

# 2007 Industry Report

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

**2007** saw overall training budgets and staffing go up, but growth tailed off somewhat, and the number of training organizations reporting increases in their training budgets and reporting staffing increases dropped.

Overall, U.S. organizations shelled out \$58.5 billion for training this year (including payroll and training budgets), with \$16.3 billion earmarked for external learning products and services. These numbers are up 4.8 percent and 3.1 percent, respectively, from last year's figures of \$55.8 billion and \$15.8 billion. However, growth is down compared with 2005 to 2006, when training budgets increased 7 percent, compared with 6 percent from 2006 to 2007.

Approximately half (54 percent) of all training organizations reported increases in their training budgets this year versus 63 percent in 2006.

That said, the number of training organizations reporting budget increases still far outweighs the number (16 percent) reporting budget decreases. Approximately one-third of training organizations reported no change in their budgets over last year.

Across all companies, budgets increased 6 percent this year, on average. Small businesses (those with 100 to 999 employees) saw budget increases of nearly 7 percent, on average; midsize and large companies reported increases in the 6 percent range. But even with these larger budgets, the amount of spending per learner has not risen. This year, organizations spent \$1,202 per learner on training (including staff salaries), which is roughly equivalent to last year's figure of \$1,273. Why? Companies now have more employees to train, and they are still hiring and expanding their workforces, keeping per-learner spending stable.

In terms of staffing, approximately one-third (30 percent) of training groups added headcount over the last 12 months, which is also a decline from the 37 percent reporting staff increases in 2006. In most training organizations (67 percent), the number of training personnel has remained steady over the last year. Only a small number (3 percent) of training groups said they have fewer staff this year than last. Overall, the average staff-to-learner ratio remained the same as last year, at 6.7 training personnel for every 1,000 learners.

Total payroll spending for training staff personnel has remained fairly consistent over the last several years. This is due, in part, to the changing composition of training groups. As senior training personnel retire, they are replaced by younger, lower-cost workers. In addition, organizations once heavily staffed with instructors now are hiring higher proportions of content developers and technology specialists to facilitate their online learning strategies, roles that come at a lower cost than a senior trainer or instructor.

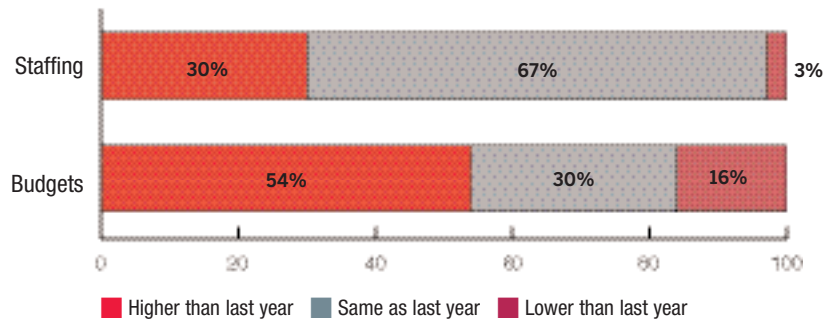
Over the years, the proportion of training dollars spent on

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payroll has declined. A few years ago, more than 70 cents of every training dollar went to payroll. Today, the figure is just 64 cents. With the increase in e-learning, organizations are spending a greater proportion of their training budgets on learning technologies. They also are spending more on outside services. With the high numbers of external vendors and consultants available today, training groups are outsourcing more functions and are utilizing their internal teams for more strategic, value-added activities.

"The composition of the training organization has changed over the last 4 to 5 years," notes Josh Bersin, principal and founder of Bersin & Associates. "The new mix of training roles reflects the increased use of technology and

## Reported changes in 2007 budgets and staffing



2007 total training industry expenditures will top **\$58.5 billion.**

## Breakdown of training expenditures 2003-2007

in \$ billions



greater outsourcing of specialized and tactical programs."

## TOP PRIORITIES

Training organizations have a variety of program areas competing for funding. This year, the top areas for funding include management training and profession- or industry-specific training. Each of these areas receives 15 percent of training dollars.

Profession- or industry-specific

**Leadership development, which includes both management/supervisory training and executive development, is a \$12 billion industry, including internal and external spending.**

training includes programs in areas such as accounting, engineering, or the telecommunications market. This training can be provided internally or through outside conferences, seminars, or classes. As most skilled workers need continual training in their specific profession or industry, a large amount of money is spent in this area.

