

# The Benefits of Using the ROI Methodology

What's the ROI on ROI?

**ROI** INSTITUTE™

Phone 205-678-8101  
Email [info@roiinstitute.net](mailto:info@roiinstitute.net)  
Web [www.roiinstitute.net](http://www.roiinstitute.net)

---

## The Issue

---

When an organization implements of the ROI Methodology, the concern about the value or payoff of this approach becomes an issue. This process, when used properly, a function from activity-based to results-based. The activity-based approach focuses on developing programs, counting people involved, and reporting data about activities. The results-based approach requires that programs begin with the end in mind with very specific business measures. It also involves a continuous focus on results throughout the process and creating expectations from all involved to deliver the results. These results include data that are CEO and CFO-friendly. Figure 1 shows the paradigm shift from an activity-based process to results-based process.

### Activity Based – Characterized by:

1. no business need for the program
2. no assessment of performance issues
3. no specific measurable objectives
4. no effort to prepare program participants to achieve results
5. no effort to prepare the work environment to support program
6. no efforts to build partnerships with key managers
7. no measurement of results or cost benefit analysis
8. reporting on programs is input focused

### Results Based – Characterized by:

1. program linked to specific business needs
2. assessment of performance effectiveness
3. specific objectives for application and business impact
4. results expectations communicated to participants
5. environment prepared to support program
6. partnerships established with key managers and clients
7. measurement of results or cost benefit analysis (ROI)
8. reporting on programs is outcome focused

---

Figure 1. Paradigm Shift in Learning and Development

This shift is often met with resistance from those who are involved in the process. This approach requires program designers, developers, facilitators, and coordinators to think about accountability early and often and shifts the way in which programs are deployed. For example, it requires them to develop objectives at the application and business impact levels. Because of this, the investment in ROI implementation becomes significant, not only in direct costs, but also in time and efforts. Sometimes, this is perceived as extra work by the learning and development team, instead of an opportunity to show the connection to business value. So the obvious question is, “Is this worth it?” Although most executives suggest that this approach is necessary and the “ROI on the ROI” is not needed. However, it is a helpful and recommended exercise.

---

## The Benefits

---

The clients who have been using this methodology for several years have reported many benefits. These are usually in six categories.

### Improve Projects

The number-one benefit of using the ROI Methodology is that the data drive improvement in projects and programs. This is the principal focus of the methodology; data are collected to show how the project should change to increase success. When projects are not delivering the value needed, i.e., a negative ROI, the data indicate what needs to change to deliver the proper business value. Some users report their application of the process has led to the removal of unnecessary programs. When programs are successful, data are collected to show how new improvements can be made to make them more successful.

---

## **Secure Funding**

Additional funds are often attributed directly to the use of the ROI Methodology. Some budgets have increased significantly, even in the face of budget reductions in other parts of the organization. One tool and small appliance maker reported a two-fold increase in the learning and development budget based on the use of ROI. A large, well known insurance company quadrupled its learning and development budget in two years with the ROI Methodology. Some users have been able to secure funding on a pre-program basis, with an ROI forecast. Others use the ROI Methodology to justify next year's budget.

## **Implement New Projects**

Some users evaluate a pilot program to determine if that program should be implemented in other areas. Capturing six types of data creates a much better database for decision making. When executives and sponsors are convinced that the program is adding value, particularly with a positive ROI, this same project can then be implemented in many other areas of the business. For example, one of the world's largest retailers uses the ROI Methodology to show the value of projects before they are implemented throughout all of its stores. Using a pilot group of 20-25 stores, the company compares the results with a similar group and makes the decision to implement the program based on its complete profile of success, including ROI. This lowers the risk associated with the decision to implement.

## **Build Support**

Support of projects and programs is an area of concern for most project leaders and program directors. Additional support is almost always needed, particularly from middle-level managers. When the ROI Methodology is used, these managers have more data about the success of programs. When programs and projects drive impact and ROI data, managers will support the effort. ROI users report examples of a dramatic increase of support from middle level managers.

## **Enhance Relationships**

Collecting data to show the value of projects and programs is one of the best ways to enhance relationships and earn a "seat at the table." To be effective in an organization, users must work with a variety of clients and stakeholders. Productive relationships with key managers must be developed. Many users of the process indicate that relationships with business partners have improved. As one manager in a brewery in Europe stated, "Presenting an ROI impact study was the first time I had an intelligent business discussion with the CEO, and it made a tremendous difference in our relationship going forward."

## **Improve Image**

When data reveal the success of various projects and programs at the impact and ROI levels, the image begins to change. Some organizational functions have a reputation for not contributing value (human resources, learning and development, communications, change management, public relations, ethics, and compliance are often viewed this way.) Critics question the value of projects and programs in these areas. While this change does not occur overnight, users report the image of the function has been enhanced considerably with the use of ROI, graduating from the perception of an activity-based cost center to a results-based investment center.

## Monetary Benefits

---

The good news is that the specific benefits from this implementation can be converted to money in a credible way. The monetary impact can be derived from these important areas.

### Improving Program Effectiveness

When impact and ROI studies are conducted, there are almost always improvements to be made and these can be easily converted into money. For example, when a program delivers a positive ROI, usually there are recommendations about what is needed to increase the ROI. Those recommendations are implemented and the ROI can be calculated again. When steps are taken to improve the program, the impact increases and the corresponding monetary value of that impact increases. The monetary value is already calculated as part of the ROI Methodology, so it is a matter of showing the improvements in money connected to the revised program. The difference in monetary benefits, the numerator of the two calculations, shows the monetary value of this revised program, caused directly by the use of ROI evaluation.

