DESTINATION excellence INC.

Gaining Competitive Advantage Through Focused Training

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INTRODUCTION

Market leaders train for competitive advantage. Differentiation in any market comes through people. People provide service. People develop products. People set the direction of your company. Investing in people is the most valuable investment companies can make. This issue that most companies face is how to most effectively target their training dollars.

One example of a company who has used training to achieve a sustainable competitive advantage is Southwest Airlines. The following is an excerpt from an interview with leaders within Southwest[1]:

> *"There have been a lot of Southwest wanna-bes, but they have not succeeded. They have not religiously stuck to what they say they are going to be. We invest in our people. We spend more money to recruit and train than any other airline. We take time to find the right people to hire, at all levels within our organization, and we spend time training them. It all comes back to people and the delivery of our product."*

Other companies have not been able to duplicate the success of Southwest because they are unwilling to make the same type of commitment to an investment in training. Southwest views training as part of the process to incorporate people in its culture, and focus them on the results the company desires. Training is key to delivering Southwest's differentiated competitive advantage. Their commitment to training is one key to making Southwest the most profitable company in the airline industry.

While not a market leader, Sears discovered a quantitative connection between training, customer satisfaction and profitability. Sears found that a five unit increase in employee attitude (about the job and about the company) resulted in a 1.3 unit increase in customer impression, which resulted in a 0.5% increase in revenue [2]. It all begins with the employee attitude which is shaped and developed by training. Likewise, in a similar article[3], the authors note that companies such as Service Master, Banc One, USAA and Southwest use employee selection and development and tools (continuation training) for serving customers as critical to their continued market leadership. Here, the authors note that a 5% increase in customer satisfaction can produce profit increases from 25% to 85%. The key to increasing customer satisfaction is employee training.

Some companies respond to the uncertainty in targeted training by maintaining a small or minimal training budget. While this strategy ensures money is not wasted, it also guarantees competitors an advantage.

At a minimum, most companies understand that training can reduce the cost of hiring by reducing turnover. Twelve studies at GTE Corporation and Western Electric Company found it to be less expensive to train and upgrade skills of existing workers than to hire and train new workers.[4] In the customer care industry, it regularly costs over $5,000 to identify, hire, train, and develop a new hire. Investing in 20 hours of

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[1] Jody Hoffer Gittell, *"Investing in Relationships,"* Harvard Business Review, June 2001
[2] Anthony J. Rucci, Steven P. Kirn and Richard T. Quinn, *"The Employee-Profit Chain at Sears,"* Harvard Business Review, January-February 1998
[3] James L. Heskett, Thomas O. Jones, Gary W. Loveman, W. Earl Sasser, Jr., and Leanard A. Schlessinger, *"Putting the Service-Profit Chain to Work,"* Harvard Business Review, March-April 1994
[4] *The Value of Training in The Era of Intellectual Capital, The Conference Board*

continuation training in existing staff members each year can easily reduce turnover 5%, thereby covering the cost of that training through new hire savings. More typically, reductions of 10% are experienced, producing a 100% return on investment.[5] Studies have shown that participation in employer-sponsored off-the-job training raises workers' productivity by 16 percent and increases their innovation on the job.[6]

This document will review ways in which your company can target its training investments to provide you with the greatest competitive advantage. It will accomplish this through the following principles:

1. Understand the role of training in developing competitive advantage.
2. Determine specific company goals.
3. Align individual goals with company goals throughout the company.
4. Link goals and measures within groups, between groups and throughout the company.
5. Develop and deliver *measurable training* throughout the life cycle of every person.

Destination Excellence understands how to develop, deliver, and provide curriculum planning to companies. We approach training like any other investment your company makes. Investments must project costs and savings and achieve an ROI or payback exceeding hurdle rates.

Destination Excellence works to link training objectives with specific, quantifiable goals of your company. Doing so increases the success of training. Like other areas of business, "You get what you inspect, not what you expect." To make training most effective, our training process includes:

- Specific and measurable training outputs tied directly to business objectives
- Inclusion of training as part of the business planning and continuous improvement process
- Linkage of training outputs to individual goals at all levels in the company
- Demonstrated support from leadership in terms of time and funding
- Training of key personnel (train-the-trainer) and knowledge based delivery systems
- Feedback loops and continuous evaluation of training's quality and attainment of objectives
- Accessibility or training to people in all payroll categories
- Curriculum that can continue after Destination Excellence has completed its project

[5] *ASTD Training Data Book,* ASTD
[6] *ASTD Training Data Book*, ASTD

COMPETITIVE ADVANTAGE THROUGH HUMAN CAPITAL

To succeed in today's competitive world economy, the U.S. must achieve leadership in technological innovation and leadership. Key to achievement of these goals is a renewed commitment to a vastly improved education and training system."
James E. Burke, CEO
Johnson & Johnson

The U.S. economy is undergoing a fundamental transformation. A transformation characterized by revolutionary technological advances, including powerful personal computers, high-speed telecommunications and the Internet. The market environment attributed to these and other developments in the last 15 years has been variously labeled the "information economy," "network economy," "digital economy," "knowledge economy" or simply the "new economy."

In the new economy, information and knowledge are replacing capital and energy as the primary wealth-creating assets. Today, people work with their brains instead of their hands, communications technology creates global competition and innovation is more important than mass production. Technology and knowledge are now the key factors of production. With increased mobility of information and the global workforce, knowledge and expertise can be transported instantaneously around the world, and any advantage gained by one company can be eliminated by competitive improvements overnight. The only competitive advantage a company will enjoy will be its process of innovation--combining market and technology know-how with the creative talents of knowledge workers and its ability to derive value from information.

