



What Are the Costs of Not Training?

A Journey Through the Biggest Budget Holes
Created by a Lack of Training



There are risks and costs to
action.

But they are far less than
the long-range risks of
**comfortable
inaction.**

- John F. Kennedy





Feeling a little uncomfortable
with your skills is a sign of

learning...

It's important to seek out environments
where you are supported, but where you
have the chance to be uncomfortable and

learn new things.

- Vanessa Hurst
Co-Founder of Girl Develop It

The Mystery of the Missing ROI

Corporate training, like any other business activity, needs to be justified in terms of overall return on the investment (ROI). A good 90% of business leaders believe that learning and development programs are, in fact, key to closing important skill gaps. Closing those gaps should show up in productivity numbers and, ultimately, profits.

On average, that justification is there. One widely cited study by professional services firm Accenture found that, for every \$1 invested in training, companies received \$4.53 in return. That's a 353% ROI - enough to make any decision-maker get over their hesitation.

But all too frequently that justification evaporates when looking at any one single program. According to statistics reported in HR Dive, only 8% of CEOs report seeing any business impact from their L&D programs. Even fewer (4%) saw a clear ROI.¹

So wait a minute....

If the professional research is showing such a huge ROI, why aren't executives seeing it?





We can only speculate as to the reason, but here are two ideas. Maybe it's just notoriously hard to put a number on the value of effective training, training that actually makes a positive change to employee behaviors. Training is a long process with benefits that accrue in the future; by the time training pays off in terms of productivity, it's hard to tell what was the cause of the boost. Much of training is also focused on prevention - for example, preventing things like harassment, safety mishaps, social media blunders, or even just everyday role-specific mistakes. Prevention is also insanely hard to measure. After all, how do you measure things that don't happen?

Maybe companies are not seeing their ROI directly because there are no benchmarks for measuring effects that take a long time to come to fruition, or that don't happen at all.

So, instead of looking at the return on training dollars, what we need to do is look at the converse:

What are the biggest losses that come with not training, or not training effectively?

When you start to do that, it becomes much more clear what effective training can potentially do for a company - and it becomes easier to put an exact dollar amount on it.

We'll make it even easier for you: We've already done most of the hard research to find exactly where and how a lack of effective training costs companies, and costs them dearly. The rest of this book summarizes the top 8 areas where such a lack of training costs the most.

Top Areas Where Lack of Training Costs Big



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#8: Anti-Bullying Training (Harassment Training Outside of Compliance)

Some workplace behaviors are covered by compliance training, but we should never assume that all are. There are good reasons why organizations should consider additional training even if their compliance requirements have already been met.

Workplace bullying is a great example. One in five Americans have been the target of a workplace bully at some point, and an equal number have witnessed such bullying.² That bullying is costing U.S. companies roughly \$250 million annually in expenditures related to healthcare, litigation, employee turnover, and retraining.³ Even that number is, in our opinion, a huge underestimate.

Instead of looking at national costs, it might be more worthwhile to consider per employee costs. Studies cited by workplacementalhealth.org put the price of workplace bullying at approximately \$14,000 per employee in lost job performance.

Cost of Workplace Bullying:

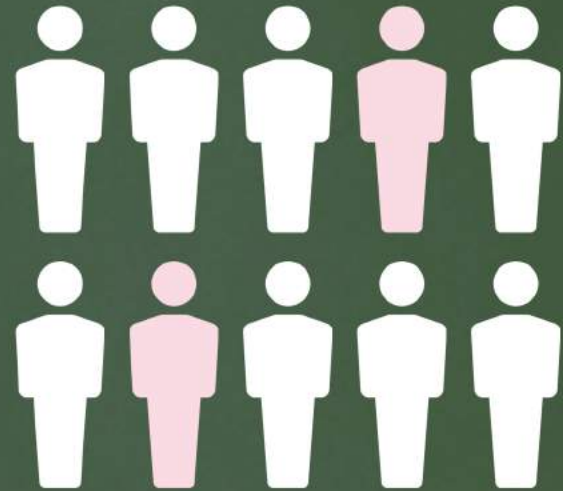
- Attrition of skilled employees
- Higher rates of absenteeism
- Greater number of Workers' Compensation claims
- Diminished quality of services
- Damaged reputation
- Difficulty attracting the most highly qualified employees



\$280,000

Let's do the math...

