td>
<td>$15,800</td>
</tr>
<tr>
<td>Decreased Travel</td>
<td>$30,000</td>
<td>$30,000</td>
<td>$30,000</td>
<td>$60,000</td>
</tr>
<tr>
<td>Decreased Materials</td>
<td>$3,000</td>
<td>$3,000</td>
<td>$3,000</td>
<td>$6,000</td>
</tr>
<tr>
<td>Total Savings</td>
<td>$173,950</td>
<td>$173,950</td>
<td>$173,950</td>
<td>$347,900</td>
</tr>
</tbody>
</table>

The total savings or benefit in this example is $347,900 over the first two years after launch. This example illustrates how first starting with a data-quantified problem statement about employee turnover rates and new-hire ramp times, and then creating mea-
survable goals to address that problem, we can subsequently quantify the benefits that will result.

**Step 3 – Calculating e-Learning Returns**

With estimates in costs and benefits quantified, the next step is to calculate the return or improvement from the e-Learning initiative. Return on investment (ROI) is the most common calculation used. ROI is defined as a measure of cash generated by an investment.\(^4\) The simplified formula for ROI is:

\[
\text{Net Benefit Over Time Period} / \text{Cost Investment Over Time Period} = \text{ROI}
\]

The benefit could be either a cost savings or an increase in revenue. The net benefit is the savings less the cost of the investment. It typically takes more than one year to break even, so benefits and costs are often estimated over a period of time, such as three or five years. Taking our customer service example above, let’s assume an initial investment of $200,000 in fixed costs, plus $15,000/year in variable costs. If it takes one year to launch the course, with a savings of $173,950 per year after the launch, after three years, the organization would yield a 51% ROI.

\[
\frac{$117,900 \text{ Net Benefit}}{$230,000 \text{ Costs}} = 51\% \text{ ROI over 3 years}
\]

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit / Savings</td>
<td>$173,950</td>
<td>$173,950</td>
<td>$347,900</td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>$200,000</td>
<td>$15,000</td>
<td>$230,000</td>
<td></td>
</tr>
<tr>
<td>Net Benefit</td>
<td></td>
<td>$15,000</td>
<td>$117,900</td>
<td></td>
</tr>
<tr>
<td>3-year ROI</td>
<td></td>
<td></td>
<td>51%</td>
<td></td>
</tr>
</tbody>
</table>

Another method of measuring returns is to use Economic Value Added (EVA). EVA is a measure which assumes there is an opportunity cost to the money you are investing, and it might yield better returns elsewhere. The calculation allows for an adjustment to compare one project to a hypothetical alternative investment. For many people in finance, EVA is considered a more accurate measure of profitability.\(^5\) The cost of capital return assumptions will vary with company, economic conditions, and project opportunities, but it typically ranges from 6% to 15% per year. For this example, let’s assume a 10% cost of capital return. The $230,000 invested in e-Learning, divided by the three years of project life, might yield $7,667 per year, or $23,000 over three years, on a different project. Using EVA, the simplified formula would be:

\[
(\text{Net Benefit} - \text{Cost of Capital}) / \text{Cost Investment} = \text{EVA}
\]

\[
(\$117,900 - $23,000) / $230,000 = 41\% \text{ EVA}
\]

Stated another way, this company yields 41% additional value above the required minimum 10% return from a different e-Learning investment.
E-Learning Risks

Consideration of the risks is an important part of the overall project and investment evaluation. There are risks in entering any new field, and e-Learning is no exception. One of the major risks is the amount of time it takes to become proficient and produce good quality results. There is a learning curve to creating e-Learning, and best practices are evolving constantly. According to Guild members, the amount of time it takes to conquer the learning curve varies widely, but only 10% reported good quality results on their first attempt. (See Figure 9.)

“Some of the lessons learned by Blue Cross Blue Shield of Tennessee included how to structure courses, and setting realistic roles for instructors. We launched one course in a daily outline format, and soon discovered that approach wasn’t working, as we couldn’t count on precise schedules. When we converted the format to an outline by topic instead of by day, it was successful. For another course, we wanted our instructors to also be content editors, but that expectation was not realistic as it required them to have instructional design skills. Now our team does the editing,” according to Meynaart.

Another major risk is stakeholder and executive level support for the initiative. Not only will their support pave the way for timely resources and decision making, it will also set the tone for the overall cultural responsiveness to and adoption of the e-Learning courses.

Deciding on which tools and technology to use is also an important risk to consider. Selecting tools that do not meet the project or organization’s needs can result in a cost of unnecessary time and money. “Sage Software needed to upgrade the virtual classroom software we were using shortly after we went live because of additional feature requirements identified after the launch,” says Dubin.