This benefit is even more dramatic when a program is evaluated and it has a negative ROI. Changes are often made to make it positive and it is evaluated again. The monetary benefit change is the difference in the numerator of the two calculations. These benefits can be substantial, particularly for a program that is implemented across an entire organization.

### Improving Program Efficiencies

Often, when recommendations are made to improve programs, there are action items to make it more efficient. This may involve reducing the time for sessions to deliver the same level of effectiveness. An example is to provide the same content in one week that would usually take two weeks. Another example may be the use of e-learning or blended learning to replace some of the instructor-led sessions. A five-day program becomes three days of live meetings with a few hours of e-learning in advance and post-program coaching provided by a manager. These efficiencies will translate into a cost reduction with the revised approach. It is a matter of showing the cost difference in a subsequent follow-up, the difference in the denominator of the two calculations. In essence, the new version shows a cost reduction.

### Expanding Successful Programs

When the ROI Methodology is used to evaluate a pilot of a new program, tremendous benefits can surface. There are two options. First, a pilot program is evaluated and the results are positive. It can be implemented now, across the organization, with confidence that the success will be delivered. The value added with this program is attributable to the use of this methodology. In other words, the program would not have been implemented without this process.

The second option is the case when a particular program is requested, but the evaluation of the pilot, using this methodology, shows that it does not deliver monetary value. Also, it cannot deliver the monetary value, even with adjustments. Consequently, the program is not implemented. The savings can be tremendous. The monetary benefits would be a matter of calculating the costs of what normally would have been incurred without this analysis. Typically the program would have been implemented, and a tremendous amount of money would be wasted on the program. If this situation occurs in just one program, it should pay for the complete ROI Methodology implementation.

## Discontinuing Ineffective Programs

Sometimes an ongoing program is evaluated and the data shows that it is not adding value and a redesign or redeployment will not make it successful. It is a program that is not adding business value and will never add business value, regardless of how it is changed. Those programs need to be removed, thus saving the organization a tremendous amount of money. In one UN organization, for example, the ROI Methodology was used to show that an existing, on-going program does not add business value. Consequently, it was discontinued, saving that particular organization almost half of its learning and development budget, a tremendous monetary windfall that was available only because they were using this methodology.

---

## The Cost

---

The cost of this implementation should be tracked and involve all ongoing direct and indirect costs. It is not only the cost of direct services provided by the ROI Institute, but also the cost of the certification for the team. It would include the cost of conducting studies during the evaluation period, emphasizing both the direct and indirect categories, as shown in Figure 2.

Cost Item	Prorated	Expensed
1 Initial analysis and assessment	✓	
2 Development of solutions	✓	
3 Acquisition of solutions	✓	
4 Implementation and application		
Salaries/benefits for L&D team time		✓
Salaries/benefits for coordination time		✓
Salaries/benefits for participant time		✓
Program materials		✓
Hardware/software	✓	
Travel/lodging/meals		✓
Use of facilities		✓
Capital expenditures	✓	
5 Maintenance and monitoring		✓
6 Administrative support and overhead	✓	
7 Evaluation and reporting		✓

---

Figure 2. Costs Included with ROI Studies

---

## ROI

---

The ROI is calculated as the cost versus net benefits. Using the monetary benefits derived above, usually over a two-year period, compared to the cost of the ROI, over the same two-year period, will show the ROI calculation. The standard two ways to calculate this is:

$$\text{Benefits/Costs Ratio} = \frac{\text{Monetary Benefits}}{\text{Program Costs}}$$

$$\text{ROI (\%)} = \frac{\text{Net Monetary Benefits}}{\text{Program Costs}} \times 100$$

For example, if the monetary benefits for the categories above resulted in \$1,338,000 for a two-year period, and the total cost for ROI implementation during the same period was \$358,000.

The benefit/cost ratio is:

$$\text{BCR} = \frac{\$1,338,000}{\$358,000} = 3.74:1$$

The ROI becomes:

$$\text{ROI} = \frac{\$1,338,000 - \$358,000}{\$358,000} \times 100 = 274\%$$

Although the calculation is encouraged on every major ROI implementation, only a few have shared their results with the ROI Institute. These range from -12% to over 500%. No organization has asked for a refund based on this analysis.

---

## The Approach

---

The suggested approach to capture these data is to assign an individual or a group of individuals with this task. It is more effective if a small group, a task force, works together with the goal of developing the ROI on the ROI. Initially, this group would track all of the costs for the ROI implementation. Then, they would track the monetary values derived from conducting ROI studies, at the impact and ROI levels, as described above. These are monitored and tallied on an Excel spreadsheet over a two-year timeframe to calculate the actual ROI.

---

## The Intangibles

---

Many intangibles are derived from the use of ROI. The intangible benefits are the benefits that are not converted to money. One benefit is the effective use of data at lower levels that do not translate necessarily into impact and ROI. This is important when building an evaluation system. Also, there are benefits derived from improving the image of the learning and development function, building business partnership relationships, and improving the efficient use of learning and development. This translates into positioning learning and development in more of a strategic function within the organization.