Management and supervisory training receives a great deal of funding due, in part, to the aging of the workforce. With large numbers of retirements looming, companies are focused on succession planning. The combined leadership training and development category, which includes both management/supervisory

## About this survey

### Organizational size classifications

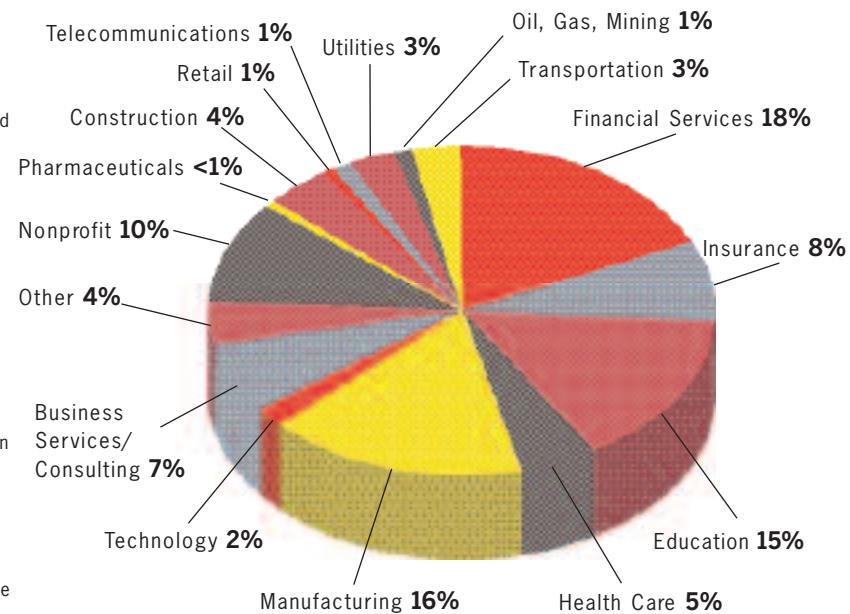
Company Size	% of Respondent Companies
Small (100 to 999)	27.9%
Mid-size (1,000 to 9,999)	39.2%
(Large) 10,000 or more	32.9%
<b>Total number</b>	<b>100%</b>

Source: Bersin & Associates

Now in its 26th year, *Training* magazine's Industry Report provides data on training budgets, staffing, and programs. Again this year, the study was conducted by Bersin & Associates, a research and advisory firm focused on enterprise learning and talent management. This year's study was conducted in August 2007, when members from the *Training* magazine database were e-mailed an invitation to participate in an online survey. Only U.S.-based corporations and educational institutions with 100 or more employees were included in the analysis. The data represents a cross-section of company sizes and industries (see charts above and right). Note that the overall figures in this report are weighted according to the Dun & Bradstreet database, which heavily favors small organizations since they dominate, in terms of sheer numbers, the U.S. market. Throughout this report, results are broken out by organization size to show the differences between small and large organizations.

### Industrial classifications

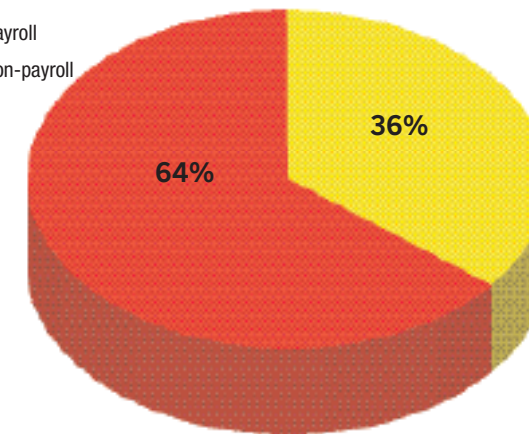
The data represents a cross-section of industries. The highest representation is in the financial services sector, at 18 percent, followed by manufacturing at 16 percent and educational institutions at 15 percent. Other industries each account for 10 or less percent of the total sample.



## Breakdown of training expenditures

2007

■ % of training expenditures-payroll  
■ % of training expenditures-non-payroll



Training budgets have increased **6%** from 2006 to 2007.

## DEFINITIONS

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

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training and executive development, captures 21 percent of training dollars, the single largest category. This underscores the critical nature of this program area, as organizations realize they must invest heavily to fuel their leadership pipelines. (For more information, see "High Impact Leadership Development" at <http://store.bersinassociates.com/hild.html>.)

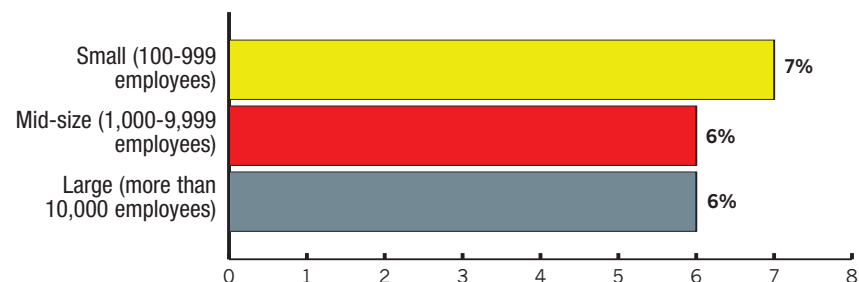
Mandatory/compliance training and sales training also are among the top areas for funding. Each of these

