

Case 8.2 Customer-Driven HR

Costs and Benefits: Assessing the Business Case for Training

No matter what your business, to stay in business you have to attract and retain customers. How do you do that? One way is to deliver a quality product or service in a high-quality way. In other words, it is a combination of what is offered and how it is offered that determines if a buyer will become a loyal customer. Training is one way to make sure that employees' technical skills and customer-service skills meet customer expectations.

When making a business decision, two basic elements are typically considered: costs and benefits. In the case of training, the issues are: (1) how much does the training reduce costs? and (2) how much does the training increase revenue? If the training sufficiently reduces costs and/or increases revenues, there is a strong business case to conduct the training. Your ability to identify the potential sources of revenue and costs and to estimate their levels can be an important business skill. It can be the basis by which you can successfully make the case for needed training for your employees.

Critical Thinking Questions

1. As you have read, training can increase revenue. The revenue could come from increased quality of the customer experience due to the impact of training. Consider, as an example, the table of customer survey responses before and after training shown on the next page.

The numbers are percentages of customers in each satisfaction category six months before and six months after employees received their training. A key change is a reduction in the "Very dissatisfied—will never return" category of customers, which fell from 15 to 5 percent. What will this 10-percent change mean to the bottom line?

Customer Satisfaction

	Very Dissatisfied— will never return	OK, but would return	Satisfied— would return
Before Training	15	15	70
After Training	5	15	80

Assume that the average revenue generated per month by a customer is \$500.00. Also assume that you have 500 customers. What is the increased revenue due to the training for the past six months? What would be the revenue generated if you had 1,000 customers?

2. Training can also impact the bottom line by reducing a number of direct costs. For example, employee costs may be reduced because fewer overtime hours will be needed because of improved performance. Another cost reduction can be seen in reduced returns, because training may reduce errors or damage that can occur when the product or service is provided.

Make assumptions about the costs in each of these categories and any other direct costs you can think of. Also assume that you can expect a 10-percent reduction in each of these categories. Generate the direct cost savings estimate due to the training.

3. Training can also impact the bottom line by reducing indirect costs. These are costs that may not be obvious, but that are still important. For example, safety of work processes or equipment can be improved due to training if workers handle materials or equipment more safely. Employee turnover can also be reduced, because of improved job satisfaction due to the training.

Assume that training results in a 10-percent reduction in your turnover rate. Also, assume that the cost of a turnover is 1.5 times the departing employee's salary. For a given average employee salary of your choosing, estimate the reduced costs due to the reduction in turnover.

4. Given your answers to the previous questions, estimate the combined impact of direct and indirect savings generated by training on the bottom line. Extrapolate this number over a one- or two-year time period.