Human skills are subject to obsolescence at a rate perhaps unprecedented in American History.
Alan Greenspan

Learning is what more adults will do for a living in the 21st century.
U.S. Bancorp Piper Jaffray

Economists like Paul Romer, Richard Nelson and Rob Shapiro assert that knowledge, technology and learning are keys to economic growth. The new economy puts a premium on what Nobel Laureate economist Douglas North calls "adaptive efficiency" which is the ability of institutions to innovate, continuously learn and productively change. Human expertise has become the foundation of this knowledge economy. Today, employees are the main, if not only, source of competitive advantage. Not surprisingly, new competitive standards affect organizational structures, requiring a move away from top-down systems towards more flexible systems and work groups. In addition to changes in organizational formats, companies are faced with constant changes in technology and work processes and procedures.

The chart below highlights differences between the old and new economies.

Keys to the Old and New Economies[7]		
ISSUE	**OLD ECONOMY**	**NEW ECONOMY**
Economy-Wide Characteristics:		
Markets	Stable	Dynamic
Scope of Competition	National	Global
Organizational Form	Hierarchical, Bureaucratic	Networked
Industry:		
Organization of Production	Mass Production	Flexible Production
Key Drivers of Growth	Capital/Labor	Innovation/Knowledge
Key Technology Driver	Mechanization	Digitization
Source of Competitive Advantage	Lowering Cost Through Economies of Scale	Innovation, Quality, Time-To-Market, and Cost
Importance of Research/Innovation	Low-Moderate	High
Relations With Other Firms	Go It Alone	Alliances And Collaboration
Workforce:		
Policy Goal	Full Employment	Higher Real Wages and Incomes
Skills	**Job-Specific Skills**	**Broad Skills and Cross-Training**
Requisite Education	**A Skill or Degree**	**Lifelong Learning**
Labor-Management Relations	Adversarial	Collaborative
Nature of Employment	Stable	Marked by Risk and Opportunity
Government:		
Business-Government Relations	Impose Requirements	Encourage Growth Opportunities
Regulation	Command and Control	Market Tools, Flexibility

[7] *New Economy Index*, Progressive Policy Institute

What is Human Capital?

The concepts of human capital and intellectual capital are closely related. Intellectual capital is the broader of the two, encompassing the accumulated knowledge that an organization possesses in its people, methodologies, patents, designs and relationships. Human capital is a subset of that concept. Human capital is a measurement of people—their intellect, knowledge and experience. Traditionally, its value was based on the cost of replacing and training the workforce. However, to get a true sense of the value of an organization's human capital, opportunity cost, productivity and other factors must be added to the equation. More than ever before, human capital is a company's most valuable asset, and the pivotal point in executing its business strategy. Igniting the talent in their organizations is one of the single most significant steps a company will take toward successful achievement of their strategic goals.

The Link Between Human Capital and Corporate Financial Results

Proponents of human capital management believe that by measuring the broad impact that employees have on the financial value of an organization, companies can hire, manage, assess and develop employees in a way that converts human attributes into hard financial figures. Although this involves finding ways to value qualities that have traditionally been considered intangible. In theory the concept of human capital has been widely accepted as valid, however many executives have been discouraged from investing in human capital enhancement programs such as an organizational learning initiative because of the perceived difficulty of determining the return on investment.

Research shows that people who are trained formally in the workplace have a 30% higher productivity rate after one year than people who are not formally trained.

Organizations are becoming aware of the strong link between human capital and corporate financial results—a link that traditional accounting practices fail to recognize. Companies studying that link may or may not arrive at a specific number or figure to express the value of their human capital. But by attempting to quantify it, they can get a sense of how much individual employees can contribute to the organization, how committed they are to their jobs, how they feel about the company and how likely they are to leave. What companies learn about their organizations in the process of evaluating their human capital often provides useful insights and actionable information.[8]

Companies worldwide are feeling the pressure to become even more efficient than in the past. They are finding that current technology allows competitors to bring similar or better products to market very quickly. Corporations are realizing that their true value will increasingly reside in their human capital and its utilization. Increasingly, business results depend on ideas and knowledge more than on physical capital. Today more than ever, attracting, cultivating and retaining the right people are critical factors to success. As a result, organizations must:

- Develop or update human resources (HR) systems and processes to meet evolving needs.
- Attract and retain diverse people in a shrinking global talent pool.

[8]Daintry Duffy, *A Capital Idea,* CIO Enterprise Magazine, November 1999

- Manage their human assets in a distributed environment, while developing critical management and functional skills
- Structure around emerging models for speed/fluidity, not traditional hierarchies

It is in the interest of any organization to maximize its human resources by investing in the skills of its workforce, its human capital. Investment in human capital increases productivity. It has long been theorized that better educated employees are generally:

- More flexible and more motivated, adapt themselves more easily to changing circumstances
- Benefit more from work experience and training
- Act with greater initiative in problem-solving situations
- Assume supervisory responsibility more quickly
- Are more productive than the less educated, even when their education has taught them no specific skills

Learning is at the core of human capital performance and knowledge creation. Evolved capabilities for learning are essential to sustain high performance. Unfortunately, the principles of human capital are validated in theory, but are only just emerging in practice. This is attributed to the following factors:

- Managers equate learning to training and training is seen as an expense.
- Organizations do not know how to quantify/value human capital.
- Managers do not understand the dynamics of human capital performance.
- Managers and human resource professionals do not know how to manage human capital performance.

WORKFORCE TRENDS

Technology

According to the U.S. Department of Labor's Futurework Study, "The rapid computerization and networking of American businesses, industries, and homes has been called a "microprocessor revolution." That revolution is fundamentally transforming the way—and the speed with which—people think, connect, collaborate, design and build, locate resources, manipulate tools, conduct research, analyze and forecast, reach markets, present themselves and their wares, move and track products, make transactions—in short, do business."