## Usage of podcasting for training leapt from 5% in 2006 to 15% this year.

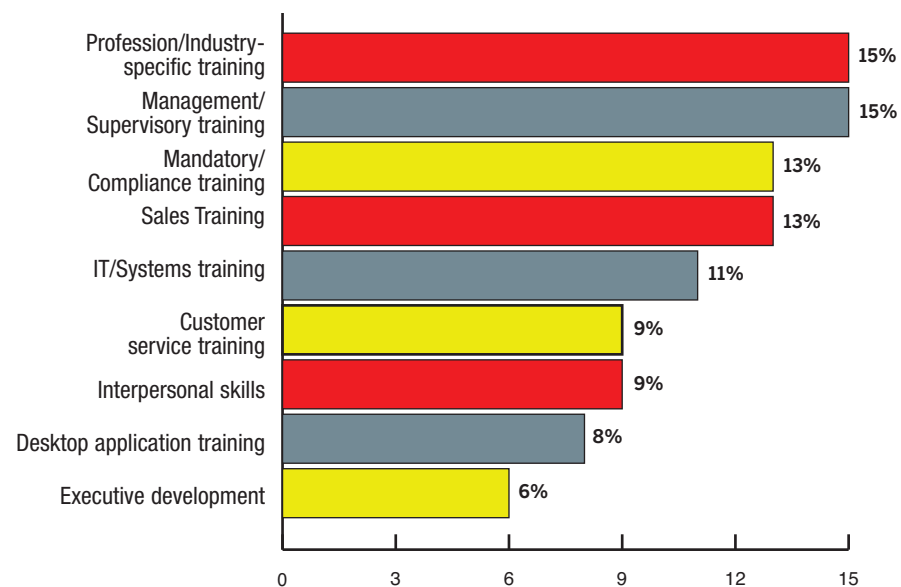
program areas receives 13 percent of training dollars. Meeting compliance requirements is a critical issue in regulated industries such as the financial services and health-care sectors. Other types of mandatory training, such as operational safety, are important in the manufacturing sectors. Corporate-wide tracking and reporting on these programs can be problematic, as many companies struggle with pulling the requisite data from their internal learning systems. Many companies are investing more in online learning to facilitate the delivery, tracking, and reporting of these programs.

Sales training is of critical importance to most companies. The rapid pace of new products and features necessitates continuous updating of the sales force. And these programs can be expensive to deliver, as they generally entail a large amount of face-to-face training and involve learners from all

### Average change in budget by organization size



### Percentage of training expenditures allocated to program area



**\$16.3 billion** was spent on training products and services this year—up from \$15.8 billion in 2006.

over the globe. Many companies now are using online training to deliver parts of their sales training, and some are experimenting with new methods, such as podcasting, to efficiently deliver these programs.

Spending allocations by employee group have remained fairly constant over the last few years. Sixty-four percent of the funding goes toward training

employees (exempt and nonexempt). Managers receive 26 percent of the resources. And although executives represent a tiny fraction of the overall workforce, they receive 10 percent of training dollars. This again illustrates that organizations are willing to spend an extraordinarily high proportion of their budgets on training their current and next generation of leaders. These

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programs typically are conducted in a classroom or face-to-face setting with outside experts to facilitate the sessions, making them costly to deliver.

## E-LEARNING ACCELERATION

Delivery strategies continue to evolve as online training becomes a mainstream delivery vehicle. Instructor-led classroom training remains the dominant delivery method, used for 65 percent of

Self-study e-learning now accounts for **20%** of student hours, up from **15%** last year.

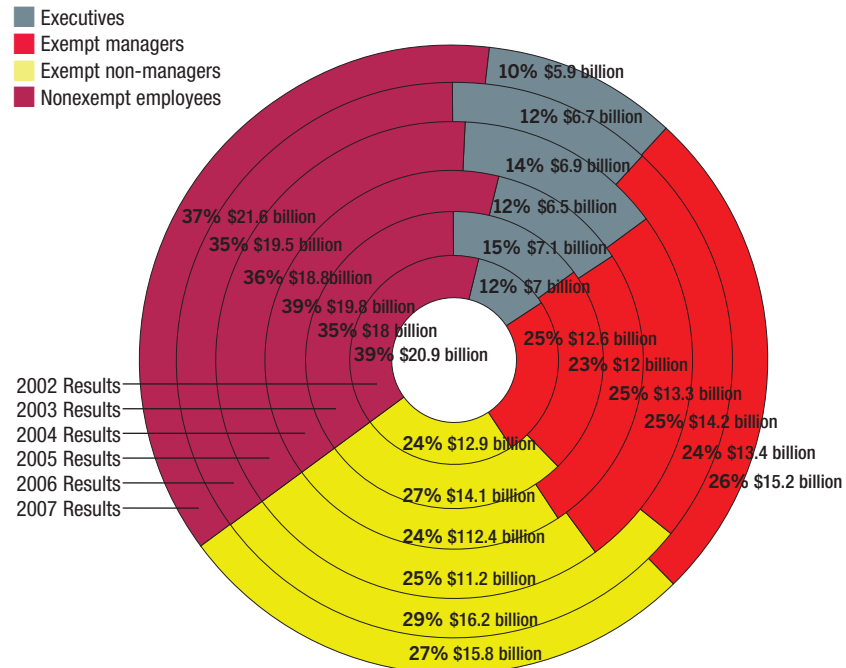
all formal training hours consumed by learners. This number has dropped considerably over the last several years, but has remained fairly steady from 2006-'07. The use of self-study e-learning continues to grow, now accounting for 20 percent of student hours, up from last year's figure of 15 percent.

