The Corporate Learning Factbook 2009

Executive Summary

Karen O'Leonard

Principal Analyst

January 2009

Executive Summary[1]

2008 was a tumultuous year for U.S. companies. As the year drew to a close, the housing and financial services sectors were in a state of crisis, and manufacturers continued to cut their payrolls. Job losses also mounted in the retail, hospitality, business services and a broad cross-section of other sectors, as the unemployment rate neared a record high. Certainly, the U.S. has not seen economic turmoil like this for many years.

When this study was conducted in July and August 2008, learning and development organizations were already feeling the ill effects of the troubled economy. The research shows that companies cut their training spending and staffing, and made changes to their program priorities. As a result, less training was delivered in 2008 – and by different methods. The rise of online training came to a halt, as organizations switched to coaching, collaborative activities and less-costly methods. Program spending allocations also changed, with new priorities on mandatory, compliance and job-specific training.

This report outlines some of the major trends in the U.S. training industry as related to spending, staffing and programs. Data from the current study is compared with that of previous years, providing an overall look at the state of the training industry today and trends over time. One thing is for certain – 2008 was *not* "business as usual."

U.S. Training Groups Cut Budgets, Staffing

KEY POINT

In 2008, training organizations will spend $1,075 per learner, an 11 percent decline over 2007's spending figure.

An economic downturn usually spells trouble for L&D. Therefore, it may come as no surprise that the faltering U.S. economy has taken its toll on training organizations. Average training expenditures (which include training budgets and payroll) fell 11 percent over the past year – from $1,202 per learner in 2007 to $1,075 in 2008.

Staffing numbers tell a similar story. Overall, the number of training organizations reporting staff reductions showed a five-fold increase over its 2007 level. Small businesses were the least affected, as their

1 This executive summary report has been excerpted from, *The Corporate Learning Factbook® 2009: Benchmarks, Trends and Analysis of the U.S. Corporate Training Market*, Bersin & Associates / Karen O'Leonard, January 2009. Available to research members at www.bersin.com/library or for purchase at www.bersin.com/factbook.

staffing ratios remained fairly steady at 7.4 staff-per-1,000 learners. Small businesses typically maintain very lean training staffs, with personnel playing multiple training (as well as non-training) roles; therefore, they have fewer training staff to cut in an economic downturn.