By 2006, nearly half of all U.S. workers will be employed in industries that produce or intensively use information technology, products, and services, according to U.S. Department of Commerce projections. To meet growing demand for technically skilled labor, the investment in training has significantly increased in most organizations. As technology becomes more sophisticated, job performance and advancement will depend a great deal on ongoing skills training. Even skills required to perform "non-high tech" jobs will need updating as technology introduces new ways of completing age-old tasks.

Changing Workforce Demographics

Today, the American workforce is significantly more educated and diverse than in previous decades. To respond to rapid technological change, skill requirements have steadily increased since the mid-80s. In fact, more than half of the new jobs created between 1984 and 2005 will require some education beyond high school. According to U.S. Department of Labor Statistics, the percentage of women, older workers and Asian and Hispanic workers will continue to increase through 2005.

Nearly 83% of all adults ages 25 and over have completed high school, and 24% have obtained a bachelor's degree or more. A dramatic increase from just 30 years ago, when fewer than 54% of this group had completed high school and fewer than 10% had completed college. Despite encouraging trends in post-school training, more is required, particularly in job-related basic skills. In a 1998 survey conducted by the American Management Association (AMA), 36% of job applicants taking employer-administered tests lacked the math and reading skills necessary in the jobs for which they were applying. AMA concluded that the deficiency rate is due to the higher literacy and math skills required in today's workplace. Faced with continuing skilled labor shortages, organizations place greater emphasis on training less skilled applicants.

Corporate Restructuring

Corporate restructuring is a response to the growing global economy and the need to be increasingly competitive. De-regulation, downsizing, mergers and acquisitions, consolidation and convergence impact hiring and training practices. As a result of corporate restructuring, more people are changing jobs more frequently. In fact, young people hold an average of nine jobs before 32.[9] Often new employees require at minimum, orientation training if not additional skills training.

[9] *Futurework,* Department of Labor

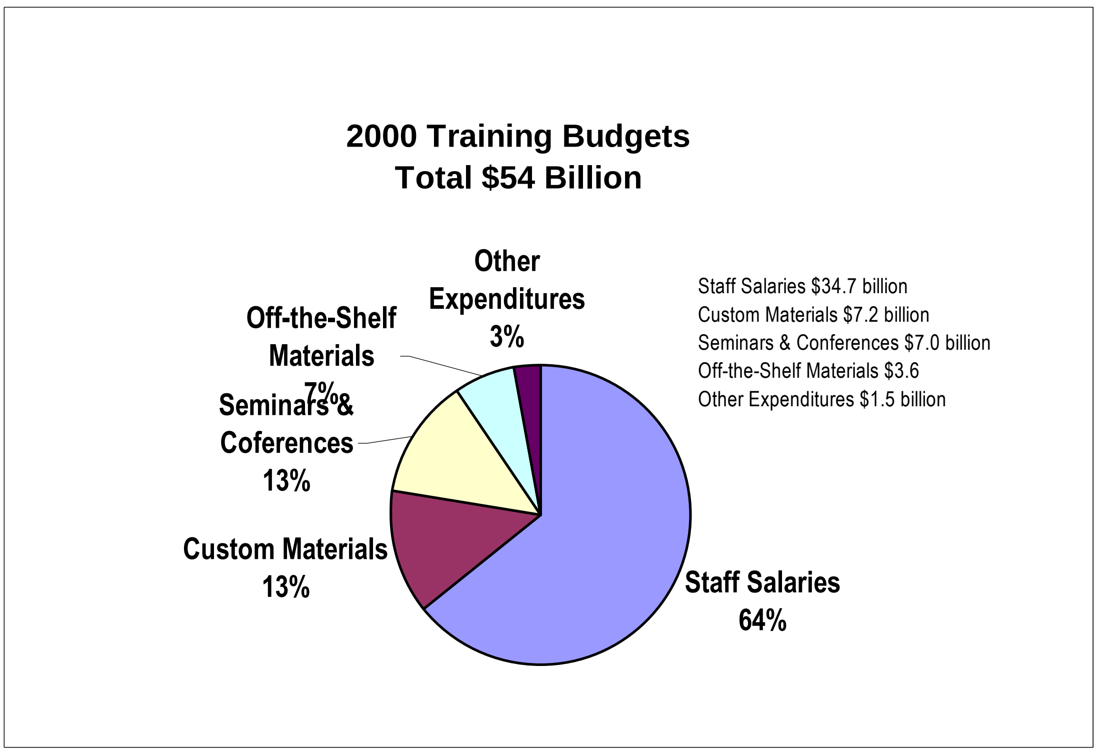
TRENDS IN CORPORATE TRAINING

New View of Education in Our Knowledge-Based Economy	
Old Economy	**New Economy**
Four-year Degree	Forty-Year Degree
Training as Cost Center	Training as #1 Source of Competitive Advantage
Learner Mobility	Content Mobility
Distance Education	Distributed Learning
Correspondence & Video	High-Tech Multimedia Centers
One Size Fits All	Tailored Programs
Geographic Instituting	Brand Name Universities & Celebrity Professors
Just-in-Case	Just-in-Time
Isolated	Virtual Learning Communities

The Book of Knowledge, Merrill Lynch

The steady increase in corporate training expenditure reflects the shift towards a knowledge economy. Simba Information, one of the nation's leading research firms in the area of corporate training, predicts that the corporate training market will grow at a compound annual rate of 8.6% from 1999 to 2001 as a response to the need to train the U.S. workforce in IT skills and soft skills.

In 2000, U.S. employers spent an estimated $54 billion on formal training. Salaries of in-house training staff accounted for $34.7 billion or 64%. [10]



[10] *Industry Report 2000,* Training Magazine

Training staff salaries include salaries paid to internal trainers and administrative support staff in the training department. Custom materials include materials tailored/designed by outside suppliers specifically for a company including video, film, classroom programs, computer courseware. Seminars/Conferences include training by outside providers/contractors either on-site or off-site. Off-the-shelf materials include prepackaged materials purchased from outside providers such as computer courseware, books and videos.

