DON'T BE LEFT BEHIND THIS YEAR WHEN YOU CAN BEAT YOUR COMPETITORS WITH THIS 300% ROI!

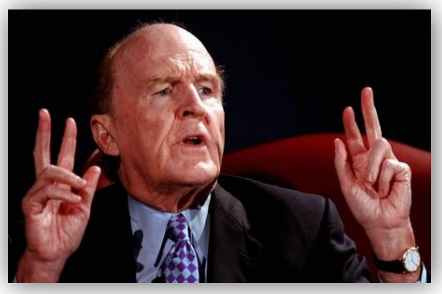
Executive Training is a Must in Today's Competitive Markets.

EXECUTIVE SUMMARY

As we emerge from the recession and lackluster growth, most CEO's feel that they have exhausted every business trick in the book to maintain profitability and avoid losses. Yet only the most prescient realize there is one investment they can make that pays huge returns in good times and bad, and it is the ultimate 'secret sauce' to consistently beating your direct competitors and maintaining a sustained advantage over them. Below, you'll find out how you can enjoy a minimum of a 300% ROI on dollars you spend in 2013.

Over the past 15 years, much has been written about the value of corporate spending on training and education, yet surprisingly, most company Presidents and CEO's remain unfamiliar with the benefits of such investments. In fact, in study after study, the Return on Investment (ROI) in developing a company's human capital is consistently higher that almost any other investment a company can make. We'll summarize the key findings of which all CEO's should be aware, which they can then use to enjoy the superior performance and financial returns which can be expected from making investments in their most valuable asset, their people.

WHAT JACK WELSH KNEW



As David Kaplan reveals in Verne Harnish's new book, The Greatest Business Decisions of All Time, perhaps Jack Welsh's most enduring decision was to create a world-class internal business school for GE managers, known as Crotonville. When Jim Baughman, a former professor from the Harvard Business School who was running Crotonville gave Welsh a chart-filled preview of his presentation to the GE board of directors, Welsh replaced the specific "payback analysis" figure on the last chart with the word "INFINITE," to underscore Welsh's belief in the limitless ROI for Crotonville. Now, most of us aren't Jack Welsh and we certainly can't afford our own in-company university, but that's no reason to not embrace what Jack Welsh knew…that when it comes to investing in your people, the return is INFINITE.

Many CEO's inherently understand the obvious benefits of employee training; to ensure employees are competent, knowledgeable and safe in their jobs, plus the additional benefits of employee attraction and retention. "However, many organizations might be surprised to learn that a strong investment in employee training and development may also have quantifiable value to the organization's bottom line."[1] Data from many recent studies provide evidence to suggest that organizations that invest in more training days and dollars per employee produce greater revenue per employee than those that invest less in this important human capital process. For example, in Dr. Laurie Bassi's new book, "The Good Company", the preeminent research economist in this area found that the biggest single predictor of a company's ability to beat its direct competitors in its industry AND the overall stock market was the amount the company spends on training its people.[2] Bassi created stock portfolios (A-F) comprised of companies that invested heavily in training. As you can see in the table, the companies in those portfolios consistently outperformed the S&P 500. Remarkable ROI's were achieved, ranging from 300 to 600%. In fact, making investments in people development almost always trumps the investment returns made in hard or capital assets.

Performance of Human Capital Portfolios, Relative to S&P 500

Portfolio	Date of Inception	Total Return (through 12/31/10)	Overall performance relative to S&P 500	Annualized performance relative to S&P 500
A	12/01/01	44.80%	+35.9%	+3.4%
B	1/1/2003	87.10%	+44.1%	+4.7%
C	3/25/2008	23.70%	+30.5%	+10.0%
D	3/25/2008	-4.5%	+2.3%	+0.8%
E	10/14/2008	59.00%	+33.7%	+14.0%
F	12/23/2008	57.10%	+11.4%	+5.5%

BIG TIME BENEFITS FALL TO THE BOTTOM LINE

So, what are the benefits a company might expect to receive by focusing more dollars on education and training of its people?

