

Return on Investment Case Study

The example below is a case study that illustrates one of the approaches included in TACK's 'Measuring Training ROI workshop on 7 October at Warwick University Conference Centre. The case study shows you how to simply apply the 6 steps to take you from the Business Issue to a fully justified project with an ROI.

Business Issue

A small manufacturing business, producing components to the automotive industry is finding that each year margins are squeezed by the cost cutting requirements of customers, and the world shortage of aluminium for raw materials.

The business puts together a strategy for full service delivery in order to grow sales and improve margins. The full service will include design, testing, production, sub-assembly, and logistics. This is a big venture for the business, and internal knowledge and experience of project management of customers' requirements is lacking.

Evidence

Two of the three big automotive customers are looking to outsource large parts of their value chain to cut costs and streamline operations. In addition, some component production customers that our business sub-contracts to, are having problems with quality in design and project management. A big opportunity exists but there are risks in this change. One of the biggest internal resource issues is staff skills. Whilst our engineers are very experienced and hold a lot of product and industry knowledge, many have never managed projects of this scale, and rarely face the customer.

Agree solution

As HR Director, you held a meeting with the Engineering Manager, Production Director and the MD and agreed that the best solution to retain knowledge is to develop the top engineers via a project management conversion course. But you also recognised the need to have a company-wide project management process to ensure consistency and to give the new PMs a process and guidelines to help structure their new roles and provide an escalation process to ensure they receive the appropriate help, particularly in the early projects.

Gather information

25 Engineers have been identified to take on the new Project Management Role. A 10% increase in salary has been accepted, at a total cost to the company of £75,000. A training and consultancy group with experience in Project Management have been selected. They will work with the steering group (you, Engineering Manager, Production Director, MD) to develop their standard process to fit with our company needs, their estimate stands at £10k, and to deliver the training and examinations at a cost of £40k.

Agree target

A realistic first year target of £200k sales growth has been targeted with Automotive customers. Currently we are in discussions with customers for £500k's worth of additional business, but not all of this may come to fruition, or be realistic for resourcing in the short term. The margin estimated on this new business is £30k, plus partial service additional add-ons to existing business agreed with larger component manufacturers will increase margins to £60k

A 10% growth in year two has been targeted for the sales team

ROI

A simple payback calculation shows a payback early in year 3, this ignores the expected squeeze on manufacturing margins if this course of action is not followed.

Future strategic opportunities to utilise our new design and project management skills outside the automotive sector, where margins are higher will be evaluated during year 2.

	Time					
	0	1	2	3	4	5
Salary inc		75	75	75	75	75
Process	10					
Courses	40					
Total costs	50	75	75	75	75	75
Margin		90	99	109	120	132
Net c/flow	-50	15	24	34	45	57
Cum c/flow	-50	-35	-11	23	68	124
Payback in year				3		