According to the American Society for Training & Development (ASTD), The average U.S. company is training more of its employees than ever before, more dollars are going to technical skills training than other type of training and e-learning is gaining momentum among large companies. In their study, ASTD also compared training practices between the top 10% of companies surveyed and the average survey respondent.

	Average Survey Respondent	Top 10% of Companies Surveyed
Percentage of employees trained their organization	78.6%	98.4%
Average training investment per eligible employee	$677	$1,665

Motorola calculates that every $1 it spends on training translates to $30 n productivity gains within three years.

This study suggests a correlation between company success and training investment. Mark Van Buren, Director of Research at ASTD noted, "Training Investment Leaders have made learning a central focus of organization-wide efforts to stay competitive and deliver results in the New Economy."[11]

The study also identifies training best practices common among leading edge firms.

Program or System	Description
Training resource center	Designated facility with training staff, materials and information
Train-the-trainer courses	Teach non-training staff on instructional design and group facilitation
Coaching or mentoring programs	Formal process to match experienced with less experienced staff to provide instruction or assistance
Individual development plans	Course of action designed by employee and supervisor outlining career development and training needs
Training information system	Computer system to track training: individual training history, expenditures, learning plans, course scheduling

[11] *ASTD 2001 State of the Industry Report*, ASTD

In addition to boosting competitiveness and productivity, there also seems to be a relationship between training and employee turnover. The findings of a Department of Labor Statistics study indicates an inverse relationship between turnover and training—the higher the level of turnover, the lower the amount of training. This inverse relationship is attributed to the following assumptions:

- The longer an employee stays with an employer, the higher will be the return to training.
- If labor turnover is high, employers will be reluctant to invest in training, knowing that workers might have to be laid off or quit before a return to the investment in training can be earned.
- Job related training is likely to contribute to an increase in productivity, which in turn, will tend to raise a worker's wage above what he or she would earn elsewhere, thus providing an incentive to stay.

Incidence and Intensity of Training, by Employee Turnover[12]		
Turnover	**Percent of establishments that provided formal training in the last 12 months**	**Percent of employees who received formal training in the last 12 months**
Low	92.7%	78.0%
Medium	96.0%	74.7%
High	88.6%	60.7%

The Bureau of Labor Statistics published the Survey of Employer Provided Training (SEPT), which provides information on the amount of formal and informal training provided by employers as well as the amount employers spent on selected training expenditures. Below are highlights of this study.

Training Expenditures
- Average number of hours of formal training per employee (10.7).
- Average number of formal training activities per employee (2.1).
- 65% of establishments increased the proportion of their employees who received training in the last 3 years, with only 3% indicating a decrease. Nearly 70% increased the amount they spent on training, while only 5% experienced a decrease.

Training Type
- Job skills training accounted for 67% of the total training hours and 48% of total training participants. Computer training took up 20% of the total training hours, the largest share of any training type.
- General skills training accounted for 33% of total training hours and 52% of total training participants, with occupational safety training accounting for 11% of total training hours.

Industry Insight
- The transportation, communications and public utilities industries provided the most hours of formal training, followed by finance, insurance, real estate and mining. Retail trade and construction provided the fewest.

Training Method
- The most type of training was classified as "off-site training," used by 80% of establishments. 40% had mentoring programs, slightly more reported using individualized career and development plans and only 24% had formal apprenticeship programs.

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[12] *Results from the 1995 Survey of Employer-Provided Training*, Monthly Labor Review, June 1998

- 91% reported in-house staff providing at some of the training.

In the SEPT study, training is classified as either formal or informal training.

- **Formal Training:** Training that has a structured, formal, and defined curriculum; it may be conducted by supervisors, company training centers, businesses, schools, associations, or others. Formal training includes classroom work, seminars, lectures, workshops, and audio-visual presentations.

- **Informal Training:** Training that is unstructured, unplanned, and easily adapted to situations or individuals. Examples include having a co-worker show you how to use a piece of equipment or having a supervisor teach you a skill related to your job.

According to ASTD, formal training is four to five times more productive than informal training and three times more productive when done in-house.[13]

Despite increases in corporate training expenditures, more is needed to satisfy the need for skilled labor in this new economy. ASTD projects that 50 million U.S. employees (42% of the workforce) need training right now and are not getting it.

- 16 million will need skills and technical training; executive level employees and others needing management or supervisory training
- 11 million need customer service training
- 17 million need basic skills training (reading, writing and math skills)
- Annually another 37 million will need entry level or qualifying job training

Coaching and Mentoring

Coaching or mentoring programs are formal processes to match experienced with less experienced staff to provide instruction or assistance. Coaching and mentoring as subsets of training, has also emerged as a growing trend.

Difference Between Coaching and Mentoring[14]

	Coaching	Mentoring
Scope	Raising performance expectations	Organizational, career or personal transitions
Focus	Task-centered - links individual effectiveness to organizational performance	Possibility-centered, options/exploration, not necessarily linked to organizational performance
Purpose	Develop and select options for behavior modification for improved organizational performance.	Address individuals' identity in the context of the bigger picture (both inside and outside the organization)

13 ASTD
14 Bobbie Little, director, executive advisory services, The Center For Executive Options, Raleigh, N.C., part of Drake Beam Morin, April 6, 2001.

A survey conducted by Manchester, a human capital consulting services company, found that companies are focusing on developing the leadership abilities of their managers, executives and employees internally through coaching and mentoring programs.

- 59% currently offer coaching or other developmental counseling to their managers and executives. Another 20% plan to offer coaching within the next year.
- 25% have set up formal mentoring programs, with another 25% planning to do so within the next 12 months.

