# Towards a new approach to measuring the ROI delivered by a Learning Management System

## Discussion Paper

*Why a new approach to measuring the Return on Investment delivered by a Learning Management System is required.*

***Simon Clayton, Sales Director at CS Group, discusses why a new approach to measuring the Return on Investment delivered by an LMS system is required.***

**Why is a new approach to measuring ROI required?**

Measuring the return on any software investment is usually a hypothetical exercise undertaken when building the case for purchase. However, we argue that good practise dictates that return on investment (ROI) should be assessed regularly: initially, at the beginning the project when assessing or building the case for investment, post install and, subsequently, through the life of the investment.

None the less, most exercises in measuring ROI will start with the need to consider the effects of investing, or not investing, in the software application. Much work has been done in the past to try to work out various equations for ROI, but much of this has tended to be rather reductionist in nature and characterised by equations such as:

> Number of training course bookings taken per month: 200
> Average time taken by training administrator to book course: 15minutes
> Average time to book course using x software: 2 minutes
> Hours saved over month: 43h20
> Cost saving @ £15 per hour: £650 per month (or £7,800 pa).

But these straightforward equations resonate unconvincingly. Because, while we recognise that there is a place for this kind of bold financial statement in the overall equation, most of us know from experience that these time-savings are not so easily converted in to cash.

It can be done: as demonstrated by Paul Buey's comments at the skills & safety training company, the Skills Training Centre. Paul relates his experience of implementing CS Group's CourseBooker, a software application which streamlined the training booking processes and enabled delegates to book on-line. As a result, Skills Training Centre was able to reduce its team of Training Coordinators from 5 staff down to 3 staff - and this whilst administering a 25% growth in overall business/ training bookings.

But Skills Training Centre's experiences are not representative of most of our experiences. These "extra" free minutes have an uncanny knack of disappearing in to the busy timetables of training staff. Whether these minutes are being wasted, or diverted to other equally important tasks that staff "just didn't have time for" previously is part of the vagaries of ROI measurement.

These time savings only translate in to cost savings if the business is no longer paying for those hours (and should we consider what the other associated impacts of reducing staff hours or terminating contracts are as part of our analysis?) or if they are being deployed elsewhere in the business in an area that would have otherwise cost the business an equivalent sum (and how can the benefit of this be measured if the hours are diverted in to activities that were not previously undertaken before; how do we measure the ROI of those re-allocated hours?).

To get a more accurate understanding of any software application's payback to the business we first need to accept that much more flexible approach to measuring ROI needs to be applied.

Instead of relying solely on quantitative measures (this rather reductionist approach to freeing up time, which then directly results in to "cost savings" to the business) the measurement of ROI needs to embrace both quantitative and qualitative measurements. Hard measures, such as estimating the number of minutes saved on any given process need to be combined with more esoteric business benefits – and an understanding of how these minutes could be better deployed if they are still being paid for.

## The Seven Fundamentals

Using this approach, it is vital that any case for investment – or plan to measure whether ROI has been delivered - must also take in the account the “soft issues” surrounding the suggested need for investment.

We argue that, as well as linking the initial specification for the software application closely to individual business needs, the case for investment through ROI also needs to be closely linked to these same individual business needs and individual business operations.

The case for investment – and later measurement of ROI delivery – needs to focus on the specific needs, processes and objectives of the business – and this is done in conjunction with consultation of all involved staff and after an audit of the business’s individual circumstances

Once this is understood, these identified business characteristics can inform our understanding of ROI when built around seven key delivery-orientated metrics:

1. Improvements for the Learning & Development team
2. Improvements for Learners
3. Better Needs Analysis
4. Improved Appraisals Process
5. Better Skills Management
6. Managing Risk
7. Better Reporting & Improved Organisational Planning

While these 7 fundamentals are common to any case for investment or ROI measurement of any LMS it is important to bear in mind that the key to measuring the return on investment is intrinsically linked to the way the business operates, its staff and to the specification of the software itself.

The use of these 7 Fundamentals as a framework is intended to help anyone embarking on the process of building the case and measuring LMS ROI. However, we would recommend to everyone to work through these Fundamentals in conjunction with your software vendor(s).

Representatives from supplier organisations may be expert in the way their product works, and you may be expert in what the business needs after the consultation and audit process, but in order to build the case properly these two areas of expertise need to be combined. Most LMS vendors will have consultants that can assist in the process of building the case for investment and measuring ROI.

**What do we mean by hard and soft measures?**

1. Improvements for the Learning & Development team

Improvements for the Learning & Development team give rise to the easiest calculations in terms of time saved, but these calculations need to be viewed critically to assess the real returns in terms of what the newly released time is delivering.

2. Improvements for Learners

Conversely, improvements for learners give rise to the some of the softest measurements - how do we capture and measure the benefits to the business that stem from that ‘warm and fuzzy’ feeling staff have when their training needs are being met properly and they understand that the organisation places value on their ongoing development.

