

Are You Cutting It?

How to reduce your cost of learning by 30%

A business white paper by Kevin Lovell
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Learning & Development (L&D) teams are under pressure to make significant reductions in training costs. At the same time, organisations recognise a business imperative to continue training, to maintain workforce skills.

Kevin Lovell explores how large organisations can resolve this tension and satisfy both demands, however the solution may not be what you expect.

Introduction

Right now, the pressure to reduce the cost of learning is greater than it's been for a long time. No surprise there, but this time I have noticed a different attitude to training cuts than in previous economic downturns. Training spend is down, but this time round organisations are much less willing to reduce training activity.

I'm sure it's influenced by talent shortages, that business leaders believe there really is an important return on investment in training. Collectively, we still don't understand enough about where the return on investment lies, or how to ensure we always get that return. However, we know enough to recognise there is significant business risk associated with making crude reductions in training delivery.

All this creates tension, because organisations need to cut costs across the board, and L&D must take its share. It's a tough challenge to maintain skills, keep on training staff, but cut costs as you do it.

An obvious first step is to make your assets work harder: ensure that all your internal resource is fully utilised and that you get the best possible deal from your external suppliers. In my experience this approach might reduce costs by 5%, but the savings sought by many large organisations are up to six times that level. You can't achieve savings of 20% to 30% just by working harder – for this you need to make fundamental changes.

This paper looks at how large organisations (those with over 2,000 staff) might achieve savings around the 30% mark. We refer to large organisations since this is the size and complexity where certain inefficiencies emerge, which offer the potential for such savings.

Finding the 30%

To show where the savings will come from, I shall use illustrations based on a 'typical' breakdown of a notional spend of £1m. The figures are based on our experience working with many large organisations. They are inevitably a generalisation: every organisation is different, with varying needs and differing levels of L&D provision. So, for the purposes of this paper, a 'typical' breakdown for every £1m of direct training costs (internal and external) looks like this:

- £50,000 L&D management;
- £100,000 consultancy, needs analysis, learning design and development;
- £250,000 L&D administration;
- £200,000 learning delivery (internal resources)
- £400,000 learning delivery (external, third party costs).

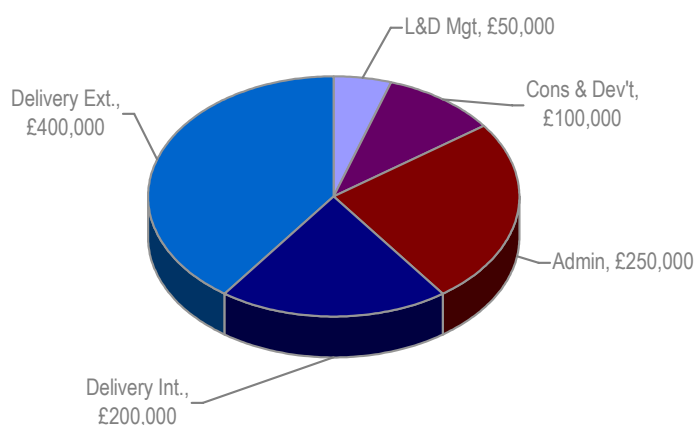


Figure 1: Typical breakdown of £1m training cost

The rest of this paper will explore the four key areas where we have found potential for significant savings:

1. Supplier management
2. Administration
3. Scheduling
4. Solution design

In doing so, we shall see that the places where organisations tend to look first and foremost for savings are not necessarily where the greatest savings lie.

1. Supplier management

The first area is a natural area of concern for L&D and procurement. You need to be sure you are getting value for money from your third party suppliers. There are two parts to this equation – cost and quality – and you need a balance between the two. Although the focus is understandably on cost, we strongly recommend you evaluate all training to Kirkpatrick Level 1 (and monitor the results). This provides a quality check for all training delivery, both internal and third party courses. Significantly, the monitoring allows benchmarking of all courses and evidence-based identification of problems as they emerge.

As far as costs go, there are three steps:

- **Establish a Preferred Supplier List (PSL).** Select a limited number of suppliers to cover all your external training resource needs. In this way, you minimise the number of supplier relationships you have to manage. You can better control quality and, by channelling your spend through the minimum number of suppliers, you maximise the potential for discounts.
- **Negotiate the best deal.** This is self-evident, but note that evidence of training quality (from the Kirkpatrick Level 1 feedback) gives you important data to negotiate effectively.
- **Enforce the PSL.** Having negotiated best prices, do all you can to ensure everyone in your business uses only those suppliers on the PSL. Your internal finance and purchasing processes are important here. Rogue spend that goes outside the PSL will be unnecessarily expensive and you have less leverage on the supplier in the event of any problems.