Live virtual classroom training accounts for another 10 percent of student hours. Many of these virtual programs are recorded and available for playback, contributing to the growth of self-study online learning. When taken together, self-study e-learning and virtual classroom training account for 30 percent of formal training hours consumed by learners.

Use of other methods for formal training—such as videos and paper-based workbooks—has declined slightly since last year. As online training becomes feasible for more organizations, these methods gradually are being phased out.

## Who benefits from training?

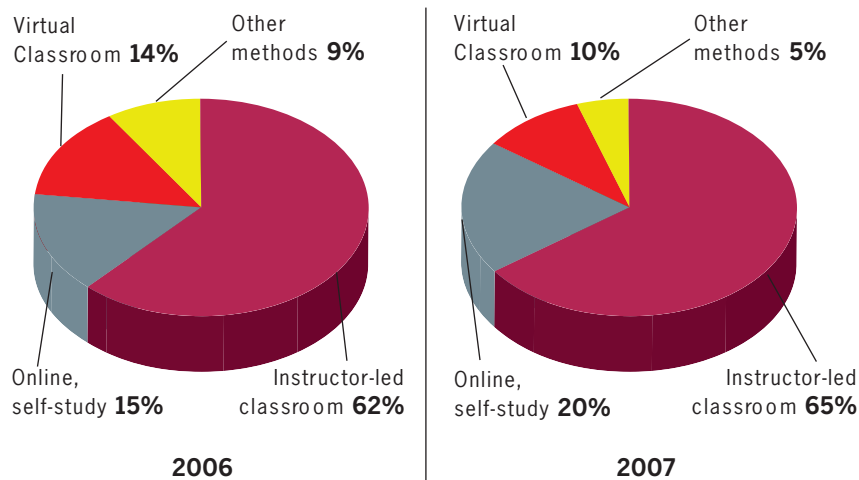
Percent of budget and dollars spent on...



2002 Results  
2003 Results  
2004 Results  
2005 Results  
2006 Results  
2007 Results

## Training delivery methods

Percentage of total student hours delivered by each method



**\$1,202** was spent per learner by companies, including staff salaries.

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In general, large organizations make greater use of online methods, as they are more likely to have the budget and technology necessary to accommodate online training. Among companies with more than 10,000 employees, 25 percent of formal training is online self-study, and another 12 percent is delivered by virtual classroom. These proportions have remained the same over the last year.

The use of online training jumped significantly among small companies. Last year's study found that self-study e-learning accounted for 14 percent of formal training delivered in small organizations (100 to 999 employees). This year, the number shot to 20 percent, demonstrating that more small companies are acquiring the skills and technology to make online training a reality.

"We expect e-learning to continue to grow, both in standalone programs and in combination with other modalities," says Karen O'Leonard, principal analyst for Bersin & Associates and project lead for the study. "The lines are becoming blurred because what used to be pure instructor-led training (ILT) now is typically a blend of classroom-based and online learning."

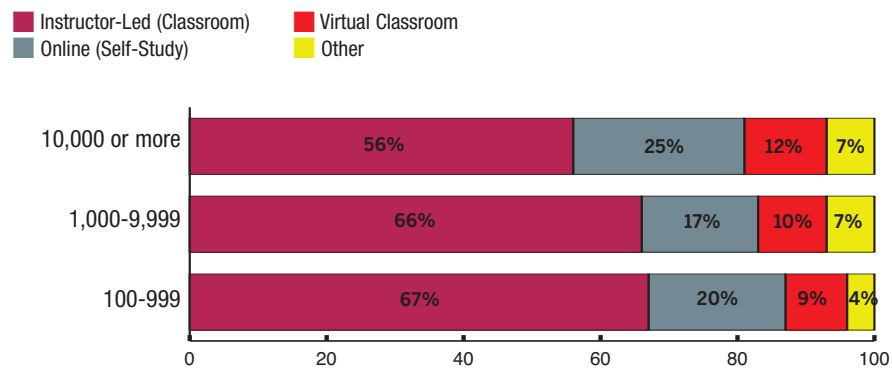
Online methods are used most extensively for mandatory or compliance training, in which 28 percent of training is conducted "mostly or completely" online. Because of the critical nature of these programs, many firms are turning to online delivery to make them easier to deploy, measure, and report.

Not surprisingly, online training also is used widely for training on desktop applications and IT/systems training, where the nature of the content makes online delivery a natural choice.