Suppose you have 100 employees at your business. By these statistics, roughly 20 of them will have been bullied—maybe even at your workplace! Those 20 employees will bring with them \$280,000 in lost performance alone.



100 employees

20 are bullied

\$280,000

in lost performance





\$555,174



#7: Soft Skills Training

Turnover is all too common in some organizations. According to leadership training and consulting company Leadership IQ, 46% of all newly hired employees fail within 18 months of being hired.

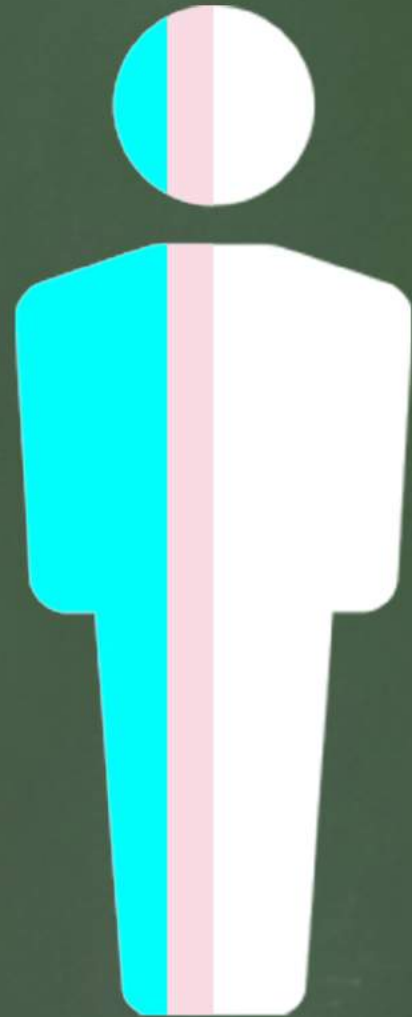
What is truly shocking is why they fail. Of those that fail, only 11% fail because of a lack of technical skill. Another 26% fail because they can't accept feedback, 23% fail because they're unable to understand or manage emotions, 17% fail because they lack the necessary motivation to succeed, and 15% fail because they have the wrong temperament for the job.⁴

In other words, anywhere from 64% to 81% of new employees fail at their jobs simply because they lack the soft skills needed, rather than the technical skills.

That turnover is extremely costly. A good rule of thumb is that the cost of a bad hire is roughly 30% of that person's salary, taking into account things like lost productivity, the funds to re-advertise the position, etc.⁵ For the average American business, that amounts to a price tag of roughly \$14,900 per bad hire, according to a study done by CareerBuilder.com.⁶

Let's do the math...

Suppose you hire 100 new employees. According to these statistics, 46 of them will fail and leave, for a total average cost of \$685,400. Of that, 81% failed because of a lack of soft skills. So that's a loss of \$555,174...much of which could have been mitigated with appropriate soft skills training.



100 employees
46 fail and leave
81% lacked soft skills

\$555,174



#6: Sales Training

Sales is, perhaps, the one set of skills that will have the most direct effect on your company's top line revenue. But nearly 57% of salespeople are expected to miss their quotas each year.⁷

To be honest, that might even be an underestimate: Missed quotas might actually be closer to 67%, according to research done by The TAS Group.⁸ That means that the average company is realizing only about one-third of its sales targets.

And while some of those "misses" might be due to things out of your control—shifting markets, economic downturns, world events, or even unrealistically high goals to begin with—chances are good that a lack of skill accounts for much of that lost business as well.