Study participants cited the following reasons for offering coaching or other developmental counseling:

- To sharpen leadership skills of high-potential individuals 86%
- To correct management behavior problems (communication skills, failure to develop subordinates, indecisiveness, etc.) 72%
- To increase the success of newly promoted managers 64%
- To correct employee relations problems (poor interpersonal skills, disorganization, arrogant behavior) 59%
- To provide management and leadership skills to technically oriented employees 58%

With a tight labor market, employee retention is imperative. Coaching and mentoring programs are becoming valuable developmental and retention tools for many organizations. Participants cited the following reasons for offering mentoring programs:

- Retention of employees 73%
- Improve leadership and managerial skills 71%
- Develop new leaders 66%
- Enhance career development 62%
- Put high-potential individuals on the fast career track 49%
- Promote diversity 48%
- Improve technical knowledge 30%

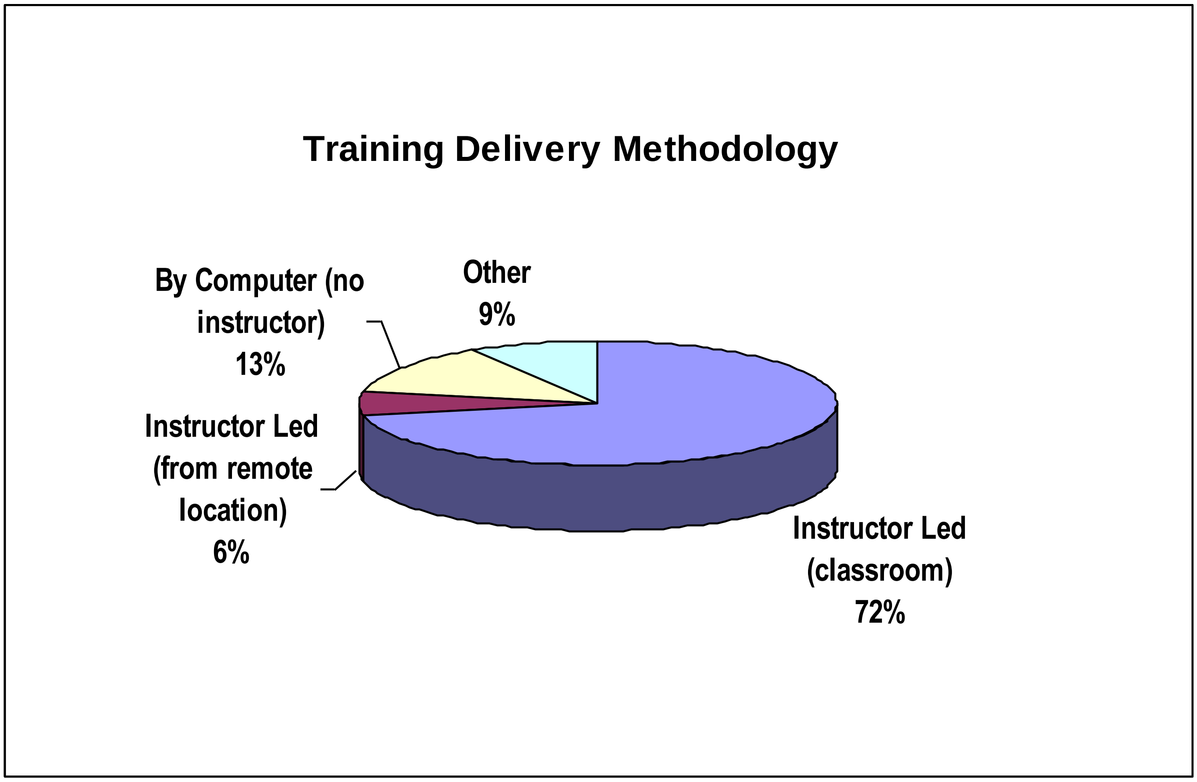
Training Delivery

As with every other area in organization, technology has significantly changed how training is conducted. Innovations in training include:

- Use of multimedia user interfaces which combine different media such as text, graphics, sound and video to present information.
- Online training including training on CDs and web-based training (WBT).
- Distance learning, also known as asynchronous training, allows for the acquisition of knowledge and skills through mediated information and instruction.

Computer-based training and online training can reduce training costs over instructor-led training. A congressionally mandated review of 47 comparisons of multimedia instruction with more conventional approaches to instruction found time savings of 30% improved achievement and cost savings of 30-40%.
Merrill Lynch, The Book of Knowledge

Although organizations are increasingly relying on computer-delivered training, traditional classroom training continues to be the most prevalent training method. ASTD states that use of technology-based delivery is going to increase "immensely." Pressures pushing companies toward technology-based training include smaller training departments, shorter product cycle times, less employee travel to cut costs and time away from work for training and the need to keep employees updated on changing skill requirements.



In the charts below, traditional instructor-led training is compared to asynchronous and synchronous web-based training.[15]

[15] The Hurwitz Group for Instruction Set

Instructor-Led Classroom Training	
Advantage	High quality delivery Immediate Q & A Leverage student questions
Disadvantage	Costly student/trainer expense Costly one-to-few training Training often too soon/too late Trainer must be knowledgeable of multiple applications
Best when used for	Multiple students of similar skill level Training in single location Observable performance Interpersonal skills/feedback Highly interactive knowledge sharing
Worst when used for	Students of widely-varying skill levels Training for large system/process rollout Consistency across learner groups