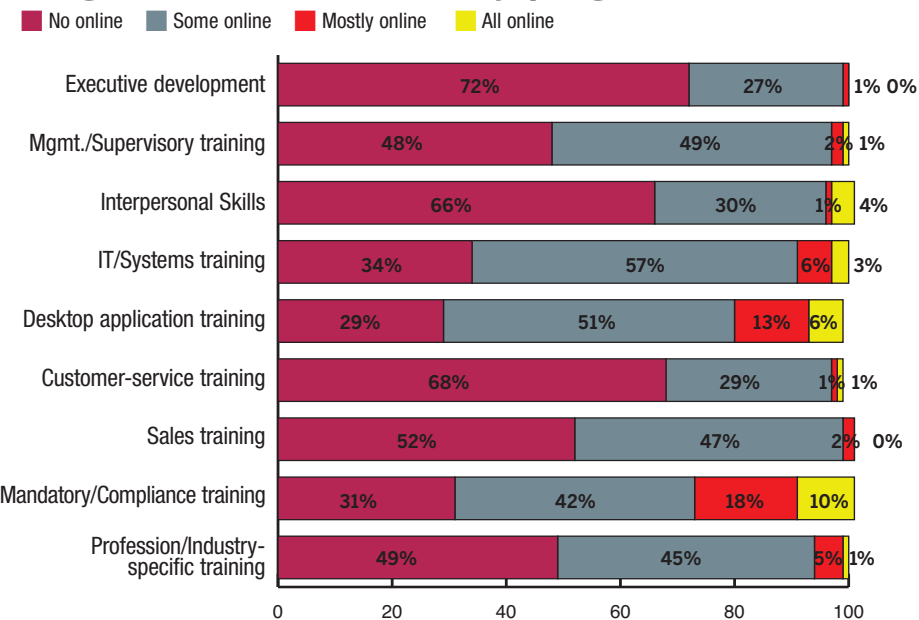
Online training is used more sparingly in the areas of interpersonal ("soft") skills, executive development, customer service, and sales training, where classroom or face-to-face training still dominates. When online methods are used in these areas, it is primarily as prerequisite or supplemental material to live, in-person training.

## Training delivery methods by organization size

Percentage of total student hours delivered by each method



## Usage of online methods by program area



The average staff-to-learner ratio has remained steady over the last year at **6.7** training personnel for every 1,000 learners.

## MAXIMUM IMPACT

This year, the primary focus among training organizations is on increasing the effectiveness of their programs. Just less than half (44 percent) of organizations report this as a No. 1 or No. 2 training priority. The importance of training effectiveness has ratcheted up significantly in the last year, as organizations look for

ways to affect the transfer of learning and ultimately the bottom line.

Measuring the impact of training programs goes hand-in-hand with increasing effectiveness, and was mentioned by 28 percent of companies as a top priority. This number is consistent with last year, as despite the large number of books, seminars, and articles written about training measurement,

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most organizations continue to struggle with the process. Although there has been an intense focus on measuring the business impact of training, most organizations measure tactical aspects such as completions and volumes—things that are relatively easy to measure, but aren't very valuable.

The current hype over measurement will continue in the short term as organizations define their measurement

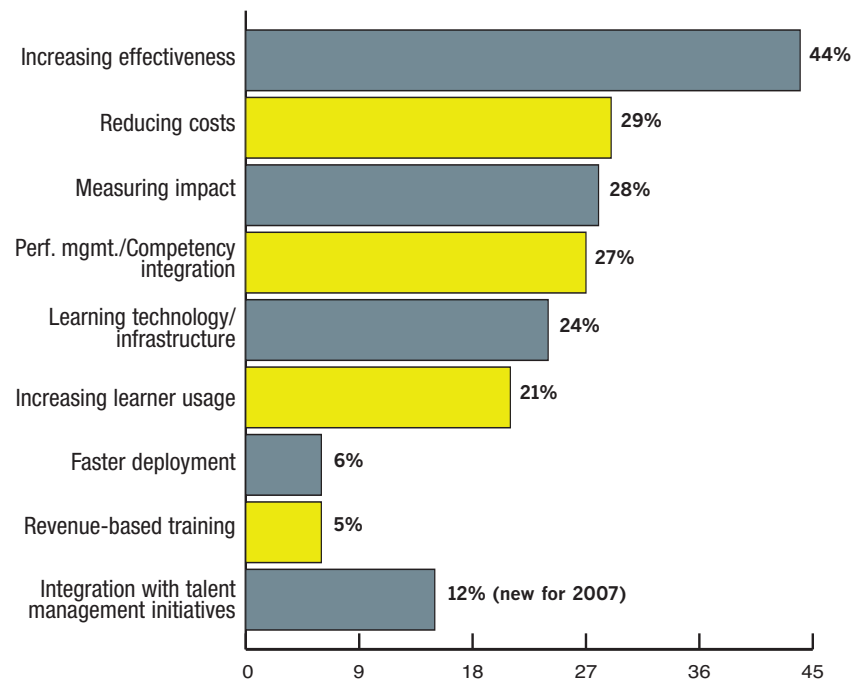
**44% of organizations cite increasing the effectiveness of their programs as a No. 1 or 2 priority.**

plans (i.e., what to measure and when). Ultimately, most companies will choose a few programs for measuring business impact, those that are worthy of the time and resources required for this effort.