Why think that lack of skill is at fault? Because the nature of sales has changed. A full 79% of business buyers agree with the statement: "It's easier than ever these days to take my business elsewhere." Technology has lowered sales barriers across a number of industries; buying anything from socks to enterprise database software has become more convenient than ever. By some estimates, customers get a full 57% of the way down the sales funnel before even reaching out to a sales rep.⁹

Salespeople who have adjusted successfully changed their strategy. Take B2B sales, for example: A full 78% of business buyers said they want a trusted advisor that adds value to their business, not just a salesperson. Sales professionals who could make the pivot to a "trusted advisor" role are probably making their quotas, versus those who are not.

What can training improve in sales?

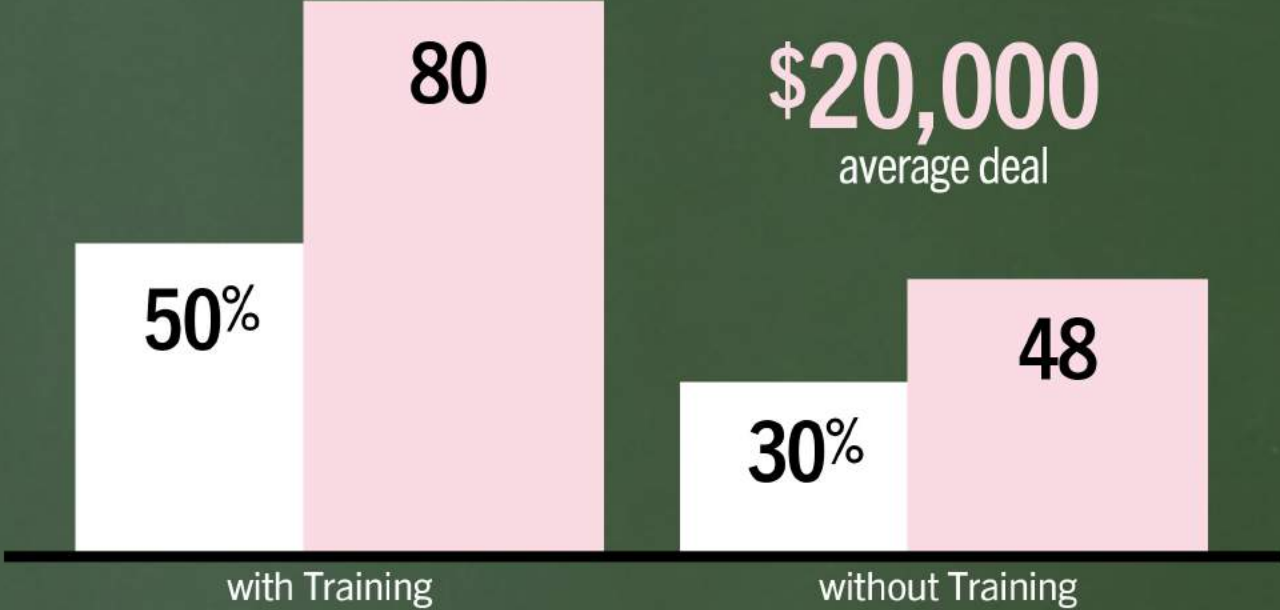
- Prospecting productivity
- Communication skills
- Questioning techniques
- Negotiating skills
- Presentation skills
- Closing techniques



\$640,000+

Let's do the math...

Say each deal is worth an average of \$20,000 at your organization. Let's say, too, that the "win" rate with training is 50%, while the win rate without is only 30%. If a salesperson (or team) gets 40 qualified leads a quarter, or 160 a year, that means 80 wins (with training) vs. 48 wins (without training) - a difference of 32 extra contracts won. That's a total of \$640,000 in revenue for that year.



\$640,000+
in lost revenue



Direct Costs

- Medical costs
- Indemnity (payments to not work)

Indirect Costs

- Lost production
- Training replacements
- Downtime and investigation
- Claim management
- Legal fees
- OSHA penalties
- Increased insurance premiums
- Loss of reputation



#5: Safety Training

OSHA - the Occupational Safety and Health Administration - estimates that U.S. employers pay out as much as \$1 billion per week for direct worker compensation alone.¹⁰ Likewise, the National Safety Council has worked this out to roughly \$1,100 spent per worker employed (or \$41,000 per worker injured, given average rates of injury) and roughly \$1,190,000 per worker death.¹¹

