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MEASUREMENT

Measuring the Impact of Sales Training Through ROI

Illustration provided by Kevin Woodson

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In ancient Egypt, slaves learned to build pyramids for the Pharaohs by watching and by doing. This method of training continued through the early 1900s when the shift to mass production turned the focus of training to improving efficiency. With the rise of bureaucracy during WWII, training became more formalized and by the 1960s, training was centered on instructional design. The next big advance in training came in the 1990s when corporate training shifted from learning "how to do" to learning '"how to think".

THE BEST PLACE TO START IS ALSO THE MOST LOGICAL—DEFINE THE GOAL. A THOROUGH UNDERSTANDING OF WHAT YOU WANT TO ACCOMPLISH IS KEY TO THE SUCCESS OF ANY TRAINING INTERVENTION.

Although theories, concepts and delivery methods continue to evolve, in 2002 we still struggle with the same dilemma as our predecessors—how to accurately measure training effectiveness. And to complicate matters even further, we've added a new dimension – Return on Investment (ROI) – which requires measuring the impact training will have on the bottom line.

In today's difficult economic environment, companies must take a highly cost conscious approach to every investment, including training. But short of hiring a fortuneteller or gazing into a crystal ball, how can you ensure that your training program will garner the results you want? And how can you measure effectiveness once the intervention is complete?

Dividing the process into manageable segments is the best way to accomplish a true measure of the impact of a training intervention and increase the likelihood that it will achieve the organization's goals (see Figure 1).

Figure 1: Measurement Model

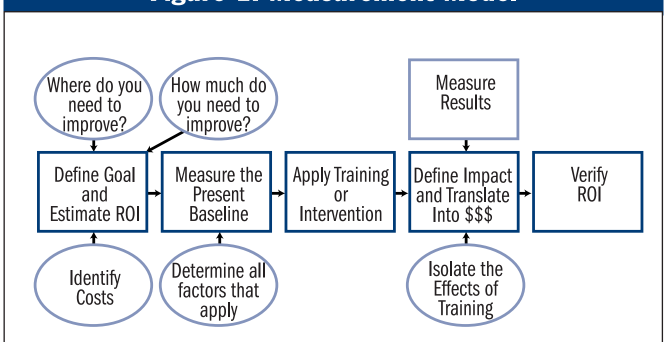


Figure 2: Donald Kirkpatrick Four-Level Approach to Evaluation

	Evaluation	Measurement
Level 1	Reaction and Planned Action	Usefulness, relevance and economics of the training solution Ease of understanding, implementing and maintaining the solution
Level 2	Learning	Observable and measurable behaviors that impact success Actions the participants are able to do after completion of training Awareness, knowledge, performance
Level 3	Application	New knowledge applied on the job and frequency of application New steps, action items, processes that will be implemented on the job Task steps or procedures that will be eliminated as a result of training
Level 4	Business Impact	Output, quality, cost, time

Define the Goal

The best place to start is also the most logical—define the goal. A thorough understanding of what you want to accomplish is key to the success of any training intervention. To begin the thinking process, ask yourself the following questions:

- What is the desired form the training should take?
- What should participants be able to accomplish after completion of the training?
- What is the potential payoff (in business impact, benefits and results)?
- What behaviors do you want to change as a result of the training?
- What is it that you want to improve?
- How much do you want it to improve?
- What performance measures need to be changed to reinforce the training?
- What business measures do you expect to improve and by how much?

Identify Evaluation Method

Once you have answered these questions, you must develop the appropriate method of evaluating the training program's effectiveness. Four decades ago, Donald Kirkpatrick developed a four-level approach to training evaluation that is still in use today (see Figure 2). This approach measures four levels of evaluation:

- Level 1: Participant reaction and planned action
- Level 2: Actions participants are able to do after completion of training
- Level 3: New knowledge / actions that will be implemented on the job as well as tasks that will be eliminated
- Level 4: Business impact in output, quality, cost and time

Although each of these metrics is critical in defining usefulness and continuity of the training, this approach falls short in tying the financial results of the training to the cost. That's where ROI enters the picture. But unless you measure Levels 1 through 4, ROI cannot be accurately measured because if you don't know where you started from, you can't know if you've improved. Levels 1-4 also help you isolate the problems and validate the outcomes. ROI justifies the financial return to the organization.

Estimate ROI

The next step is to develop an ROI measurement to ensure that the cost of the training is in balance with its impact. To do this, you need to identify as many of the direct and indirect training costs as possible.

Training costs include at least three categories:

1. Fees and expenses for the training consulting firm, including curriculum development
2. Indirect expenses:
   - Analysis and Assessment, including time and fees required to define the program, develop metrics and establish desired ROI
   - Participant time spent in training
   - Opportunities lost because participants are not in front of customers
   - Cost of monitoring and implementing the evaluation and reinforcement
   - Administrative support, including coordination and organization
3. Direct expenses
   - Logistics and materials, including equipment and services, training facility, books, CDs, etc.
   - Travel, lodging and meals
   - Cost of training facilities

Although it may seem overwhelming, taking the time upfront to develop an ROI-based methodology forces the entire organization to think in terms of business value throughout the entire initiative and increases the opportunity for the training to achieve the desired results.