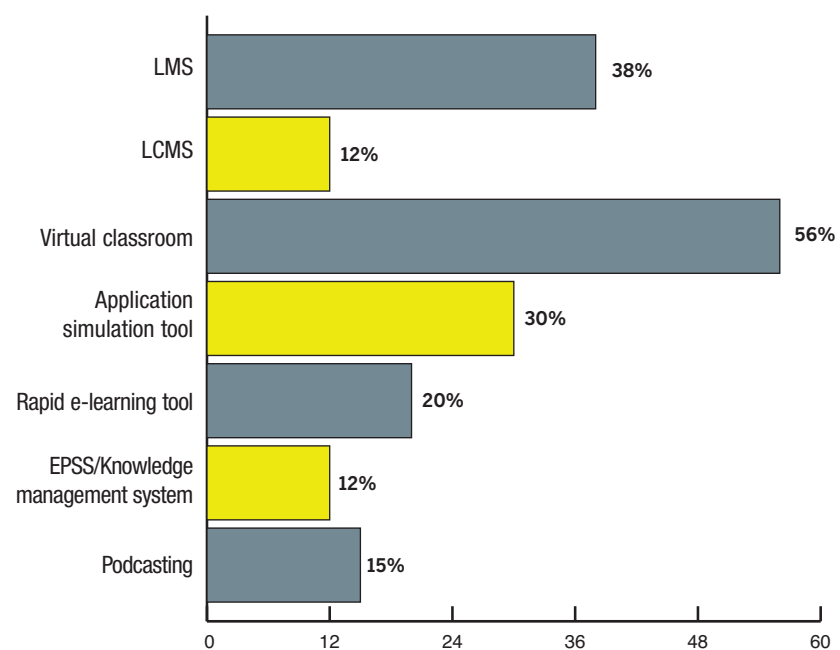
Reducing costs/improving efficiencies is also near the top of the list, cited by 29 percent of training organizations as one of the top two priorities this year. This number is roughly equivalent to last year, and underscores the fact that, as primarily cost centers, training organizations must remain constantly vigilant over expenditures.

One area that has come to the forefront this year is integration with performance and competency management initiatives. Part of the reason is that, driven by the shortage of talent, organizations are focusing more closely than ever on career development programs. These talent-driven learning initiatives are multi-year, multi-class programs

## Top learning priorities



## Usage of learning tools and technology



**65%** of all formal training is done in the classroom, which is roughly equivalent to last year.

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that require integration of learning activities with competencies and job families. As such, organizations increasingly are asking their suppliers to link these applications together, and many vendors are rushing to design and implement their performance/learning management strategies.

Ultimately, many companies would like to integrate all of their performance, talent, and learning activities. This has created a new category of HR applications we call “talent management.” In addition to learning, performance, and competencies, “talent management” includes other HR activities such as recruiting and succession planning. Although just 12 percent of organizations today view this as a top priority, we expect this area to grow in importance over the next few years.

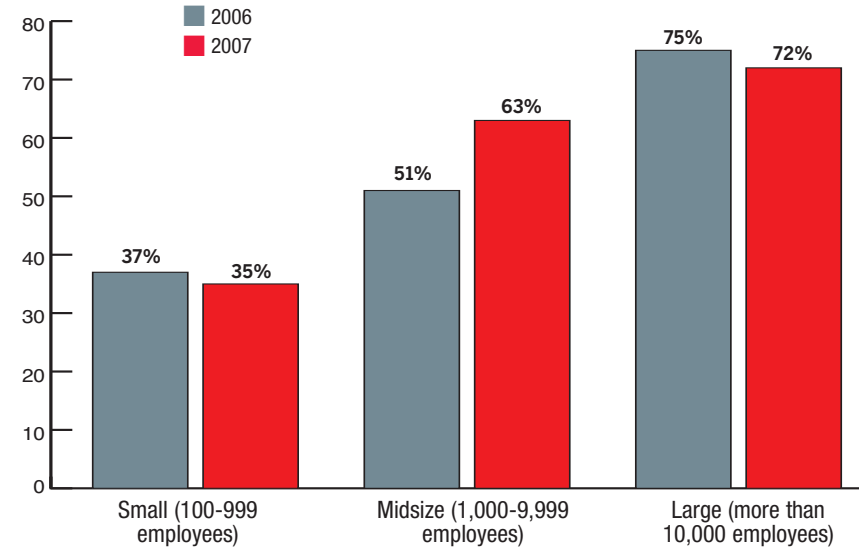
The two top priority areas from last year have fallen in importance this year. Faster deployment was the second highest priority in 2006, but this year is near the bottom of the list. This could be due to the widespread adoption of rapid e-learning tools, which have satisfied many companies’ need for getting out programs quicker.

And the top priority last year—learning technology and infrastructure—was cited by only 24 percent of companies as a top consideration this year. Now that most organizations have technology in place, they are focused on making the greatest use of it.