The level of savings available by shrewd purchasing from third party suppliers varies, depending on the type of training services being purchased and the volumes involved. However, by rationalising your supplier base in this way, you should be able to reduce your third party costs by around 7%.

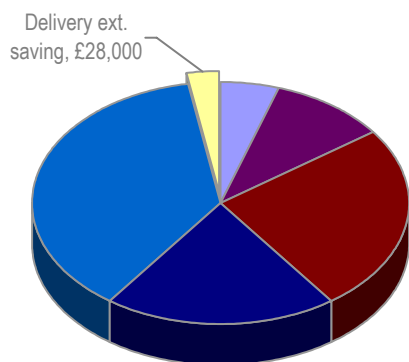


Figure 2: Supplier management savings (2.8%)

Figure 2 illustrates this saving (in yellow), in the context of the overall cost breakdown. This saving amounts to reducing the overall training cost by 2.8%. It's a significant saving, however this is only one element of third party savings. In sections 3 and 4 we shall see how even greater savings are possible by reducing the amount of third party resource required.

2. Administration

The administrative aspect of L&D is a source of great frustration. It involves repetitive, detailed, time-critical, labour-intensive (and therefore costly) but vital work. Many organisations still process large volumes of bookings and post-course evaluations manually, using little more than email, a word processor and a bunch of spreadsheets. It's a popular, long-standing and reliable way to administer training, but it swallows up huge amounts of resource. I well remember meeting with a Head of L&D for 20,000 people. Despite having 14 administrators, I waited while he telephoned a local hotel and booked training rooms for a course the following week!

The introduction of best practice automation would typically reduce administration costs by around 30%

Specialist technology now exists which automates the booking and authorisation of training spend, integrates this with the automated management of post-course evaluations and provides fast, accurate reporting. This relies on

delegates having email and internet access but, compared to a manual process, automation dramatically increases the efficiency of the admin function. Our measurements of the productivity of different L&D admin teams show huge variations, principally due to the extent of process automation. The potential benefits are equally variable, but we estimate that the introduction of best practice automation would typically reduce administration costs by around 30%. And that's equivalent to a 7.5% reduction in the overall training cost (see Figure 3).

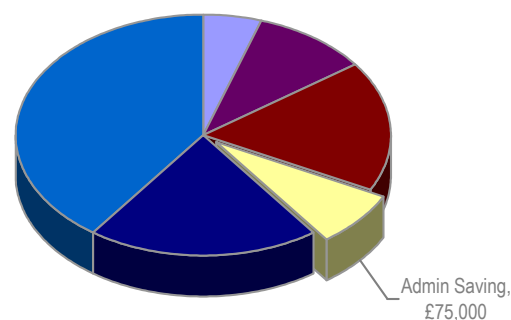


Figure 3: Administration savings (7.5%)

3. Scheduling

A less obvious source of savings lies in the 'intelligent' scheduling of training. In the desire to give excellent service to the consumers of training, there is a tendency towards shorter term planning. When this happens, there's a risk that you lose sight of the overall training demand. What seems a good decision for one line manager needing communications skills training next week, is less good in the context of an organisation-wide Management Development Programme. If you are not careful, short term localised scheduling leads to unnecessarily high training costs.

It's not a simple "short-term planning is bad, long term planning is good" argument. Rather, I have often seen well-intentioned admin teams become excessively reactive to short-term changes and no-one recognises the cost implications of this shift. In such circumstances, the art of efficient scheduling is lost under a mountain of admin. A casualty of this is often the annual review of training needs - lost to the reactive processing of individual training requests and the daily pressures on line managers.

We consider there are two key areas where good scheduling can save costs: fill rates and demand planning.

Fill rates

Most classroom training is delivered through internal (also known as closed) events, since the cost per delegate invariably works out cheaper than sending delegates on open (or public) scheduled courses. That works, provided fill rates are kept high. Airlines work on the same principle, where a key measure is their flight occupancy levels. Successful airlines achieve 80% occupancy or higher, compared to others who may only achieve 40%.

Occupancy of internal training events is similar: average fill rates should be at least 80%. Admin teams need real-time access to monitor fill rates, then slick processes to promote low-fill courses and make sure those that are not viable get cancelled before any penalty charges are incurred.

By adopting better processes and a more disciplined approach, I would expect to reduce empty places by 20%. So, if your present average fill rate across all closed events is 75%, that would go up to 80%. That means you'll need 6.25% fewer events to train the same number of delegates. So, assuming that closed events account for 70% of delivery costs, 6.25% off the closed delivery costs amounts to 2.6% off the overall training cost (see Appendix A for more detail).