(For more information on estimating training costs, search for the "Sales Training Best Practices" white paper on the SAMA Web site, www.strategicaccounts.org.)

Measure the Existing Baseline

Once the goal and desired outcomes are identified, you need to document the current situation. To establish a true baseline, it is critical to include only those factors that directly relate to the desired goal. For example, if your training goal is to improve sales force efficiency, you can use the following equation:

Total Working Time – Reactive Non-Selling Time = Proactive Selling Time

Reactive non-selling time includes activities that do not directly impact the sale. To maximize results, the sales force must find ways to reduce or eliminate these activities.

To differentiate non-selling activities from those that actually lead to a sale (i.e., proactive selling time), make a list of all activities and categorize them as either selling or non-selling time (see Figure 3). Obviously face-to-face time in front of the customer is the main element of selling time. But what about the other activities that add value to the customer relationship: follow-up on action items, working on customer issues during travel time, completing administrative reports, researching account team commission questions, resolving problems with customer orders and all of the other myriad activities that fill an account team's time?

Once you have identified all of the factors that apply, develop the baseline by measuring the time it currently takes to perform these non-selling activities. Factor in the improvement you want and then translate that into dollar terms.

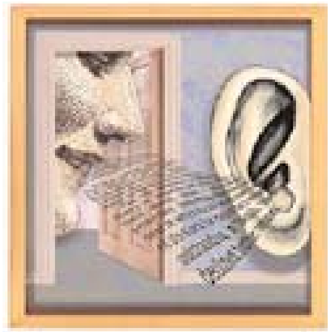
For example, let's say your organization does $100 million in sales per year and the cost of your sales force is 10% of sales. Assume that your non-selling time is 50%. Your goal is to reduce this non-selling time by 20%. Your calculation is then the following:

- $100 million (sales) x .10 (cost of sales force) = $10 million (cost of sales force)
- $10 million (cost of sales force) – 50% (non-selling time) = $5 million (non-selling time)
- $5 million (non-selling time) x .20 (goal) = $1 million improvement
- Therefore, the current baseline value of non-selling time is $5 million. The goal is to reduce that value cost to $4 million.

Define Impact and Translate Into $$

After implementing the training and beginning the process of measuring and evaluating the results by collecting and analyzing the Level 1 through Level 4 results (see Figure 2), the following steps must be put into place to define the impact and translate it into dollars:

- Define the unit of measure (in our example, cost of non-selling time)
- Determine the value of the unit (we've identified the costvalue as $5 million)
- Calculate the improvement
- Annualize the amount for the improvement



ORGANIZATIONS TODAY KNOW THAT TRAINING, AS A STAND-ALONE EXERCISE, IS NO LONGER ENOUGH. FOR NEW BEHAVIORS TO BECOME PART OF THE CULTURE, THEY MUST BE PRACTICED, REINFORCED AND INCITED BY MANAGEMENT.

Isolate the Effects of Training

An often-overlooked element in most evaluations is isolating the impact of training from other factors, that may also have had an impact, to gain a true picture of ROI. One of the largest telecom companies in the industry learned this the hard way.

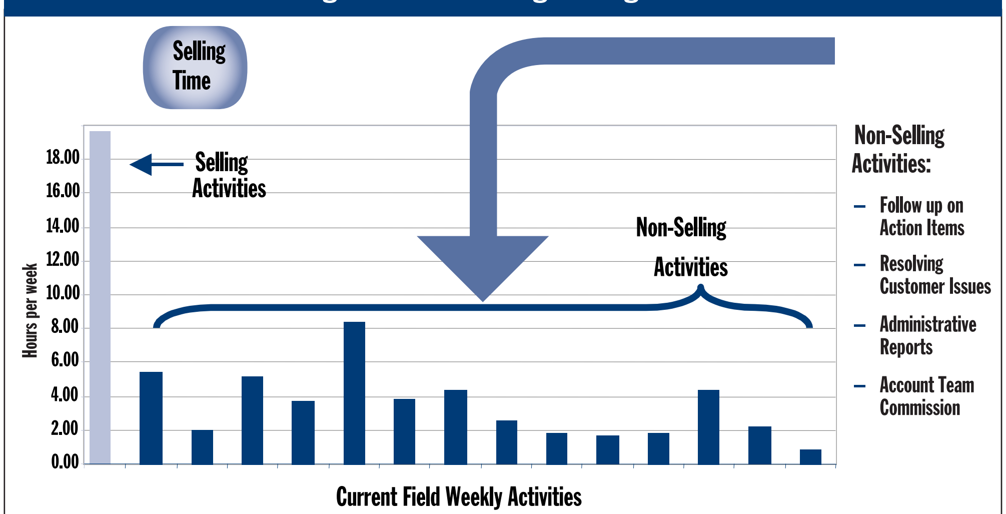
The company had set a goal of improving its revenue and sales and decided to accomplish this by developing a training intervention for its sales force. After the training had begun, senior managers became increasingly skeptical that the intervention would achieve desired financial results. Under pressure, the company's internal consulting team hurriedly did a study that promised an ROI of 250%—meaning that for every dollar spent on training, $250 would be recovered. Clearly this was unrealistic.