## MORE MID-MARKET LMSs

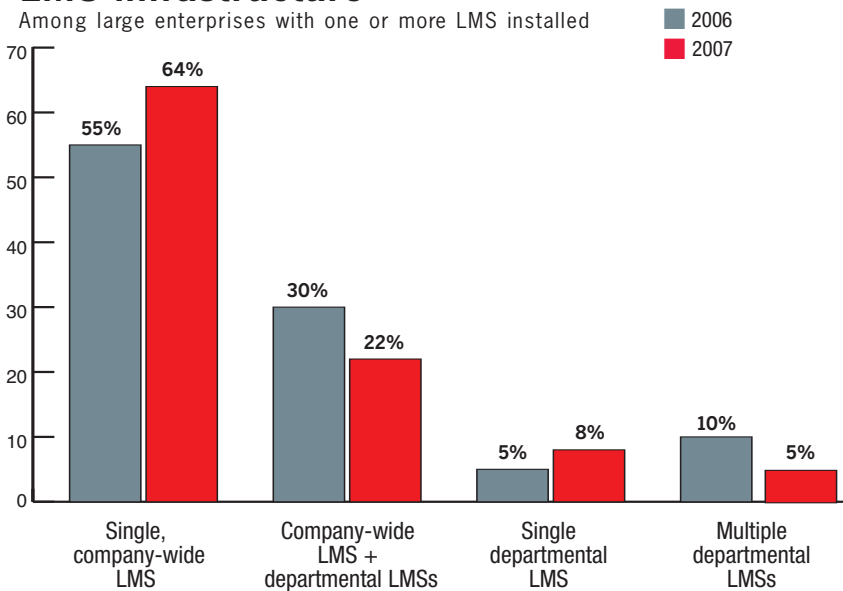
Today’s learning organizations have a plethora of tools and technologies at their disposal. According to the research, the percentage of companies using most learning tools has not changed significantly over the last year. Nearly 40 percent of organizations are using a learning management system (LMS); more than half are using a virtual classroom tool; and between 20 and 30 percent are using application simulation and rapid e-learning tools. Among large

### LMS usage by organization size



### LMS infrastructure

Among large enterprises with one or more LMS installed



**28%** of mandatory or compliance training is conducted either “mostly or completely” online.

companies, these numbers nearly double.

Within the LMS market, the percentage of small and large companies using an LMS has not changed significantly. However, the mid-market segment (1,000 to 9,999 employees), which has

been heavily courted by LMS vendors, has seen a significant jump in usage of learning management systems over the last year. This has been the fastest growing segment of the LMS market, and nearly every large vendor has

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introduced an offering specifically targeted toward mid-market buyers. (For more information on the LMS market and vendors, see “LMS 2008” at <http://store.bersinassociates.com/lms.html>).

For many large enterprises, the primary challenge is supporting and integrating their technologies. Among those using an LMS, nearly two-thirds now have a single, company-wide LMS. Just two years ago, this figure was 55

**The mid-market segment, which has been heavily courted by LMS vendors, has seen a significant jump in LMS usage—from 51% last year to 63% this year.**

percent, underscoring the consolidation that is happening within corporate infrastructures. One-quarter of large companies said they have consolidated or reduced the number of learning management systems in the last 12 months.

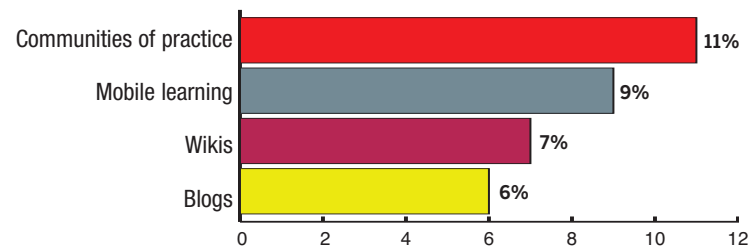
This consolidation should continue as organizations strive to eliminate redundancies and streamline their processes and systems. Approximately one-quarter of large enterprises still have multiple LMSs running internally.

## NEW TECHNOLOGIES & APPROACHES

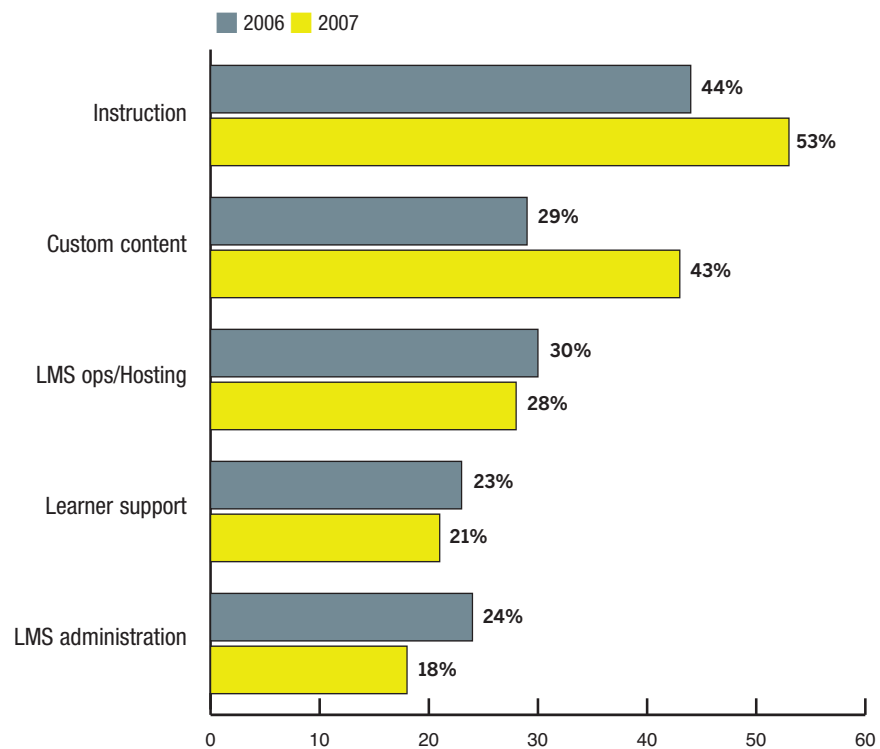
Training groups must continually rethink how they develop and deliver