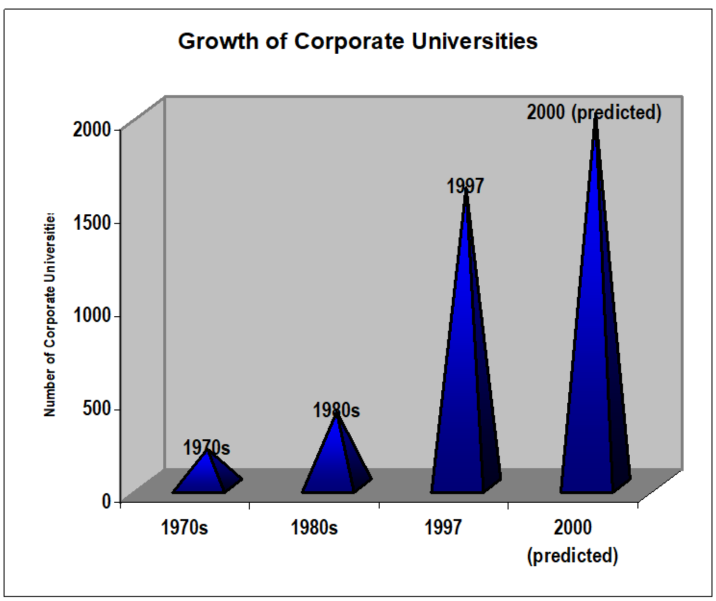
Asynchronous Web-Based Internet/Intranet Training	
Advantage	Just-in-time training No travel costs Self-paced learning Remedial training at no cost Consistency Possible increased retention Easily distributed/updated training materials
Disadvantage	Self-directed motivation can be problematic Lack of classroom collaboration May be viewed as "done on your own time"
Best when used for	Basic training Students in multiple locations As part of instructor-led training course
Worst when used for	Observable interpersonal skills/feedback Real-time knowledge sharing

Synchronous (real-time) Web-Based Internet/Intranet Training	
Advantage	High quality delivery Immediate Q & A Leverage student questions Rapid, low-cost content
Disadvantage	Cost-per-student higher than asynchronous training Network connection needed
Best when used for	Basic training Students in multiple locations Highly interactive knowledge sharing Hands-on application training
Worst when used for	Students of widely-varying skill levels Observable interpersonal skills/feedback

Corporate Universities

Corporate university is defined as a function or department that is strategically oriented toward integrating the development of people as individuals with their performance as teams and ultimately as an entire organization by linking with suppliers, by conducting wide-ranging research, by facilitating the delivery of content, and by leading the effort to build a superior leadership team.

With more than 1,600 corporate training institutions already established, corporate universities could surpass the number of traditional universities by the year 2010.[16] As of 1998, the number of corporate universities worldwide grew more than 400% in ten years. The centralized, proactive and strategic format of the corporate university is ideally suited for the learning needs of today's corporate environment.



16 Futurework

MEASURING TRAINING EFFECTIVENESS

Generally, training is considered, in most organizations, an expense and not an investment in human capital. However, this perception is changing as human expertise becomes a key competitive advantage. Training is becoming a critical organizational function. As with any other area of a business the old adage, "If you can't measure, you can't manage it." applies to the training function. There are a number of reasons why an organization should evaluate training:

1. **To validate training as a business tool**. Training is one of many actions that an organization can take to improve its performance and profitability. Only if training is properly evaluated, can it be compared against these other methods in order to determine the most effective course of action.
2. **To justify training cost.** As companies tighten their belt, training budgets are usually first cut. Quantitative analysis is necessary to justify continued training investments. Management wants concrete figures to support the need for training expenditures.
3. **To help improve the design of training**. Training programs should be continuously improved to provide better value and increased benefits for an organization. Without formal evaluation, the basis for changes can only be subjective.
4. **To help in selecting training methods**. These days there are many alternative approaches available to training departments, including a variety of classroom, on-job and self-study methods. Using comparative evaluation techniques, organizations can make rational decisions about the methods to employ.

Measuring Training ROI

Many companies are now calculating return on investment (ROI) analysis to measure and justify training. Return on investment (ROI) is a measure of the monetary benefits obtained by an organization over a specified time period in return for a given investment in a training program. Simply state, the ROI is the extent to which the benefits (outputs) of training exceed the costs (inputs). Calculating training ROI is a three-step process.

To calculate ROI you must first make estimates or obtain measurements of the costs associated with training including:

1. Design and development costs
2. Training staff
3. Training materials
4. Facilities
5. Staff hours

The financial benefits of training can be measured in terms of:

1. Labor savings resulting from reduced duplication of effort, less time spent correcting mistakes or faster access to information

2. Productivity increases including higher levels of skill leading to faster work or higher levels of motivation resulting in increased effort
3. Revenue increases resulting from a higher sales rate or effective use of up-selling and cross-selling
4. Other costs savings including lower staff turnover which subsequently lowers recruitment and training costs

Once costs and benefits are forecasted, an ROI can be calculated using the following formula:

%ROI = (benefits/costs) x 100

Another way of looking at ROI is to calculate how months it will take before the training pays for itself. This is called the "payback period." Payback period calculation:

Payback period = costs/monthly benefits

Depending on your role within an organization, you will more than likely have a different perspective on training ROI. Different levels of management make different sorts of decisions, so it is appropriate that they use different measures of ROI. The chart below provides the likely goal, measurement and scope of ROI analysis for different functions within an organization.

Function	Goal	Measurement	Scope
Training manager	Close skills gap	Individual performance	Business unit, specific training
Business unit manager	Achieve business goal	Project goals, business metrics	
Corporate staff	Choose the best alternative	Financial metrics, business case	Enterprise, e-learning infrastructure
Executive management	Gain competitive advantage, transformation	Business case, shareholder value	

"A Fresh Look at ROI", Jay Cross

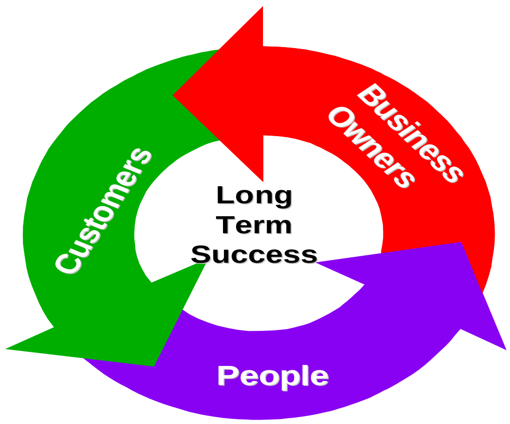
Measuring Soft Benefits

ROI analysis does not account for "soft" benefits such as improved morale, improved confidence and better communication skills, because they cannot be translated into dollars and cents. A cost/benefit analysis would be incomplete it does not include consideration of these soft benefits.

