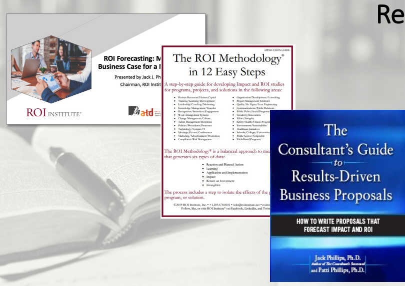
ROI Forecasting: Making the Business Case for a New Project

Presented by Jack J. Phillips, Ph.D.
Chairman, ROI Institute, Inc.

ROI INSTITUTE®

1

Resources



2

Objectives

After completing this session, participants should be able to:

1. List the five levels of data that are present with any performance improvement project.
2. Identify the data needed by executives along with their expectations.
3. Select the experts to provide data to make the estimates for a forecast.
4. Forecast the impact, ROI, and intangibles of an important performance improvement project.
5. Present the ROI forecast in a compelling way.
6. Describe an example of an actual ROI forecasting case study.

3

Serious Performance Challenges

True or False?

1. Most learning and development is wasted (not used).
2. The learning and development outcomes desired by executives in client organizations is rarely measured.
3. Most learning and development providers do not have data showing that they make a difference in the organization.
4. Most executives see learning and development as a cost and not an investment.
5. Most executives view hard skills more valuable than soft skills.

4

The Chain of Value is Always There

Level	Typical Measures	Issue
0 Input	Volume, Cost, and Time	How many people are involved, their time and cost?
1 Reaction	Relevance, Importance, and Necessity	How did they react to the program?
2 Learning	Skills and Knowledge Acquisition	Did participants learn how to make the program successful?
3 Application	Extent of Use of the Program Content, Frequency of Use, and Success with Use	Did participants implement the program? Was it successful?
4 Impact	Productivity, Patient Outcomes, Quality, Infections, Time, Absentee Rates, Patient Satisfaction, Image, ER visits, and Stress	What was the impact, the consequence of the application?
5 ROI	Benefit Cost Ratio and ROI, Expressed as a Percent	What was the payoff for investing in this program?

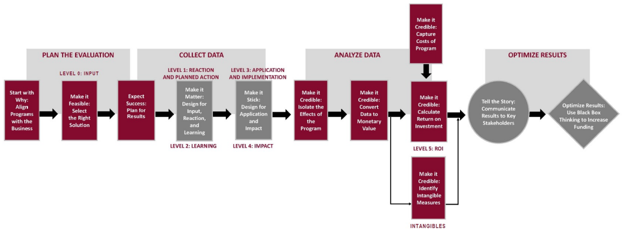
5

Why a Better Business Case is Needed

- Budget constraints
- Project costs
- Demanding sponsors/donors
- Project failures
- Evidence-based/ fact-based thinking
- Benchmarking limitations
- Executive appetite for monetary value

6

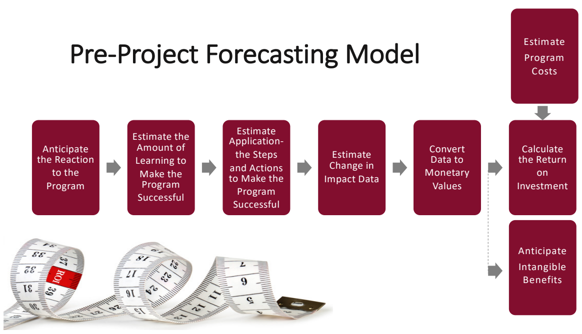
The ROI Methodology®



ROI INSTITUTE®

7

Pre-Project Forecasting Model

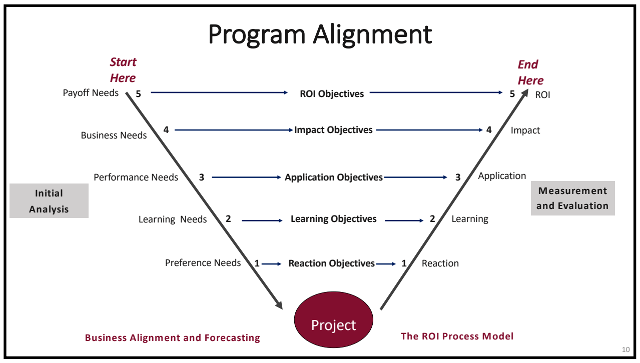


8

What's Your Experience with Forecasting ROI?

- ❑ No need—no experience.
- ❑ It's been suggested, no progress.
- ❑ I've tried it, but not pleased.
- ❑ I have been successful with an ROI forecast.
- ❑ I forecast ROI routinely.