## Use of other learning tools

Percentage using sometimes or frequently



## Which functions are you currently outsourcing?



**44%** of organizations report using external instructors to deliver at least some of their training.

learning programs. Learning on-demand and collaborative learning methods are emerging categories that are poised to revolutionize how learning is conducted in the enterprise.

Learning on-demand implies that information and digital learning assets

are made immediately available—just as the learner needs them. These solutions today include online support materials, agents, and electronic performance support systems (EPSS).

Organizations are recognizing that monolithic courseware that takes weeks

to deliver is not the answer for many learning challenges. Learners need access to chunks of information while they are working or while they are on the road. Learning assets need to be modularized into short segments for easy access and consumption.

Podcasting is one example of how organizations are providing small segments of information to learners that can be accessed from almost anywhere.

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## Among large enterprises using an LMS, 64% now have a single, enterprise-wide LMS, underscoring the consolidation within corporate infrastructures.

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Usage of podcasting for training purposes grew from 5 percent in 2006 to 15 percent this year, and organizations are finding that podcasts are used by more than just mobile professionals. Many learners like to listen to podcasts while at their desks or at home, not only while they are on the road.

Another strategy still in its infancy is the use of learning portals. These portals offer a single place for learning resources, including access to online learning, documents, blogs, discussion groups, and even people. Although the notion of a single place for learning sounds ideal, companies are finding it takes a great deal of time and effort to create, maintain, and manage the sites. These factors are contributing to the

slow adoption of learning portals.

Collaborative learning is a fairly new approach designed for the new generation of workers who are accustomed to social networks and cooperative learning. One example is communities of practice, used by 11 percent of training organizations today. Blogs and wikis are other examples of collaborative learning, and are mainly in the experimental stages from a learning standpoint. All of these tools promote a group learning format, underscoring the idea that “many minds are better than one.”

“With the younger generation of employees, organizations need to rethink how they deliver learning,” explains O’Leonard. “Today the most important trends are toward audio, mobile, and collaborative environments.”

### OUT-TASKING GROWS

Training organizations typically turn to outside providers when they lack internal expertise or bandwidth. As they become more strategically focused, they tend to outsource more tactical and specialized functions. This has driven the growth in outsourcing (or “out-tasking”) in two main areas: instruction and custom content development.

Most organizations turn to outside professionals for some of their facilitation and teaching needs. Today, 53 percent of organizations report using external instructors, up from 44 percent last year. Companies may choose to bring in outside experts, particularly in the areas of management and leadership training and some areas of technical training.

Use of outside suppliers for custom content development likewise has increased, from 29 percent of organizations using outside developers in 2006 to 43 percent this year. This, too, traditionally has been a popular area for outsourcing, as training groups are

under increased pressure to quickly meet learning gaps and don’t have the expertise, bandwidth, or desire to do it themselves.

Content development often can be expensive, however, prompting some organizations to turn to offshore providers for their custom content. This year, 4 percent of organizations reported using offshore custom content developers, down from 11 percent last year. Many customers have experienced problems with offshore firms, primarily around communications and project management. To alleviate these challenges, offshore companies have set up U.S.-based sites or partnerships (and many U.S.-based vendors, in turn, have established partnerships or offices abroad), allowing customers to work with local personnel while still enjoying some of the cost savings of overseas labor.

In the areas of learner support and LMS hosting, use of external suppliers has remained steady over the last year. One out of five organizations outsources learner support/help desk activities. And slightly more (28 percent) host their LMS with a third party. Indeed, the SaaS (software as a service) model has changed the LMS market considerably with lower-cost, easy-to-use products.

One area of outsourcing that has declined over the last year is LMS administration, which includes managing learner registrations and uploading data. Today, 18 percent of organizations are outsourcing this function, down from 24 percent last year. Most training organizations now have sufficient volumes of online training programs to warrant hiring a dedicated internal resource to handle LMS administrative tasks, rather than outsource to a third party.

“Today, there are large numbers of third-party content developers and instructors/facilitators,” says O’Leonard. “We expect that outsourcing will remain high in these areas, as training groups turn to outside specialists for many of their training needs.” 