

# The Training Investment Model

*How to Allocate Training  
Investments for Optimum  
Business Impact*

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## The Training Investment Decision

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One of the biggest strategic decisions you must make as a training executive or manager is where to invest your limited dollars. Unless you are running training as a revenue-generating business, your budget is viewed as an expense. Expense items are rationed - you cannot keep asking for money whenever you need a new program. You must make resource allocation decisions.

The biggest decisions you will make as a training organization are: "which programs to fund?" and "at what level do we fund these programs?"

*These resource allocation decisions are the most important decisions you make -- even more important than content quality itself. If you focus your limited resources on the wrong programs, you will sub-optimize your training investments. This article will give you a methodology and approach to decide how to allocate training resources.*

### Where Training Dollars Typically Go

Recent research from Training Magazine and ASTD indicates that training budgets fell approximately 6% in 2003. Annual training spending per employee ranges from \$150 for low-spend organizations (typically retailers) to \$1400 and higher for organizations in financial services and consulting.

From the best data we can find, the typical training organization allocates its budget roughly as follows:

Budget Breakdown for Typical Training Organization	
Salaries	60-65%
Custom Content and Content Services	12-15%
Off-the-shelf Content and Delivery	10-12%
Tools and Technology	8-12%

Figure 1: Typical Training Budget Allocation between Content, Salaries, and Technology

In most organizations, some percentage of the salary budget goes into direct training delivery (content development and delivery of training), and some percentage goes into back-office administrative functions. One of the big issues in training is determining how to minimize these back-office expenses because they do not directly deliver value to learners. Much of the rush toward purchasing LMS systems and outsourcing training is to minimize these "back office" expenses. (We will be publishing a benchmarking study on training efficiency later in 2004).

## The Magnitude of Total Content Investment

Industry research from ASTD and IDC tells us that in 2003 the total investment in training content was approximately \$9.14 Billion. This huge investment breaks down into approximately 40% "custom" and 60% "off-the-shelf" as shown below.

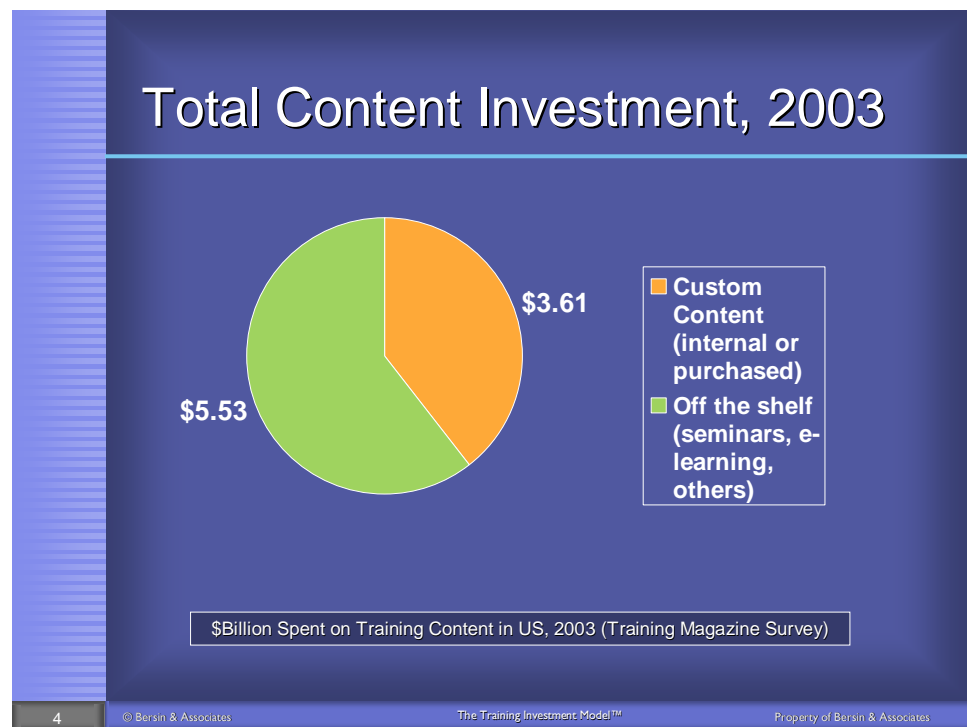


Figure 2: Total Content Investment, 2003, by custom or off-the-shelf

**Given this very large investment taking place, how do individual training organizations decide which programs to fund?**

## How do you allocate program dollars for Highest Impact?

You can simplify the problem by stating that there is a fixed set of dollars (dollars for salary, consultants, technology, and content) which can be translated directly into training programs.