3. Better Needs Analysis

Better needs analysis will have a direct financial impact in terms of reducing the cost of training that is not required. However, it will almost certainly throw up areas where training investment needs to be increased. What is the pay off between these changing costs and the business improvements delivered through more targeted training programmes? And how can it be measured?

4. Improved Appraisals Process

An improved appraisals process, similarly, could have immediate financial pay-offs in terms of a slicker administrative processes, but we also need to account for the enhanced business performance delivered by ensuring staff are involved throughout the appraisal and development process.

5. Better Skills Management

Hard measures when measuring the impact of improved skills management could well be HR & recruitment spend metrics. Our softer measurements tend to focus on the ‘warm and fuzzy’ benefits of staff that feel properly skilled to undertake their role, and the subsequent improvements in performance. When we offset this against the costs of skills management, we also need to include the costs of developing skills frameworks through the business, if this has been implemented alongside the LMS, in order to assess the real ROI.

6. Managing Risk

Non-compliance with regulatory standards often has a huge human and financial impact, and financial loss could result directly, as a result of fines and compensation, and indirectly, as a result of brand damage. Assessing the impact of the LMS in improving the management of risk, therefore, must include an analysis of both the likelihood and effects of non-compliance, as well as the calculations of streamlined administrative recording and auditing processes.

7. Better Reporting & Improved Organisational Planning

Better reporting is often a key driver in the decision to purchase. However, the issue isn't a clear cut as it first might appear. As well as the straightforward timesavings achieved from better reporting tools and standard reports, a new system often makes new information readily available. Some time saved will be diverted into creating and analysing this new business intelligence, so how do we measure this against the improved organisational planning that results?

As we can see, none of these seven fundamental metrics lend themselves to a single time/ cost metric. Trying to shoehorn them in to revealing a numerical ROI isn't a valuable exercise if we wish to uncover a real picture of the benefits the LMS is delivering.

It is for these reasons that we argue a new approach to measuring the ROI delivered by any LMS is required; one that can account for both the soft and hard measurements of business performance improvements.

**The importance of ongoing ROI calculations**

In our experience, all too often, a series of hypothetical ROI calculations are developed with the express intention of justifying the purchase of a system and, after purchase, these calculations get shoved in a dusty drawer, never to see the light of day again. This serves to help no one.

We believe that ROI calculations need to move away from the hypothetical and become a re-usable yardstick by which the LMS is measured and the software vendor, organisation and the Learning & Development team are held to account.

It is understandable that, post-investment, people involved in making the decision to purchase are nervous about revisiting ROI calculations. If the system has failed to deliver the predicted savings will this reflect badly on the purchasing team? Will it be indicative of a bad choice of application? A waste of resources? Or a result of bad project management?

This nervousness can be seen as a direct result of the way ROI calculations have been constructed in the past. The limitations of the 'converting minutes saved directly in to profit' approach have been already discussed and, when these cost savings fail to materialise, who is to blame?

It is our suggestion that the blame lies squarely in the hands of a badly constructed ROI calculation. By setting unrealistic expectations, the document becomes redundant – condemned to function only in the hypothetical and not in the real.

This must change: ROI calculations have an important role to play, not simply when considering the need for investment, but also to ensure that the software application deployed realises the benefits it was implemented to deliver.

## Ensuring 'soft' measures deliver hard results

We argue that it is not desirable to end up with a single, neat calculation along the lines of:

time saved on training admin + time saved on reporting = total cost saving

There are a lot of variables in both business operations and training management and ROI calculations need to account for these variables: the ROI plan needs to reflect reality to be useful as a tool for measurement.

Our approach is not to suggest that the hard figures are not important – it is too look beyond these numbers to identify the truths behind them. A structured approach can be applied, based on our 7 fundamental delivery-orientated ROI metrics, but the detailed plan needs to allow for some flexibility in assessment (at a basic level; to which activities are those "freed-up minutes" being deployed?).

By using a combination of quantitative and qualitative analysis we can build an understanding of what our “hard” measurements are really telling us. It is hoped that, by building a more complete picture of the benefits the system is delivering, ROI calculations come to be seen, not as something to be afraid of, but as a positive tool that needs to be revisited regularly.

It makes absolute sense to work with your software vendor to ensure you are getting the most from your LMS application. By revisiting and reassessing ROI at agreed points after implementation, the project team has a designated period of reflection, something that too often gets lost in large software projects. Plus, the results can help to identify areas which are working well, as well as areas where the team might not be getting the results they planned.

As well as providing a period of reflection, re-calculation can highlight areas where improvements have been made already and are, therefore, not a focus of attention and throw up ways in which further improvements could be made. Your software vendor has implemented other similar projects and this experience should be leveraged to ensure maximum ROI.

Where results fall below expected ROI, it is important for the software vendor and the Learning & Development team to work together to identify possible causes and to ensure remedial action is taken – whether that be application development; tweaking internal processes or the way the application is being used; or providing refresher training for staff.

By working with the vendor to ensure that LMS ROI is being delivered, ROI calculations can move out of the dusty drawer they have so long been condemned to and be used to demonstrate success in the business, and of the Learning & Development team in particular.