LINKING TRAINING DIRECTLY TO CALL CENTER PERFORMANCE

Customers, Owners and People

The most successful call centers and e-centers have made a decisive effort to align measurements among the three critical business units: their customers (quality and satisfaction), their owners (financial performance) and their people (employee satisfaction). This is depicted below:



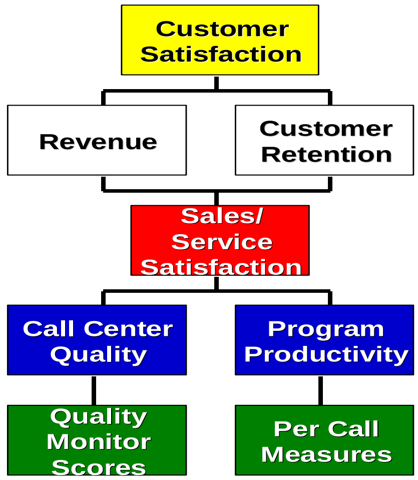
Source: Destination Excellence, 1998.

Each of these three units has specific measurements that must be managed in order to ensure the long-range success of the call center or e-center. Some of these measurements overlap, others are unique to a specific business unit. Each measurement, however, must be in alignment with performance objectives and must be balanced to the other measurements.

Customer Satisfaction

Any businessperson will tell you that the satisfaction of their customer is their highest priority. Indeed, we all know that it costs ten times more money to attract a new customer than it does to keep an existing one. But how can you be sure that your customer is satisfied? What metrics are best-in-class? What skills are necessary to provide best-in-class service?

The chart below provides the key performance metrics for measuring customer satisfaction. These will include both quantitative measurements (cumulative service level and abandoned rate) and qualitative measurements (customer surveys).

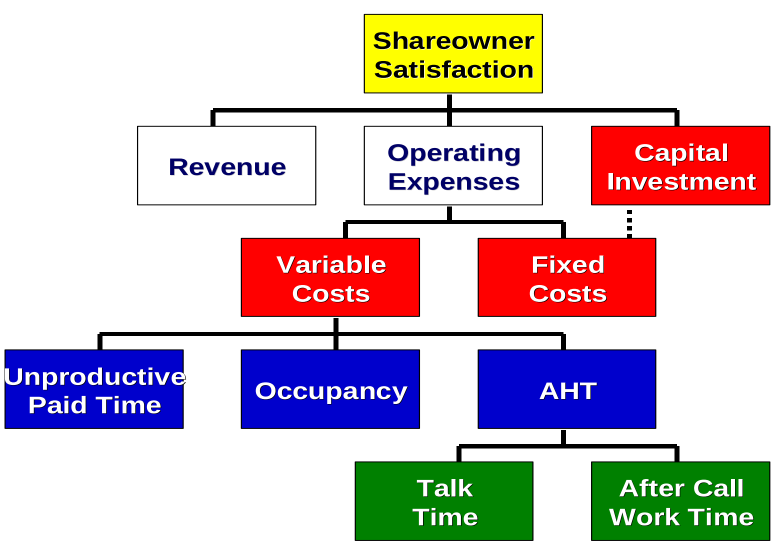


Source: Destination Excellence, 1999.

Overall customer satisfaction is evidenced by two key factors: revenue and customer retention. As noted above, both of these measurable factors are driven by sales/service satisfaction. That is, a customer that is satisfied with the product and service will continue to do business with your company.

Financial Measurements (Owners)

While balancing customer satisfaction is key to growing the customer base and revenue base of a company, benchmarking financial measurements is the key component to the equation to ensuring profitability.



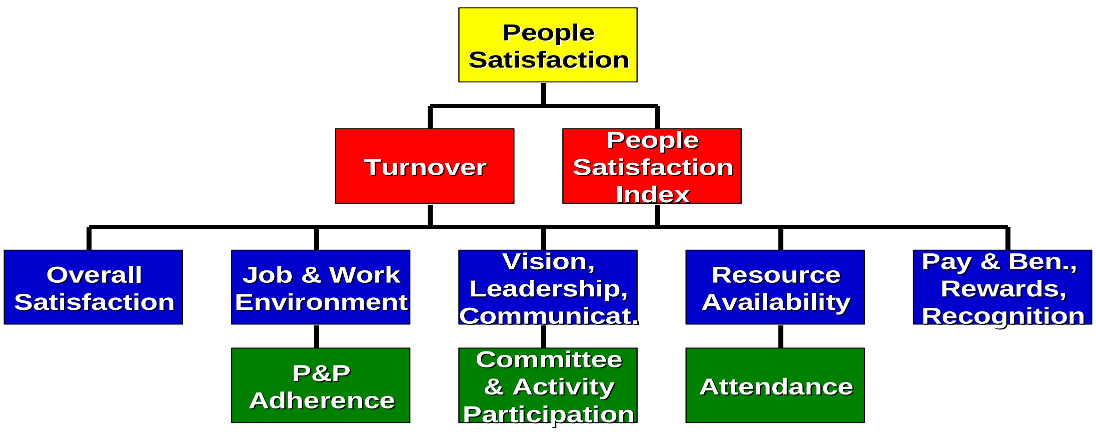
Source: Destination Excellence, 1999.