The decision we want to discuss in this article is a critical one: which programs should you invest in? Should you allocate dollars and resources equally among many programs? Should you focus on a few programs? How do you prioritize this spending in advance and how do you deal with the constant onslaught of new products, regulations, and business challenges which require training?

What we have found over the last few years of research is that there is a "winning" approach. *We call this approach the "Training Investment Model."* Many of its design and concepts came from our discussions with CNA insurance. It is an approach which borrows concepts of portfolio management from financial investments. It is easy to understand and implement and flexible enough to apply many industries and sizes of companies. It will also help you improve your role as a business consultant to your line of business customers.

## The Training Investment Model

The model is very simple. You look at all your training programs for the year and you allocate them into four quadrants. The quadrants are shown below:

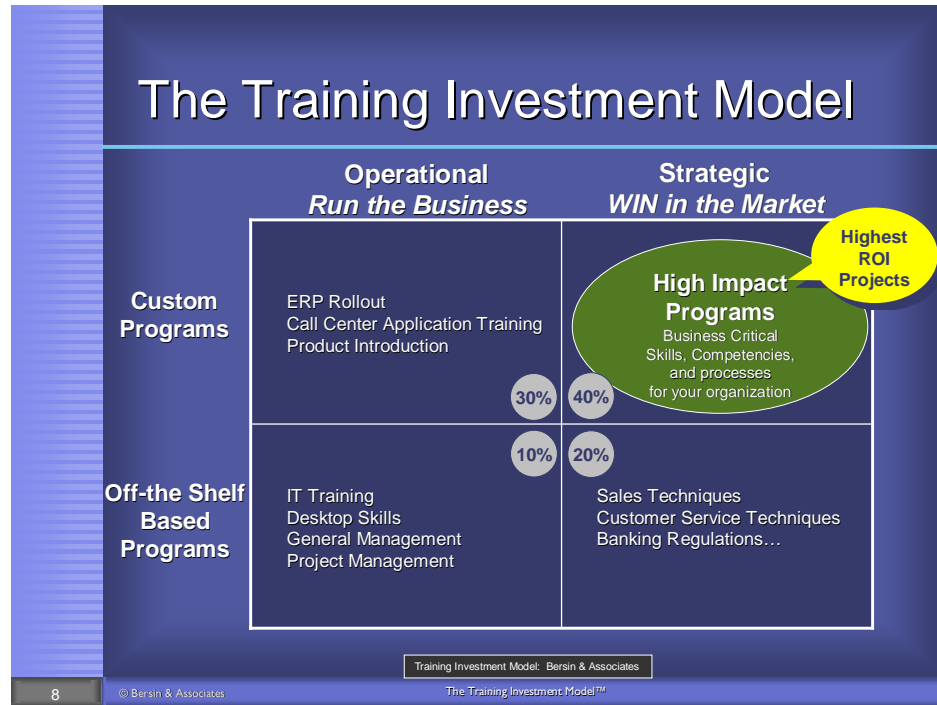


Figure 3: Training Investment Model - Matrix

*Rows: Custom vs. Off the Shelf*

The bottom row holds programs which can be delivered via off-the-shelf content. Off-the-shelf content is a program, course, or seminar you can purchase from an external provider with little or no modification. Typical off-the-shelf programs include IT training, basic management training, many leadership training programs, desktop productivity training, project management, etc.

The top row holds programs which are "custom to your organization." These programs are ones which you must build from scratch - using your own SME's, your own training experts, and your own management teams.

*Columns: Operational vs. Strategic*

The columns are equally easy to understand: the left column holds operational programs which you believe are needed to "run your business." That is, they are important, business critical programs which are required for business operations. They are clearly important, but in and of themselves they will not drive your company to "beat the competition" or "increase market share."

The right column holds programs that help you "win in the market." These are programs that embody strategic competitive processes, skills, and competencies which make your company beat the competition, gain market share, and grow profits. They are programs which typically build on years of experience and proprietary approaches which your company "owns" and would not want to share with the competition.

### *Upper Right: Highest Impact Investments*

One of the things this model does is force you to identify the "high impact investments." What we find in most companies is that there are only a few programs which fall into the upper right quadrant. These programs vary across lines of business: in sales, the upper-right program may be the competitive selling program; in manufacturing, it may be the engineering manufacturing excellence certification program. You must prioritize these to identify the few which have the highest impact on profitability and competitive advantage.

"Off-the-shelf" programs may be as strategic as custom programs. They just represent intellectual capital which may not be exclusive to your company.