The Getting Started series of reports to follow this one will help you address the tools and technology risk by providing information to help you avoid mistakes and make sound decisions, drawing from the experiences of the more than 32,000 eLearning Guild members. Figure 10 on page 15 is a preview of the ROI that Guild members reported achieving with various technologies. With each subsequent report, we will delve into these charts with more detail.
**Figure 10**
ROI achieved with various e-Learning tools and modalities.

<table>
<thead>
<tr>
<th>Synchronous Learning Systems</th>
<th>Return on Investment (ROI) from Tools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Good ROI</td>
<td>11.2%</td>
</tr>
<tr>
<td>Modest ROI</td>
<td>9.7%</td>
</tr>
<tr>
<td>Too early / do not know</td>
<td>7.1%</td>
</tr>
<tr>
<td>No ROI</td>
<td>2.4%</td>
</tr>
<tr>
<td>Waste of time and money</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LMS</th>
<th>Return on Investment (ROI) from Tools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Good ROI</td>
<td>13.4%</td>
</tr>
<tr>
<td>Modest ROI</td>
<td>16.4%</td>
</tr>
<tr>
<td>Too early / do not know</td>
<td>10.2%</td>
</tr>
<tr>
<td>No ROI</td>
<td>3.7%</td>
</tr>
<tr>
<td>Waste of time and money</td>
<td>1.3%</td>
</tr>
<tr>
<td>Authorware, Xetra</td>
<td>0.0%</td>
</tr>
<tr>
<td>Experience Builders..</td>
<td>0.0%</td>
</tr>
<tr>
<td>Virtual Assessor</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mobile</th>
<th>Return on Investment (ROI) from Tools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Good ROI</td>
<td>0.9%</td>
</tr>
<tr>
<td>Modest ROI</td>
<td>1.7%</td>
</tr>
<tr>
<td>Too early / do not know</td>
<td>1.4%</td>
</tr>
<tr>
<td>No ROI</td>
<td>0.6%</td>
</tr>
<tr>
<td>Waste of time and money</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Immersive Learning / Games</th>
<th>Return on Investment (ROI) from Tools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Good ROI</td>
<td>3.1%</td>
</tr>
<tr>
<td>Modest ROI</td>
<td>3.8%</td>
</tr>
<tr>
<td>Too early / do not know</td>
<td>10.3%</td>
</tr>
<tr>
<td>No ROI</td>
<td>2.4%</td>
</tr>
<tr>
<td>Waste of time and money</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

Source: eLearning Guild Research

**Next Steps**

After completing the initial evaluation phase, there will likely be next steps to take. The steps will vary with each situation, but will logically follow from the previous analysis. Often next steps may include:

- Research specific tools or resources
- Conduct a needs assessment
- Gather technical requirements
- Build a detailed budget
- Prepare a cash flow analysis
- Complete a study with learners or instructors
- Determine stakeholders and/or decision makers
Conclusion

The decision to begin or expand an e-Learning initiative is a large undertaking. It is common to tackle the evaluation of that decision in phases, with intermittent periods of research and evaluation. Each situation and learning need will be different, however this report offers a general approach and guideline to navigate the evaluation phase and lay the foundation for subsequent research and decision-making.

The questions to address in the evaluation phase include whether e-Learning is the right delivery method for your organization or project, and if the benefits and returns meet the needs of your organization.

By walking through the creation of a problem statement, high-level financial analysis, and risk evaluation, we created the preliminary components needed to justify your business case and develop an e-Learning business proposal. An outline of a sample e-Learning business proposal is available for download as a reference.

E-Learning is a growing field, with more and more training organizations joining each year. Learner adoption and usage are also gaining momentum. Instructor-led training will likely always play a role in training curricula, yet organizations are increasingly reporting e-Learning as a component of an overall training program. Arming yourself with an understanding of the e-Learning costs and benefits, and quantifying and balancing them against the risks and returns, will help you evaluate whether an e-Learning investment is right for your organization.

Additional Reading and Resources

ROI Calculator from Nucleus Research: http://tinyurl.com/kwz2ur


Endnotes


Author Bio

Temple Smolen is the Online Forums Director at *The eLearning Guild*. Prior to that, she was the Education Institute Director for Kinship Center, an adoption and foster care agency. She produced online, video, and ILT training for adoptive parents, social workers, and therapists nationwide. She also worked as a manager for Intel, responsible for training and HR programs. Temple received her B.S. from UC Davis, and her M.B.A. from UCLA Anderson.