Then there are OSHA penalties: New penalties for willful and repeat violations are \$132,598 per violation; serious, other-than-serious, and posting requirements are \$13,260 per violation; and failure to abate violations are \$13,260 per day beyond the abatement date.¹²

Though those costs are steep, most business leaders rest easy in the fact that workplace accidents are relatively rare... but are they? Unfortunately, not rare enough. According to the Bureau of Labor Statistics, the TCR (Total Recordable Cases) for private industry employers in 2017 was a rate of 2.8 cases per 100 employees.¹³



**\$39,780 to
\$1,190,000+**

Let's do the math...

Let's say you are in private industry and employ 100 workers in your factories and warehouses. Using our statistics, you will, on average, have three potential safety violation cases a year. At a minimum, they are simply posting requirement violations, meaning you will pay the minimum OSHA penalty of \$13,260—do that for three separate violations, and it's a total of \$39,780 for the year.

On the high end one of those cases might be (heaven forbid!) an accident where a worker dies. By the National Safety Council numbers above, you'll be paying much more—a single suit for a worker death would be \$1,190,000.



100 employees



\$13,260 x 3
requirement violations



\$1,190,000
a single suit

\$39,780 to \$1,190,000+



#4: Productivity Training

If work requires a certain set of skills, training in those skills will have a direct effect on how productive a worker will be. Think about the difference between a worker that is 100% productive with their time, and one that is only 50% effective. You would need two of the latter to equal the output of the former. That's already a difference of one salary each year.

In fact, the situation for most businesses might be even more stark. By some estimates, most employees function at only 25% of their potential productivity when they first start a role and take months just to get to 50%.¹⁴ Imagine what would happen if it took an employee twice as long to reach their full potential—or if they didn't reach it at all.

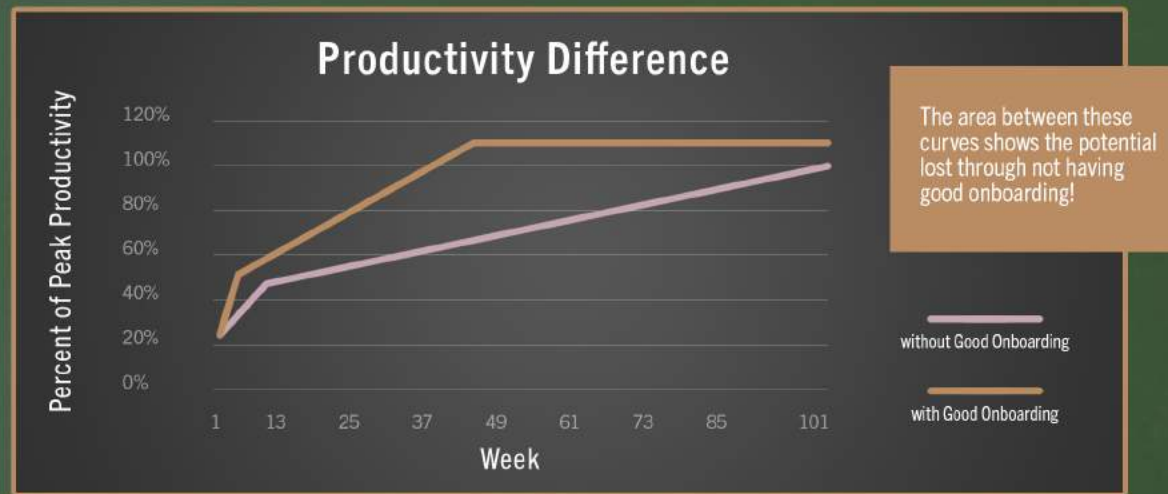
Skills training during onboarding is especially important. One study in *Training Industry Quarterly* found that it takes roughly one to two years for an employee to fully “acclimate” to a new position.¹⁵ This means, potentially, a two-year period in which they are at less than peak productivity (sometimes far less, as shown above). Effective employee onboarding programs make this curve less steep. For example, studies have shown that effective onboarding programs can decrease the time it takes to get employees up to speed by 54%, and improve overall employee performance by 11.3%.¹⁶



\$4,750,000

Let's do the math...