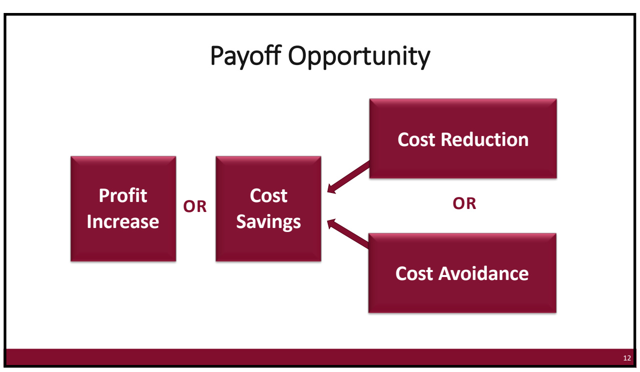
9


Program Alignment
Start Here
End Here
Payoff Needs 5
ROI Objectives
5 ROI
Business Needs 4
Impact Objectives
4 Impact
Performance Needs 3
Application Objectives
3 Application
Initial Analysis
Measurement and Evaluation
Learning Needs 2
Learning Objectives
2 Learning
Preference Needs 1
Reaction Objectives
1 Reaction
Project
Business Alignment and Forecasting
The ROI Process Model
10

10


Payoff Need
• Is this program worth doing?
• Is this a problem or issue worth addressing?
• Is this an opportunity worth pursuing?
The Response
• It could be obvious.
• It could require some discussion.
• It could require a simple analysis.
• It could require a detailed forecast.
11

11


Payoff Opportunity
Profit Increase
OR
Cost Savings
Cost Reduction
OR
Cost Avoidance
12

12

Key Questions to Ask

- Why is this an issue? Is this issue critical?
- What happens if we do nothing?
- Is this issue linked to our strategy?
- Is it possible to correct it? Is it feasible to improve it?
- How much is it costing? Who is paying for this?
- Can we find a solution? Are there multiple solutions?
- Who will support the program? Who will not?
- How much will the solution(s) cost?
- How can we fund the program?
- Are there some important intangible benefits involved?
- Is there a potential payoff (positive ROI)?
- Do we need to forecast outcomes, including ROI?

Can you add to the list?

13

13

Is it the Right Solution?

1. Examine the data and records
2. Initiate the discussion.
3. Reference a case study.
4. Use benchmarking from similar solutions.
5. Use evaluation as the hook.
6. Involve others in the discussion.
7. Use Diagnostic Tools
8. Discuss disasters in other places.

14

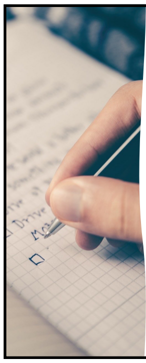
14

Expect Success: Developing Objectives

Levels	Focus
Level 1, Reaction	Defines specific measures of expected reaction to the program as it is revealed and communicated to the stakeholders
Level 2, Learning	Defines specific measures of improvement in knowledge, information, contacts, and skills as the participants and other stakeholders learn how to make the program successful
Level 3, Application	Defines specific measures of actions taken that define success with application and implementation of program
Level 4, Impact	Defines the specific impact measures that will change or improve as a consequence of the program's implementation
Level 5, ROI	Defines the minimum return on investment from the program, comparing program costs with monetary benefits from the program

15

15



Rules for Objectives

1. Must be measurable and represent minimum acceptable performance.
2. Fewer objectives are better than many objectives.
3. Involve subject-matter experts and key stakeholders.
4. Keep them relevant to the situation, program, and key stakeholders.
5. Create stretch objectives, but make sure they are achievable.
6. Allow for the flexibility to change as conditions change.
7. Failure is OK; process improvement is the key.
8. Objectives are tools for progress, not weapons for performance review.
9. Most objectives should be time-bound.
10. Objectives provide the focus for design, development, implementation, and evaluation.

These rules are from a combination of publications:

J. J. Phillips and P. P. Phillips. *Beyond Learning Objectives: Develop Measurable Objectives that Link to the Bottom Line*. Alexandria, VA: ASTD Press. 2008.
P. P. Phillips and J. J. Phillips. *10 Steps to Successful Business Alignment*. Alexandria, VA: ASTD Press. 2012.
J. Doerr. *Measure What Matters: How Google, Bono, and the Gates Foundation Rock the World with OKRs*. New York: Penguin. 2018.