The list includes such things as; increased ability to cope with, adapt to and learn from rapidly changing environments, enhanced intra-company communication, teamwork and problem-solving skills, greater self and leadership awareness skills, enhanced morale and energy, better employee/management relations, improved employee retention and the ability to track other industry 'A players' to your team. Specifically, companies that trained their managers and supervisors are market leaders achieving consistently higher results, including:

- 24% higher profit margin
- 218% higher income per employee
- 86% higher company value
- 21% increase in productivity
- 300% reduction in employee turnover
- a return per dollar invested of $6.72[3]

With these types of eye popping financial results, why don't more CEO's embrace funneling more dollars into their training programs? Again, Dr. Bassi, "There is an increasing return to learning for all who invest in it. But therein lays the catch-22. Investing requires a long term focus; it requires an ability to balance the trade-off between profits in the here-and-now for greater returns in the future." "Although CEO's proclaim "employees are our most important asset," employees are nevertheless measured as costs. In addition, in publicly traded firms, investments in employee development are counted as overhead costs in annual reports and financial statements. Hence, one way to boost profits in the short run is to cut these costs. But doing so increases the likelihood that future productive capability will be harmed, since those cut "costs" are actually investments necessary for future production and growth. In essence, traditional measurement fuels short- termism… this has resulted in a chronic tendency to under invest in the people side of the business.

The lesson? "Balance – masterfully managing the tension inherent in employees simultaneously being a major cost and a major asset to their employers – this is the trademark of (what Bassi calls) a worthy employer."[4]

In today's highly competitive global environment, companies that don't make effective and continuous investments in training their people will continue to underperform those companies that do. In order to gain and maintain a permanent competitive advantage, consider implementing some of the suggestions outlined below.

WHAT'S THE MOST EFFECTIVE METHOD OF TRAINING?

"Do I have the education and skills I need to be the best leader I can become?"

True change efforts that stick and are long lasting start at the top. Start by asking yourself, "Do I have the education and skills I need to be the best leader I can become?" If not, consider getting yourself a coach or mentor. Most great leaders can point back to an experience or person where they learned key best practices or something about themselves that could have only been revealed through a close relationship someone who has already "been there, done that," and can provide the wisdom to see through the fog.

You can't do it alone, and for that reason, researchers have equated the success of most training initiatives to the level to which the HR function has achieved respected standing within the organization. Does the person that heads up your HR function have a legitimate seat at the table in your top management team or executive committee? Consider appointing someone to be specifically accountable and responsible for corporate training and development, your Chief Learning Officer, if you will. This isn't necessarily the same person who is responsible for compensation and benefits, but someone you trust to drive training initiatives which support the execution of your corporate strategy.

For the rest of the organization, consider e-learning. Although counterintuitive, research has shown "well constructed e-learning is not only faster and less expensive than classroom training but also more effective. Numerous studies have shown that people learn faster with multimedia training; they more accurately recall what they learned over a longer period of time, they are better able to transfer what they learned to actual performance." Similar studies "cite a 15 to 25% increase in learning with significant increases in retention and transfer of training."[5] The additional benefits of e-learning are that it saves time, minimizes out of office time and travel expenses, provides consistent content delivery and is easily used in multiple locations. With today's technology, industry and role specific learning is readily available via webcasts and video streaming.

Especially innovative firms are now experimenting with a highly effective learning and communication technique known as Forum, borrowed from the Young Presidents Organization (YPO). Small 8-10 person Forum groups whose members are from diverse areas of the company meet with one another on a monthly basis. They discuss personal and company related issues in a confidential and safe environment. This technique promotes trust and facilitates improved communication across company 'silos.' Most CEO's who have supported this process have witnessed huge gains in the maturation process of their employees. And the best part is that the technique is essentially cost-free.

HOW MUCH SHOULD YOU SPEND?

One of the most frequently asked questions are "What's the 'right' amount to budget for corporate training?" As you can imagine, there is no 'right' answer. But, as our economy moves away from manufacturing to become more services based, the percentage of a company's [administrative] payroll to sales ratio continues to increase. Consider basing your initial budget for training at about 2% of current payroll. You should expect to see outstanding returns as early as 6-12 months after initiating a comprehensive training approach.