By adopting better processes and a more disciplined approach, expect to reduce empty places by 20%

Demand planning

This starts with a statement of what training the business believes is required – ideally the results of an annual organisational development plan. Combine this with data about past training activity and you can make some accurate predictions of demand and what it will cost to meet that demand. Agree the plan with the business, then you can plan ahead with confidence. Of course it's not quite that simple, and there will be changes during the year, but the better the demand information the more accurate your predictions will be. Organisations that don't take this approach tend to have higher levels of short-term changes (running extra courses in response to a surge in demand or

cancelling others due to low take-up), which costs more as we shall see in a moment.

Having got an agreed training plan for the next 6 to 12 months, you can start to buy more efficiently – in bulk wherever possible. The ability to react to short-term changes is a virtue, but few seem to realise quite how much constant flexibility costs. If you only plan a little at a time, you can only buy a little at a time. In general, purchasing any item in larger quantities allows you to reduce the unit cost, so it's worth trying to bulk buy as much as you can. It requires less administrative effort, too. For example, calling up trainers at short notice requires extra administrative effort and when they rearrange their schedule to fit in your two days next week, you're not in a strong position to discuss a better day rate!

The cost difference between operating a fixed annual training schedule and allowing constant short-term flexibility is considerable. My estimate on the evidence of different L&D practices is that constant flexibility adds about 15% to delivery costs and 40% to the admin effort.

Most L&D teams are somewhere between the two extremes, but drawn too far towards the flexibility end of the scale. You shouldn't expect to eliminate all of this 'inefficiency', as I said earlier there is virtue in some degree of flexibility. However, by introducing the dual disciplines of longer term planning and restricting last-minute requests to genuine emergencies only, you might realistically reduce delivery costs by 7.5% (£45,000) and administration by 20% (£50,000). That equates to 9.5% off the overall training cost.

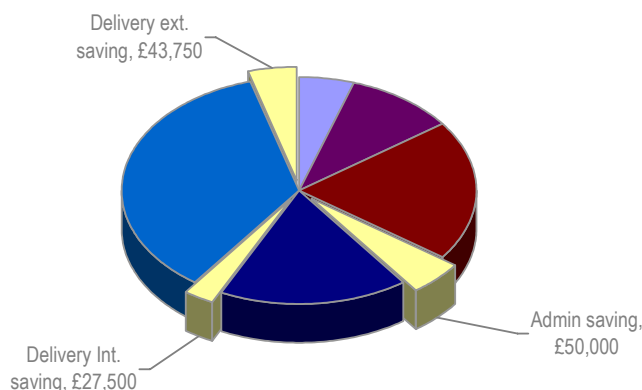


Figure 4: Scheduling savings (12.1%)

Add this to the 2.6% achieved by improving fill rates, we can say that intelligent scheduling can realistically yield a 12.1% saving on the overall training cost.

4. Solution design

The final area for savings relates to the training interventions themselves. Your catalogue of available training should be constantly reviewed: business needs change; ideas about best practice change; technologies change; and approaches to training delivery change. Each intervention should be reviewed at least every two years. At the review, consideration should be given not just to the relevance of the intervention to the business/learning need, but also to whether it meets that need in the most efficient way.

Introducing new and different modes of learning can make a big impact on costs

Training is still dominated by classroom-based courses. We find that there is often considerable scope to redesign classroom courses either into shorter classroom events (perhaps modularising one long course into several shorter ones) or turning to blended solutions. A traditional classroom based event may become a combination of self-study, e-learning, shorter classroom course or some other face to face event: seminar, coaching session, webinar, etc.

Introducing new and different modes of learning can make a big impact on costs, however they do have risk associated with them. Informal learning can be low cost and effective, but is difficult to track and control. Similarly, e-learning is an attractive alternative to classroom training, but is not suitable for all kinds of learning, also bespoke development can still be costly. With care and creativity these challenges can be successfully overcome, however the potential pitfalls need to be thought through in advance.

The creative design (or redesign) of learning solutions can undoubtedly make a significant contribution to reducing the total cost of learning. Some commentators have made

predictions based on overly aggressive estimates of the adoption of e-learning, some as high as 80%. In our view a realistic outcome is to reduce training delivery costs by 20%, in return for a 25% increase in development investment. This yields a net reduction in the cost of learning of 9.5%.