The ROI analysis suffered from two insurmountable problems. First, it was undertaken after the training intervention had already begun. Human nature dictates that if you are responsible for the success of a program, numbers are going to be manipulated to ensure the most positive results. Second, the internal consultants did not isolate the effect of the intervention from other factors and in this case there were significant factors that did have an impact. The compensation model had been changed during the course of the intervention, and a very large account had been closed just before the intervention started.

Since the consultants measured only sales before the intervention and sales after the intervention, these two factors artificially inflated the results and caused the team to lose credibility with senior management. Clearly, it is critical then that all key factors that may have contributed to the improvement should be identified.

There are a number of methodologies and techniques, such trendline anlysis and control groups that help isolate the factors that have directly impacted training effectiveness. However, most of these are highly complex and costly. A much easier and direct way to get this information is to simply ask

Figure 3: Increasing Selling Time



participants of the training intervention what to identify factors other than the training that might result in improvements

For example:

- What element of your job might be improved through what you have just learned (e.g., closing deals, asking better questions, finding new opportunities, improving customer relationships, etc.)?
- What percentage of this improvement can be attributed directly to the training?
- What other factors unrelated to the training could have had an effect on the performance?
- What percentage of this improvement can be attributed to other factors?
- To what extent are you confident with your estimates?

Beware of participants who assign unrealistically large dollar amounts and make sure they really understand the process. Often you'll find that they are not familiar with the difference between sales, revenue and profits. For example, if they feel that learning how to find more opportunities leads to sales and revenue improvement, you have to make sure they're putting those dollars in the right area.

To apply the confidence level and develop a realistic training impact number, use the model in Figure 4.

To isolate external factors, let's assume that the intervention in our example achieved its original goal of 20% reduction in non-selling time. The effect of isolation may have revealed that participants attributed the training itself as having 80% impact on improvement, while changing the compensation model and the rising economy contributed 10% each. Factoring in participants' confidence levels on each factor, on percent of impact, training impacted slightly less than 50% of the overall improvement. This means that the effect of training on non-selling time is approximately 10% (half of the original 20% goal), resulting in a financial impact of $500,000.

Finally, Verify the ROI

By now you should have actual costs, measurements and other numbers that will enable you to conduct a more comprehensive exercise than when you estimated ROI at the beginning of the program. Simply use those same calculations, but with the updated numbers. Validating your earlier ROI estimate will provide the true financial impact of the program.

- Think about how that improvement might relate to the operations side in terms of reduced sales cycle, improved hit rate, better communication, etc.
- Put a dollar figure on it and try to project, within the next twelve months, what that will bring to the company.

Continuing the ROI Exercise

The value of an ROI exercise starts with estimating the return on investment to justify the training at the beginning of the initiative and then validating the estimate at the end of the exercise. But it doesn't stop there. It should be uppermost in everyone's minds from the start, continue all the way through implementation and be a part of the after-training evaluation process.

To provide a truly effective picture on the impact of the training, periodic measurements must continue to take place. A good rule of thumb is that each intervention should yield results within 90 days. Although the full impact of training might not show up for 12 months, this will allow you to show progress and course-correct where necessary. Always plan the measurement and evaluation strategy ahead of time before the training starts.

THE VALUE OF THE ROI EXERCISE SHOULD BE UPPERMOST IN EVERYONE'S MINDS FROM THE START, CONTINUE ALL THE WAY THROUGH IMPLEMENTATION AND BE A PART OF THE AFTER-TRAINING EVALUATION PROCESS.

Cementing the New Behaviors

Organizations today know that training, as a stand-alone exercise, is no longer enough. For new behaviors to become part of the culture, they must be practiced, reinforced and incited by management. The following are two "Golden Rules" of ensuring that newly learned behaviors become business as usual:

- Merge a twelve to eighteen-month implementation procedure with the training intervention to ensure new skills are successfully integrated.
- Develop guidelines and signposts that keep the program on track and provide alerts when it veers off course.

To paraphrase a maxim of the quality movement: What is measured is what is done. The caveat is that, it must be meaningful measurements that track real value and result in an improved bottom line.

Figure 4: The Consulting Scorecard

Impact Factor	Percent of Impact	Confidence Level	Result
Training	80	60	48
Compensation	10	50	5
Rising economy	10	50	5

Source: The Consulting Scorecard *by Jack Phillips*

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