16

Matching: Evaluation Levels with Objectives

After implementing the program, participants should:

1. Increase new customers by 20% in two months.
2. Decrease the average time patients stay in the ICU.
3. Perceive the compliance program as necessary.
4. Implement the six steps in the lean process with every new procedure.
5. Achieve a 20% ROI one year after implementation of flexible work system.
6. Be able to describe the five elements of the safety program.
7. Conduct a proper investigation using the seven-step process in 95% of complaint situations.
8. Decrease store overtime by 40% in three months.
9. Score an average of 75 or better on new strategy quiz.
10. Know how to create a personal improvement plan.

1	**Reaction**
2	**Learning**
3	**Application**
4	**Impact**
5	**ROI**

17

Steps to Pre-Project ROI Forecast

1. Develop Levels 1-3 objectives, with as many specifics as possible.
2. Estimate/Forecast monthly improvement in impact (Level 4) data (ΔP).
3. Convert Level 4 measure to monetary value (V).
4. Develop the estimated annual impact for each measure (ΔPxVx12).
5. Estimate fully loaded program costs.
6. Calculate the forecasted ROI using the total projected benefits and costs.
7. Use sensitivity analysis to develop several potential ROI values with different levels of improvement (ΔP).
8. Identify potential intangible benefits.
9. Communicate analysis with caution.

18

Input to Forecast

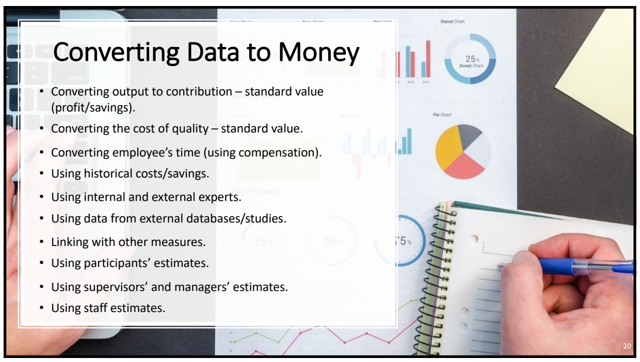
- Previous experience with same or similar programs
- Suppliers/Designers experience in other situations
- Estimates from suppliers/designers
- Estimates from medical experts
- Estimate from clients/sponsors
- Estimates from target participants

Who should provide impact estimates for your project?

19

19

Converting Data to Money



- Converting output to contribution – standard value (profit/savings).
- Converting the cost of quality – standard value.
- Converting employee's time (using compensation).
- Using historical costs/savings.
- Using internal and external experts.
- Using data from external databases/studies.
- Linking with other measures.
- Using participants' estimates.
- Using supervisors' and managers' estimates.
- Using staff estimates.

20

20

Forecast Costs to Include

Cost Item	Prorated	Expensed
Initial analysis and assessment	✓	
Development of solutions	✓	
Acquisition of solutions	✓	
Implementation and application		
Salaries/benefits for program team time		✓
Salaries/benefits for coordination time		✓
Salaries/benefits for participant time (if appropriate)		✓
Program materials		✓
Hardware/software	✓	
Travel/lodging/meals		✓
Use of facilities		✓
Capital expenditures	✓	
Maintenance and monitoring		✓
Administrative support and overhead	✓	
Evaluation and reporting		✓

21

21

ROI Objectives: Defining the ROI Calculation

$$Benefit\ Cost\ Ratio\ (BCR) = \frac{Program\ Benefits}{Program\ Costs}$$

$$ROI = \frac{Benefits - Costs}{Program\ Costs} x\ 100$$

22

ROI Objective

Exercise

- Costs per program (25 participants): $175,000
- Potential benefits for program (1st year): $300,000

Benefit Cost Ratio (BCR)= ______________

ROI (%) = $\frac{\text{Benefits – Costs}}{\text{Program Costs}}$ X 100 = ____________

23

ROI Objective

Exercise

- Costs per program (25 participants): $175,000
- Potential benefits for program (1st year): $300,000

Benefit Cost Ratio (BCR)= $\frac{\$300{,}000}{\$175{,}000}$ = 1.71:1

ROI (%) = $\frac{\text{Benefits – Costs}}{\text{Program Costs}}$ X 100 = ______

24

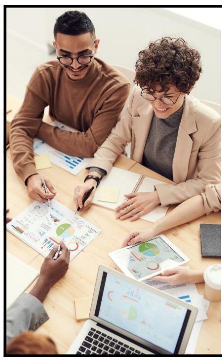
ROI Objective Options

1. Set the value at the same level as other investments: 15%
2. Set slightly above other estimates: 25%
3. Set at breakeven: 0%
4. Set at client expectations.

Private sector organizations usually go with option #2; public sector organizations prefer #3.