### *Off-the-Shelf Content can be Strategic*

Just because some content is in the bottom half, this does not make it any less strategic. In a major systems integration firm, for example, the principles of project management are critically important to their strategic competitive advantage. Although they have their own methodology for project management, the basics of project management are common across all companies. They choose to take best-of-breed project management curricula and put it in the bottom right. They want to make sure that they never lose focus on the quality, compliance, and impact of that program.

## How to use the Investment Model: Five Steps

Your job is to take all the training programs you have and fit them into one of these four quadrants. This exercise itself will force you to think hard about each program:

- Is it sponsored by a senior executive?
- Is it funded by a line of business initiative?
- Is it a program which line managers believe is critical?
- Does it embody company-specific intellectual property?
- Is this a program which learners recommend highly?
- Which of the four corporate training models does it fit into?  
(See our *Four Corporate Training Models*, available to Research Subscribers: Type 1: Information Broadcast, Type 2: Critical Information Transfer, Type 3: Skills and Competency Development, Type 4: Certification and Compliance)

### *Step 1: Inventory all your major training programs.*

The first step is to take an inventory of all your programs. This may be difficult - you may need to print off the course catalog for your LMS to find all the programs in your company. Some fall into categories. Try to group similar courses into course groups or course roadmaps that you can segment together.

### *Step 2: Do the Initial Allocation (from within your Training Organization)*

Work as a training team and try to determine which programs go in which category. You will find that some are hard to place. Is a program "operational" or "strategic?" Save the upper right category for the small number of programs (3 or 4 at most) which are highly strategic to your organization.

Remember that your business drives this decision. For example, in an insurance company IT certification skills typically fall in the lower left. In a high-tech consulting firm, however, IT certification programs may fall into the upper right? In a retailer, project management may fall into the lower left. In a high value manufacturer, however, project management may fall into the lower right.

You should only have 3 or 4 programs in the upper right.

You may want to build an investment matrix for each major business unit.

### *Step 3: Review the Allocation with Line of Business Managers*

Meet with as many line of business sponsors as you can and ask them which single program they feel is the most strategic. Which program do they feel will "make or break" the company. As the training executive, you are the one who makes the final investment decisions -- but clearly you must gain their input and let them rank their priorities. They do not see the priorities of other business units, but nevertheless you must understand their sense of priority. Show each business unit the competing priorities so they have a sense of the programs they are competing against.

### *Step 4: Develop a Final Segmentation*

Next you finalize your segmentation. The most important step to take here is to nail down which programs fall into the upper right and which fall into the lower right. The upper right programs are those which should get most of your investment dollars. These are the most strategic training investments in your organization - don't let this quadrant get too full.

### Step 5: Develop a Fixed Resource Allocation Rule

The next step, after you have segmented your programs, is to set in place a resource allocation rule. Imagine that you have \$100 to spend this year – and this \$100 covers both program dollars and people. Where should you place it?

Without considering the individual programs, meet with your CLO or Line of Business Executive and decide what percentage of that \$100 you feel should go into each category. These are the small circles in the center of the chart.

**Example:** In this example, the company referenced is an insurance company. They decided that they would spend 40% of their training budget on high-impact “upper right quadrant” programs. They decided that 30% would go into operational custom programs, 20% in strategic off-the-shelf programs, and only 10% on off-the-shelf operational programs.

This allocation looked as follows:

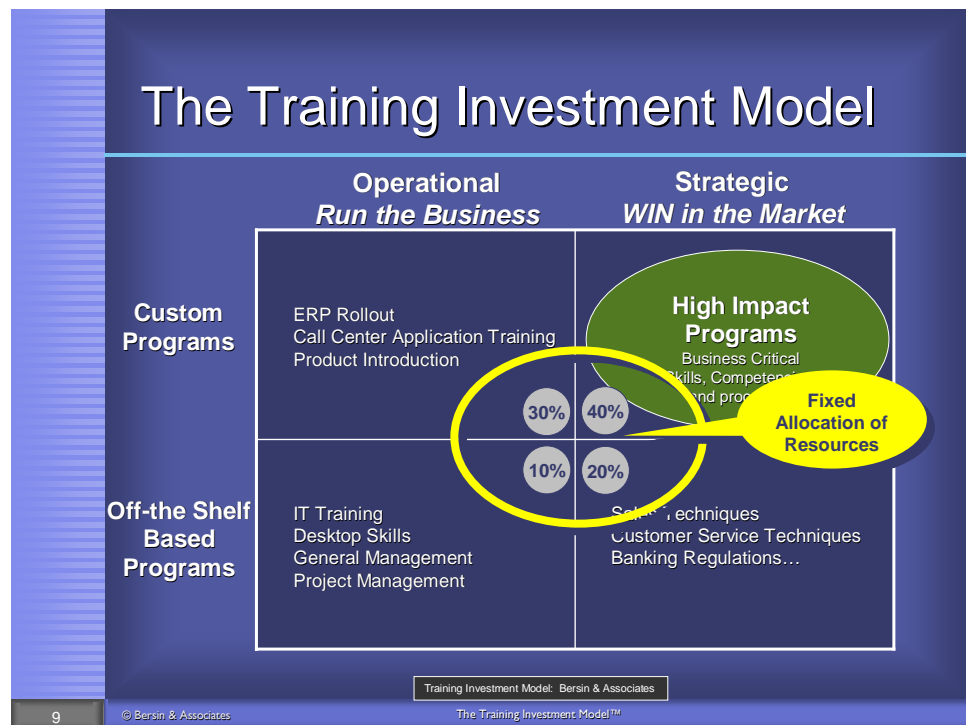


Figure 4: Resource Allocation

With this allocation in place, the company could go back to their content providers and start rationing them back to meet their needs.

In this example company, the insurance company, their upper right programs fell into two categories: management and executive performance management and claims pricing and risk analysis. They felt that the two biggest assets they had were (A) their management process, and (B) their ability to compute risk and correctly price policies. All other programs fell into other quadrants.

As mentioned earlier, each organization and each company will have its own matrix. In some large companies, the matrix should be developed for each business unit – so the business unit itself can decide what its strategic knowledge assets are and how to develop and maintain them.

## Benefits of This Process

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There are many benefits to this process – but one of the biggest we will highlight here is the ability for you to decide where to focus your resources. The programs in the lower left should be “cost-minimized.” You should outsource these to an e-learning content provider or a low cost training vendor. The programs in the upper right, however, are more likely to be blended. These are the programs which warrant your valuable instructional design expertise and blended learning focus.

I think that the upper left quadrant might be a good fit for Rapid E-Learning or blending Rapid E-Learning with classroom training, so that they minimize the investment per program, but can deliver many lower-cost custom programs with the budget allocated.

## Conclusion:

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Resource allocation is one of the most important jobs you have in a training organization. The demand for training is almost infinite – you could try to train every employee on every possible part of their job – and of course spend lots of money. Training is an expense item -- therefore it should be allocated carefully to the most important initiatives in the company.

We believe that in most training organizations there are a few major programs (5 or less) that could cost-justify the entire training organization. The rest of the programs can be deployed on a “lowest possible cost” basis. Maybe use “lowest reasonable cost.” I can see some eyebrows going up at this phrase, regarding quality of training. The key is to spend minimum amount to get the level of performance desired. There’s definitely a cost/quality balance to maintain, as in anything else.

Some companies give employees a fixed budget every year to spend on whatever training they need. This forces the allocation decision down to the individual manager. Although this process is attractive, it could present many problems. You will be forced to serve up a very large range of offerings – many of which may be very lightly utilized. This creates a highly inefficient operation – and you should strive to avoid this by making as many of these allocation decisions in advance. Your strategic role in the learning and development organization is to decide what strategic learning is important.

We want to thank Tom Hilgart from CNA Insurance for sharing his approach in developing this model. CNA uses this approach regularly to allocate training investments among competing business units.

This paper is just the first in a series of papers on the topic of planning and strategy. We look forward to your feedback and hearing examples of how you use this process in your training organization.

## About Us

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Bersin & Associates is a leading provider of corporate and vendor consulting services in e-learning technology and implementation. With more than 20 years of experience in e-learning, training, and enterprise technology, Bersin & Associates provides a wide range of services including product development, product marketing, industry research, corporate workshops, corporate implementation plans, and sales and marketing programs. Some of Bersin & Associates’ innovations include a complete methodology for LMS selection and application usage, an end-to-end architecture and solution for e-learning analytics, and one of the industry’s largest research studies on blended learning implementations. Our E-learning Research Subscription Service is the only full featured subscription to news, tips, advice, and industry studies available. Bersin & Associates can be reached at [www.berstin.com](http://www.berstin.com) or at (510) 654-8500. For more information on our research subscriptions, please go to <http://www.berstin.com/services> .

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<a href="#">Blended Learning: <i>Case Studies</i></a>	Industry Study & Guide
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Character Based Simulations	Coming in Q2
<a href="#">E-Learning in Leadership Training: <i>What Works™</i></a>	Industry Study