Let's say you have a manager with a salary of \$100,000. When first hired, they will be only 25% effective. At eight to 12 weeks, they are still only 50% effective and do not hit peak effectiveness until two years out. That's already a potential productivity loss of roughly \$52,500, compared to the "ideal," and a roughly \$47,500 potential loss, compared to an employee that experiences good onboarding. And that's just a single employee! Imagine the savings in a company that hires 100 new managers.



Across the board, employee education appears to be the best investment for businesses that want to increase their productivity. A study by The National Center on the Educational Quality of the Workforce (EQW) found that, on average, a 10% increase in workforce education and training led to an 8.6% gain in total productivity. By comparison, a 10% increase in the value of equipment increased productivity just 3.4%.¹⁷

Without good onboarding and good continuing training for employees, a productivity gap forms...and only widens over time. It's no wonder a lack of productivity training is one the top cost centers for business.

\$4,750,000





\$7,220,930 to \$14,441,860



#3: Cybersecurity Training

We've all heard of the very public cybersecurity breaches at well-known national brands such as Target, Equifax, Home Depot, and more, not to mention several governmental and nonprofit organizations. Lax cybersecurity is becoming more and more of a liability these days: The most recent IBM/Ponemon Institute study calculated the cost of the average data breach is roughly \$242 per stolen record, with the average total hovering around \$8 million. The same study estimated that a typical company has a 29.6% chance of experiencing a data breach in the next 24 months, a dramatic increase in the odds from just a few years ago.¹⁸

While one might lay the blame to hackers and other bad actors, the fact remains that a huge part of cybersecurity is the prevention of phishing and spear-phishing scams. That prevention is not achieved through technology, but through training. Failures of cybersecurity along these lines occur because employees and staff do not know how to recognize such scams, either inadvertently allowing access to bad actors or passing along the scam emails. (In fact, roughly one in every 99 emails is a phishing attack.)

The FBI estimates that cyber criminals have stolen more than \$12 billion from companies worldwide over a five-year span using phishing attacks and business email compromise. Over \$2 billion of that has been from American companies.¹⁹ In fact, one calculation by Vade Secure estimated that, for a company with \$100 million in revenue and 50,000 customer records, a single successful phishing attack could cost \$7,220,930.

Let's do the math...

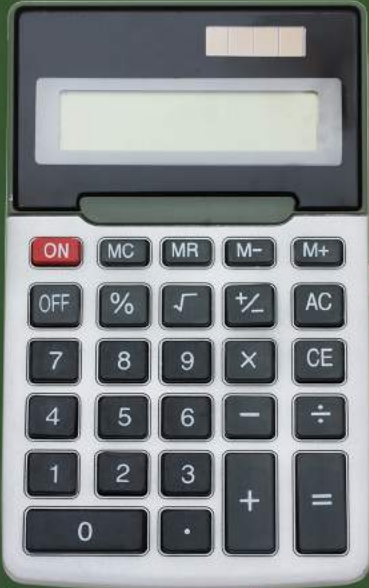
Let's say you have a company much like that described by Vade Secure: \$100 million in revenue, and a database of 50,000 records. That single phishing attack costs \$7,220,930. And since there is a good chance that you'll experience another data breach in the next 24 months, the costs could be closer to \$14,441,860.

\$7,220,930
initial attack



\$7,220,930
second attack

\$7,220,930 to \$14,441,860



#2: Customer Service Training

Customer service is seen as a cost center in most businesses. But just how much business is actually being saved by quality customer service? There must be a reason why highly successful brands like Starbucks, Zappos.com, and Ritz-Carlton put such a premium on customer service.

The lack of quality customer service is truly what is costing companies. As of this writing, U.S. companies are losing a total of \$75 billion a year due to poor customer experiences—a \$13 billion increase from 2016.²⁰

Just for a little perspective: \$75 billion is the estimated size for the entire construction equipment market come 2024, as well as the estimated size of the surging cannabis market by the end of 2030.

