

UNICON CONFERENCE SPRING 2004

Return on Investment in Executive Education

The Financial Framework

Return

on

Investment

- Benefits
- Costs reduced
- Profits earned
- Improved efficiency

- Resources committed
- Costs incurred
- Assets bought

\$

Money In

\$

Money Out

An Investment on Executive Education

ABC Inc. wants to reduce losses through staff turnover.

It has 10,000 staff of whom 1,000 are managers. Currently it loses 20% of staff per annum. The industry average is 10%.

The proposal is to develop a people management programme which will improve the staff turnover down to the industry average over 3 years. Recruitment costs about 10% of the persons salary. Average salaries are \$50,000.

An Investment in Executive Education

The Benefits

\$'000	Year 1	Year 2	Year 3
Current position			
Turnover rate	20%	20%	20%
Annual recruitment costs	10,000	10,000	10,000
Improvement programme			
Turnover rate	18%	14%	10%
Improved recruitment costs	<u>9,000</u>	<u>7,000</u>	<u>5,000</u>
Recruitment costs saved	<u>1,000</u>	<u>3,000</u>	<u>5,000</u>

An Investment in Executive Education

Evaluating the Proposal

\$'000	Yr 1	Yr 2	Yr 3
Benefits realised	1,000	3,000	5,000
Executive education programme	2,500	2,500	-
Coaching	-	<u>1,000</u>	<u>1,000</u>
Net benefit	<u>(1,500)</u>	<u>(500)</u>	<u>4,000</u>

How long does it take to get the money invested back?

What is the rate of return on the investment?

Does the investment make ABC Inc. better off?

\$'000	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Total
Benefits realised	1,000	3,000	5,000	5,000	5,000	19,000
Costs incurred	2,500	3,500	1,000	-	-	7,000
Net cash benefit	<u>-1,500</u>	<u>-500</u>	<u>4,000</u>	<u>5,000</u>	<u>5,000</u>	<u>12,000</u>

Net present value \$6,292.30

Rate of return 108%

\$'000	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Total
Benefits realised	1,000	3,000	5,000	-	-	9,000
Costs incurred	2,500	3,500	1,000	-	-	7,000
Net cash benefit	<u>-1,500</u>	<u>-500</u>	<u>4,000</u>	<u>0</u>	<u>0</u>	<u>2,000</u>

Net present value \$948

Rate of return 47%

ROI in Executive Education

Some golden rules

- Capture all the financial impact
- Quantify everything you can
- Be sensitive to timing