> ***"Think about the gap that currently exists between your company's current reality and where you want your strategy to take you."***

Now that you've got a budget in mind, how should you think about committing those dollars? Experts debate where an organization receives the biggest "bang for its buck" when spending training dollars; on leadership, managers, administrators or at the blue collar/worker level? You should consider spending at all four levels to help facilitate organizational alignment, however, spending allocations should vary based upon what it will take to successfully execute around your corporate strategy. To that end, think about the **gap** that currently exists between your company's 'current reality' and where you want your strategy to take you. Your business strategy should drive the quality and quantity of how you choose to develop you learning management system.

Many CEO's conclude that the greatest percentage of their dollars should be committed to the leadership team ('C' level suite), since those folks are ultimately charged with looking forward and driving the strategic plan's execution. Yet, your company's greatest current 'gap' may be around production issues, in which case training your plant manager to help take him 'to the next level' might be the best way to boost productivity. Although many companies have union labor, where the union is primarily charged with skills training, don't forget that there are respected ‘informal’ (non-titled) leaders in their ranks, and studies have shown that “manufacturing firms implementing training programs can expect an average gain of 17% in manufacturing productivity.”[6]

Again, every situation is different, but for initial budgeting purposes, you may want to consider spending 40% of allocable dollars on ‘C’ suite leaders, 30% on mid to high level managers, 20% on supervisors/administrators and the balance on line/production workers.

Make 2013 the year you give your company the edge you’ll need to grow and beat your competition with outsized profits through investing in your people first!

This white paper was prepared by George “Bud” Arquilla, CEO of the Gazelles200 Program. Contact Bud to find out more as to how Gazelles’ continuous education tools can help grow your business.

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HOW TO CALCULATE ROI ON YOUR TRAINING INVESTMENT

It's relatively simple to make this calculation and see the dramatic payback on investing in training and educating your employees. Naturally, you'll want to estimate this calculation as you plan and before you commence your training efforts, and continue to monitor your returns to "prove-out" your initial assumptions.

In this example, let's keep the math simple and assume a small business has annual sales of $10,000,000 per year. Let's further assume that 35%* of its annual sales are paid out as payroll, from the CEO's salary down to its trade laborers hourly wages. Per our recommendations, consider allocating 2% of your payroll dollars to training annually, .02 X $3,500,000 = $70,000. Assuming the company is currently underperforming and is only returning 3% on gross revenue ($300,000), you'd essentially be asking yourself whether you should "invest" about 24% ($70,000/$300,000) of your profits for the promise of greater profitability. We believe you can reasonably expect a minimum 300-600% return on your $70,000 investment over the next 12-18 months. That amounts to a $210,000-$420,000 boost to your gross profit, or an additional net profit of $140,000-$350,000 to the bottom line. That increases your net bottom line from 3% to 4.4-6.5% (assuming static sales revenue). You can see that making a sustained commitment to training can create big payoffs to increasing bottom line profitability.

Breaking down the spending further, you might consider committing your initial $70,000 as follows:

40% ($28,000) to "C" suite education, such as CEO participation in YPO (or related type organization), hiring a part time, outside business coach, or mentor.

30% ($21,000) on mid to high level managers, such as on-line courses on developing business basics, building more effective communication and team building structures.

20% ($14,000) on supervisors/administrators, developing their expertise in their respective fields, such as lean manufacturing or accounting.

10% ($7,000) on production labor, focusing on safety, quality circles.

This is just a rough outline, to get you thinking about the possibilities. The toughest decision you'll make is the initial one; deciding to forgo booking the full $300,000 profit and committing the $70,000 as a long term investment. However, my assessment is that the $70,000 will go a long way toward making big, substantial changes in your company's future bottom line. With these types of returns, you can't afford not to make that first, toughest decision.

*35% is about average for US companies. ROI's increase to the extent a company's percentage of payroll to sales is higher, and conversely.

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