Why are these losses so huge? Consider: 51% of customers will choose to never do business again with a company after just one negative experience. But in addition, Americans will tell an average of 15 people (friends, coworkers, or anyone else who will listen) about a poor customer service experience. Contrast that with the 11 people they'll tell about a good experience.²¹ In short, bad news travels fast.

Then again, those studies reveal only what happens when customer service is bad. Can better customer service actually drive more profits? It turns out that it can. One study reported in Harvard Business Review looked at customer spend with brands over time. After controlling for other factors that drive repeat purchases, customers who had the best past experiences with a brand spent 140% more compared to those who had the poorest past experience.²² The better the experience, the higher the lifetime spend of any given customer.



\$28,000,000



Let's do the math...

A company that earns, say, \$20 million in yearly revenue might actually be able to gross \$48 million over time if their customer service went from poor to excellent. A \$28 million difference is a pretty good justification for good customer service training!

\$20 million

\$48 million



\$28,000,000

in lost revenue



And the #1 Most Costly Training Lack is...

Compliance Training

(Anti-Harassment, Safety, Diversity, etc.)

Almost all medium-to-large companies have mandatory training they have to perform in order to stay in compliance. That training should be more than checking a box. Actually preventing the behavior such training is meant to prevent can save organizations a large amount of money—and headache.

Take sexual harassment, for example. In 2019, the U.S. Equal Employment Opportunity Commission (EEOC) recorded 7,514 sexual harassment claims (making it the second-largest year on record, by the way, after 2018).²³ The payouts U.S. companies had to make for the successful claims among them is estimated to be around \$68.2 million. Wouldn't that money have been better spent training employees to avoid the behavior causing these claims to begin with?

Or, for another example, consider workplace harassment. In a revealing June 2016 report, the EEOC's Select Task Force on the Study of Harassment in the Workplace found that up to 60% of workers have experienced race- or ethnicity-based harassment in the workplace.²⁴ It takes only one employee to bring a case against a company, which, according to the 2017 Hiscox Guide to Employee Lawsuits, will happen in over 10% of all companies.²⁵

Just fighting those cases can be costly. According to Workforce Magazine, employers can expect to lose between \$75,000 and \$125,000 defending a case through discovery and a ruling on a motion for summary judgment.²⁶ (And that's assuming the employer wins; otherwise, the total typically ranges from \$175,000 to \$250,000—but may even surpass \$150 million!)



\$750,000 to \$150,000,000



Let's do the math...

You have a nearly 10% chance of a claim being filed or a suit being brought against your company. Chances are good that, if there's one suit, there could potentially be more. So let's say one-tenth of your employees file a claim or bring a suit forward. For a company with 100 employees, that's at least \$750,000 just to fight them in court, assuming you win each case! And the cost if you lose a case can be well into nine figures.



10 claims

100 employees

\$750,000 to \$150,000,000
in legal fees and payouts



What Does This All Mean?

A modern company today faces many, many challenges. There's a lot for leadership to do.

The most important question is how your leadership is meeting those challenges—but the next question, which is almost as important, is this: Are your employees ready to meet those challenges?

As the preceding pages show, if your employees are not ready, the costs can be quite high. On the other hand, employees who can meet these challenges will over time mitigate, or even reverse, these costs. That will happen only if you properly train them.

This doesn't mean your organization has to do it all at once. Start with the challenges to which you might be most susceptible. Safety training will be of key importance if you run a series of warehouses. A digital marketing agency? Not so much. But that agency might do well to have a little more customer service training and productivity training!

You can also start small. Just some basic soft skills training or sales training can save a modest-sized company close to half a million dollars. The ROI is there; your company simply has to take the first step.



Further Reading:

For more on our approach to compliance training:
“Why Compliance Training is More Than a Checkbox”

For more on how the right learning culture brings business benefits:
“10 Benefits of a True Learning Culture”

Ready for the next step? Take a look at:
Kathy Irish, “A Guide to Creating an Employee Training and Development Program”

For More Information:

Contact us at **800.447.3177** or visit **hsi.com**

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