25

25



Intangibles

- Adaptability
- Awards
- Brand awareness
- Career minded
- Caring
- Collaboration
- Communication
- Conflicts
- Corporate social responsibility
- Decisiveness
- Engagement
- Image
- Innovation
- Job satisfaction
- Leadership
- Networking
- Organizational climate
- Organizational commitment
- Reputation
- Stress
- Talent
- Teamwork

26

26

Example: Customer Success Program

Presented to Customers: Designed to reduce unnecessary support calls

1. Unit of Measure: 1 unnecessary customer support call
2. V = $88 (average cost of 1 call)
3. $\triangle$P = 65 per month
4. A$\triangle$P = 65 x 12 = 780
5. A$\triangle$P x V = 780 x $88 = $68,640

Anticipated mobile learning program cost: $27,650.

What is the forecasted ROI?

27

27

Example: Customer Retention Program

Presented to Customer Service Staff:
Designed to retain customers who are cancelling contracts

1. Unit of Measure: 1 additional year
2. V = $121 (average profit per year)
3. ΔP = 14.6 per month
4. $A\Delta P$ = 14.6 x 12 = 175.2
5. $A\Delta P$ x V = 175.2 x $121 = $21,199

Anticipated one-day virtual workshop cost: $16,300.

What is the forecasted ROI?

28

28

Example: Leadership Development

Presented to Managers: Designed to reduce departures of staff

1. Unit of Measure: 1 regrettable turnover of staff
2. V = $21,000 (60% of annual salary)
3. ΔP = 3 per month
4. $A\Delta P$ = 3 x 12 = 36
5. $A\Delta P$ x V = 36 x $21,000 = $756,000

Anticipated blended learning program cost: $339,400.

What is the forecasted ROI?

29

29

Presentation Sequence

1. Describe the project and explain why it is being proposed.
2. Present the methodology.
3. Present the expected reaction and learning data.
4. Present the expected application data.
5. List the anticipated barriers and enablers to success.
6. Present the expected business impact.
7. Show the costs.
8. Forecast the ROI, if needed.
9. Show the intangibles.
10. Review the credibility of the data.
11. Summarize the conclusions.
12. Present the recommendations.

35

30

Forecasting Realities

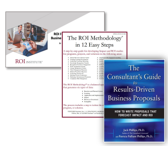
- If you must forecast, forecast frequently.
- Consider forecasting an essential part of the evaluation mix.
- Forecast different types of data.
- Secure input from those who know the process best.
- Long-term forecasts will usually be inaccurate.
- Expect forecasts to be biased.
- Serious forecasting is hard work.
- Review the success of forecasting routinely.
- The assumptions are the most serious error in forecasting.
- Utility is the most important characteristic of forecasting.

31

31

Click here to receive resources from today's session.

https://roiinstitute.net/atd-bay-colonies-forecasting-roi-2/

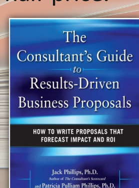


32

Purchase *The Consultant's Guide to Results-Driven Business Proposals: How to Write Proposals that Forecast Impact and ROI* at half-price.

https://bit.ly/2QHkL86

Use code: **Consultantsguide50**



ROI INSTITUTE

33


ROI CERTIFICATION®
2021 SCHEDULED EVENTS
ATD members receive 10% off Use code ATD10
May 21-June 4 — Live Virtual (Delivered in Arabic)
June 7-18 — Live Virtual (Focused on Healthcare)
June 14-25 — Live Virtual
August 2-6 — Columbus, Ohio
August 3-September 16 — Live Virtual (Delivered in Spanish)
August 23-27 — Salt Lake City, Utah
September 13-24 — Live Virtual
September 27-October 1 — New Orleans, LA
October 4-8 — Atlanta, GA
October 18-22 — Boston, MA
WHAT IS ROI CERTIFICATION?
ROI Certification is a globally renowned process focused on measuring the true value of tough-to-measure initiatives using the ROI Methodology®. Participating in ROI Certification is the most comprehensive way to gain the skills needed to evaluate major programs and to report the most credible results that drive organizational improvement.
Email: info@roiinstitute.net
Enroll: http://bit.ly/ROICertification
Call: +1 205.678.8101
This program has been approved for 36 (HR General) Recertification Credit Hours toward PHR, SPHR and GPHR recertification through the HR Certification Institute (HRCI).
This program has been pre-approved by Training Industry for 24 continuing education recertification hours toward the Certified Professional in Training Management credential.
ROI INSTITUTE®

34


PLANNING
Questions?
Visit us online:
www.roiinstitute.net
Email:
Jack@roiinstitute.net
Connect with us on:

35