Each call center has specific cost drivers that are unique to their own environment, however the methodology for managing cost drivers and utilizing financial leverage points are much the same across best-in-class units. Providing a balance between disciplined cost-per-call management and wise investment of resources is often a difficult task. Issues such as identifying variable cost drivers and utilizing financial leverage points are key here, as depicted below.

Shareowner satisfaction is the most quantifiable of all the three business units. Revenues (customer-driven, and supported by the employees) are tracked to sales, and margin is tracked through cost management. Variable and fixed cost management is the key to shareowner satisfaction. The benchmark study helps to identify these key measurements and their overall allocation.

Employee (People) Satisfaction

High levels of satisfaction of the people in a call center or e-center are key to the satisfaction of the customers, which is key to the satisfaction of the business owners. Issues such as turnover and employee satisfaction surveys are detailed here. This is depicted as such:



Source: Destination Excellence, 1999.

This critical business unit is driven by people satisfaction. Employee satisfaction is measured with employee feedback surveys and specific management plans to address the key employee issues.

There is a strong correlation between business success and hiring and training practices. The chart below attempts to illustrate the linkage between what the business wants (constituency) what measures the business uses to determine attainment of the key area goals (measures), and how the business can support people to attain those goals through training (skills training).

Constituency	Business Measure	Director Measure	Skills Training
Customers	Revenue	Sales Satisfaction	▪ Team Motivation ▪ Incentive Systems
	Retention	Service Satisfaction	▪ Customer Expectations
Business Owners	Operating Expense	Variable Cost	▪ Forecasting and Staffing ▪ Operational Adherence
		Fixed Cost	▪ Budget Management
	Capital Investment	Capital Investment	▪ Technology Applications ▪ Vendor Analysis Techniques
People	People Satisfaction	People Satisfaction	▪ Meeting Facilitation ▪ Oral Communications ▪ Written Communications
	Turnover	Turnover	▪ Motivational Tools ▪ Career Planning

Constituency	Business Measure	Supervisor Measure	Skills Training
Customers	Revenue	Program Productivity	▪ Call Monitoring Techniques
	Retention	Program Quality	
Business Owners	Operating Expense	Occupancy	▪ Forecasting and Staffing ▪ Operational Adherence
		AHT	▪ Call Monitoring Techniques
		Unproductive Time	▪ Time Management ▪ One Minute Manager
	Capital Investment		
People	People Satisfaction	People Satisfaction	▪ Improving Performance Through Encouragement ▪ Feedback Techniques ▪ Performance Evaluations
	Turnover		

Constituency	Business Measure	Agent Measure	Skills Training
Customers	Revenue	Per Call Measures	▪ Identifying Needs v. Wants ▪ Upselling ▪ Closing the Sale
	Retention	Quality Monitoring Scores	▪ Communication Skills ▪ Listening ▪ Vocal Presence ▪ Defusing Angry Customers
Business Owners	Operating Expense	Talk Time	▪ Controlling the Conversation ▪ Hard Skills Training
		After Call Work	▪ Time Management
	Capital Investment		
People	People Satisfaction	Attendance	▪ Health & Fitness
		P&P Adherence	▪ Managing Obligations ▪ P&P Training ▪ Workplace Principles
		Committee Participation	▪ Group Dynamics ▪ Development Opportunities
	Turnover		

DESTINATION EXCELLENCE - YOUR COMPETITIVE ADVANTAGE

During this period of rapid and often chaotic change, internal resources can be stretched beyond capacity. Many companies use industry professionals, to augment resources. Destination Excellence brings practical understanding with a history of success from both the utilities and telecommunications deregulatory environments. Our experienced professionals can assist you in achieving excellence by developing custom programs to maximize sales, improve customer service, decrease costs and ultimately, increase your profitability.

- **HIRING AND TRAINING** – Hiring the right person is a great beginning. The next step is to train them to achieve their best for themselves and the company in order to create an environment of excellence. Destination Excellence will help your company accomplish the following:
  - Identify the best tools to predict the success of people *before* you hire them.
  - Develop a comprehensive hiring program to maximize the potential success of everyone you hire.
  - Implement a new-hire training program to equip people to perform at their maximum potential.
  - Design ongoing training and communications systems to maintain the enthusiasm of your people throughout their career.

- **FORECASTING AND STAFFING** – Destination Excellence utilizes a proprietary set of call volume forecasts, customized to fit your individual needs. Based on specific call volume drivers that are unique to you, our call volume forecasts have been accurate to within 5% on a daily basis.

- **PROFIT MANAGEMENT** - Whether your call center is internal or outsourced, the cost of doing business is interconnected with each area of your company. Destination Excellence has developed strategic business modeling for companies in a number of vertical markets: wireless, utilities, travel, financial and e-commerce to name a few. We will also assist you in minimizing your overall costs while increasing your service levels. The key is to correctly determine the factors that drive your business and optimize those performance factors.

- **TECHNOLOGY** – Destination Excellence has hands-on experience in call center systems. Telecommunications services, ACDs, Manpower Planning Systems, and CRM systems are included in the array of call center technology experience found at Destination Excellence. Destination Excellence provides a three-dimensional analysis of not only the cost of new technologies, but also the return on investment to the call center. Our services also include user specification development, contract negotiation, vendor management and post-installation quality checks.

- **OUTSOURCING** – Destination Excellence understands that not all businesses require, or desire, to maintain their own call centers. Successful businesses focus on their own core competencies. Strategic partnerships with excellent outsourcing centers provide a company with professional customer contact, while freeing up valuable internal resources. Destination Excellence has helped companies place outsourced call center and e-center business, as both a partner and intermediary. Utilizing a proprietary 100-point call center audit, Destination Excellence has successfully placed over $10 million in call center business, and helped to create excellent, metric-driven long-term partnerships.

Contact Destination Excellence toll-free on 877-433-7839, or e-mail us at info@destex.com. You will be glad that you did.