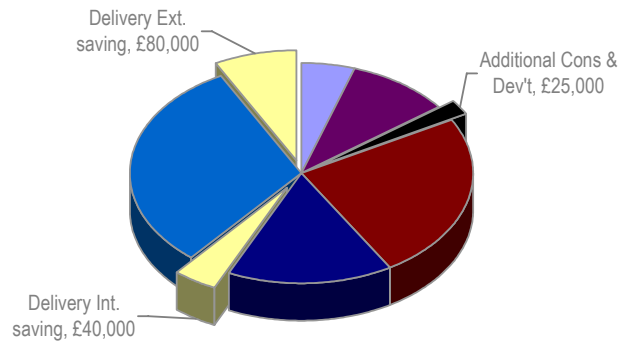


Figure 5: Solution design savings (9.5%)

Conclusion

Our assessment is that it is realistic for large organisations contemplate reducing the cost of learning by 30%. Figure 6 illustrates the combined effect of all the savings described in the preceding four sections. Of course such savings cannot be guaranteed: much depends on the calibre of the current L&D operation; the mix of training activity required; and the ability to make business process changes. Nevertheless, it is quite possible that higher levels of savings are possible in some circumstances.

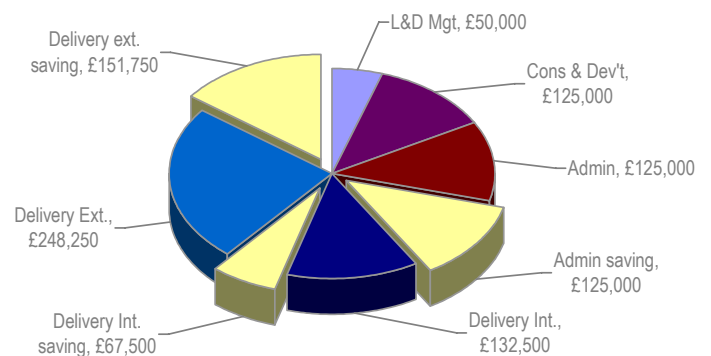


Figure 6: Total savings (31.9%)

Of interest is the relative magnitude of the savings in each of the four areas. In particular, whilst there is much to gain by reducing third party unit costs (section 1), still greater reductions are possible through intelligent scheduling (section 3) or creative solution design (section 4). Depending on the present level of automation, it is possible to make substantial reductions in the administrative costs (section 2)

Insource or outsource?

My experience of different L&D teams reveals little correlation between the cost-efficiency of an L&D operation and the extent to which its operation is delivered by internal or external resources. It's more complex than that. Nevertheless there are some important areas where using an outsourced provider, particularly one that is truly vendor independent, has clear advantages:

- **Third party savings.** Discounts go hand in hand with volume: the more you buy, the greater the potential for discounts. A vendor independent provider, already managing considerable training spend for many organisations, will have greater purchasing power than a single L&D team. Furthermore, such providers should already operate best in class supplier management practices, across all your subject matter areas.

- **Fast access to savings.** An outsourced provider will have the systems, processes and people already in operation. This offers you fast access to the administration savings described above, without complex system configurations, upskilling or recruitment of staff. Such providers will also have a wealth of experience in how to achieve more efficient scheduling.
- **They've already been there.** Outsource providers will be already engaged in getting these savings for other organisations. Their experience will allow you to accurately estimate the savings you can expect, and specifically how to get them.
- **Freedom to choose.** Only a truly vendor independent provider – one that has no vested interest in deploying their own trainers, courses or classrooms – will be able to offer fast access to savings and still have the client's best interests at heart.

However you respond to the challenge of reducing your training costs, significant reductions demand something more radical than an incremental improvement. In these circumstances an external perspective can often help you think the unthinkable – and help you do it!

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Appendix A: Breakdown of savings

Area	L&D Mgt	Cons & Dev't	Admin	Delivery Internal	Delivery External	TOTAL
Initial allocation	£50,000	£100,000	£250,000	£200,000 (all closed)	£400,000 (£180,000 open, £220,000 closed)	£1,000,000
Supplier management savings					£28,000 (7%)	£28,000 (2.8%)
Administration savings			£75,000 (30%)			£75,000 (7.5%)
Scheduling (fill rates) savings				£12,500 (6.25%)	£13,750 (6.25% of closed)	£121,250 (12.1%)
Scheduling (demand planning) savings			£50,000 (20%)	£15,000 (7.5%)	£30,000 (7.5%)	
Solution design savings		-£25,000		£40,000 (20%)	£80,000 (20%)	£95,000 (9.5%)
Total savings	£0	-£25,000	£125,000 (50%)	£67,500 (33.8%)	£151,750 (37.9%)	£319.250 (31.9%)