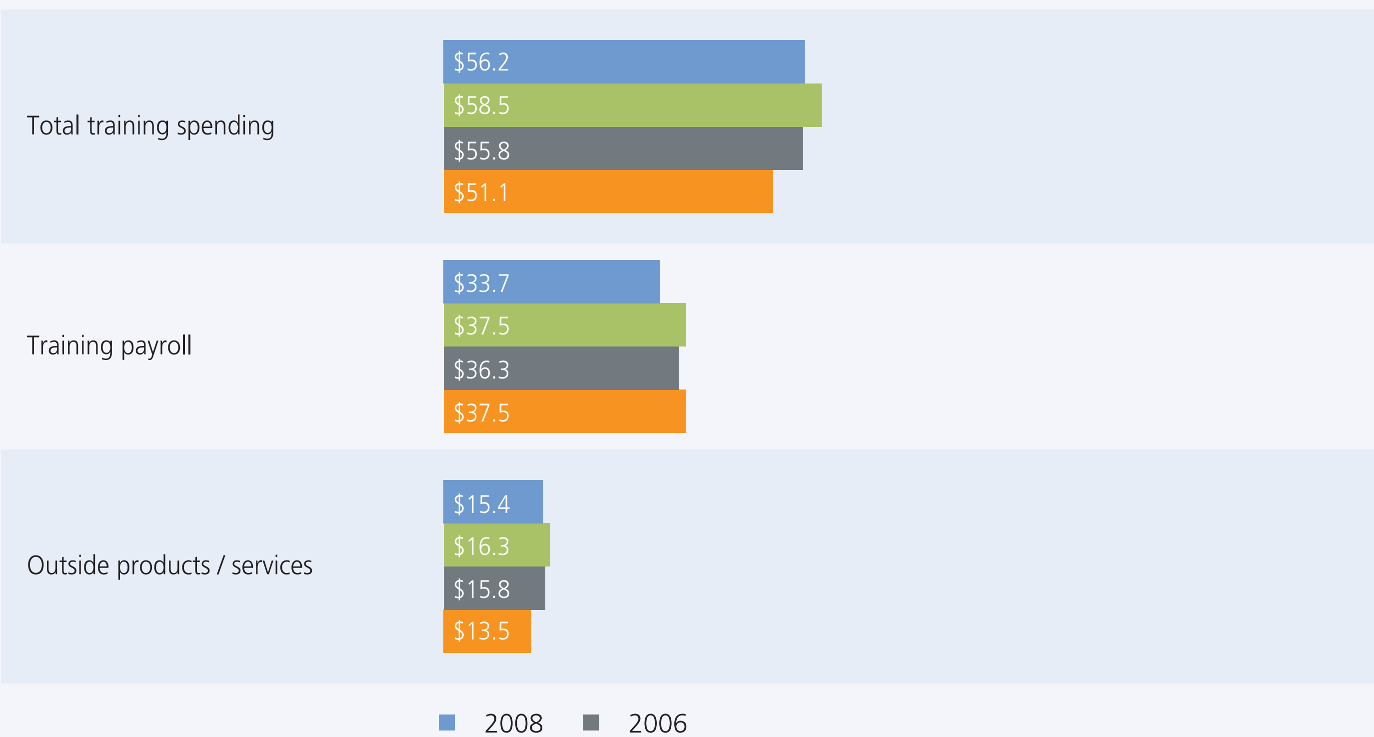
KEY POINT

In 2008, tough U.S. economic conditions reduced total U.S. training industry expenditures to $56.2 billion, with $15.4 billion earmarked for external learning products and services.

However, the staffing ratios within midsize and large companies dropped significantly. Within midsize firms, the ratio dropped from 7.0 to 4.9 training staff for every 1,000 learners. For large businesses, training staffs have been cut from 5.1 to 3.4 staff-per-thousand. These businesses generally have larger staffs playing specialized roles and, therefore, have greater opportunities to reduce or redeploy headcount in a budget crunch. For example, we recently interviewed a large U.S. company that had cut more than 20 percent of its training headcount. The remaining personnel took on a larger scope of responsibility, covering multiple business units and delivering both instructor-led training (ILT) and online programs.

These budget and staffing cuts have reduced overall industry expenditures. The amount of total U.S. training industry spending has

Figure 1: Total U.S. Training Expenditures* – 2005 to 2008



*In billions.

Source: *Bersin & Associates, 2008.*

declined from $58.5 billion in 2007 to $56.2 billion in 2008. Payroll comprises $33.7 billion of this figure, down significantly from its 2007 level. Spending on external learning products and services was also down to $15.4 billion in 2008.[2]

Only the Necessities

With fewer training personnel and less money to spend, L&D organizations delivered less training in 2008. The average number of formal training hours dropped from 25 hours per learner in 2007 to 17.2 hours in 2008. Training consumption dropped most substantially among small and midsize businesses, with learners taking 33 percent fewer training hours, on average, than in 2007. Among large businesses, training consumption remained fairly steady at 25 hours per learner, helped in part by requirements for mandatory and compliance-related training.

KEY POINT

Companies are allocating less money to IT and leadership training – and instead are focusing on programs that are mandatory or directly related to a learner's job.

The types of training programs delivered also changed over the last year. Funding moved away from IT and leadership development – and toward programs that are mandatory, or directly related to a learner's job or profession. With tighter budgets, organizations targeted their efforts on meeting compliance requirements and on improving skills that are highly specific to a learner's job.

In general, we do not view the drop in training consumption as necessarily a bad thing. For smart companies, this means that they are cutting programs that are generic, low value and under-utilized. We have talked with several organizations that are now carefully scrutinizing the value of their learning programs, some by employing cost-benefit analyses to their initiatives.[3] Other companies are turning to a prescriptive learning approach, with programs offered based on learners' needs, rather than offering a full course catalog with open enrollments. These are smart choices. L&D organizations need to take a hard look

2 The remaining $7 billion in training expenditures includes miscellaneous items such as travel, facilities, outside seminars and conferences, training materials / books / supplies, and contractors not currently on the payroll.

3 For more information, *Global Learning and Talent Solutions: Best Practices across North America, Europe and Asia*, Bersin & Associates / Karen O'Leonard, July 2008. Available to research members at www.bersin.com/library.

at their programs – and either cancel or modify those that are not high value or aligned with their corporate goals.

The cuts in leadership development spending, however, are somewhat troubling, since this area is critical to an organization's long-term success. These programs are typically expensive to deliver and many organizations are modifying their leadership programs with blended-learning approaches to save money. We believe it would be unwise to cut these programs altogether. Forward-thinking companies will continue to invest in leadership development for their futures.

First-Ever Drop in Online Delivery

In a year best characterized as one of change, L&D organizations also modified their training delivery methods. Although instructor-led classroom training remained steady (at 67 percent of all training hours), the proportion of e-learning decreased for the first time ever.

In 2007, 20 percent of formal training hours were taken via online (self-study) courses; in 2008, the figure dropped to 16 percent. Companies also reduced their use of virtual classroom training, so that (combined with self-study e-learning) the total amount of online training dropped from 30 percent of training hours in 2007 to 24 percent in 2008.

KEY POINT

Use of online training fell for the first time ever, as companies turned to coaching, collaborative programs and less-costly delivery methods.

Budget and staffing cuts were primary contributors to the shift away from online learning. This is somewhat ironic, since many companies originally turned to online learning to save money on their classroom programs. But the investments in learning technology, content and internal staffing do add up.

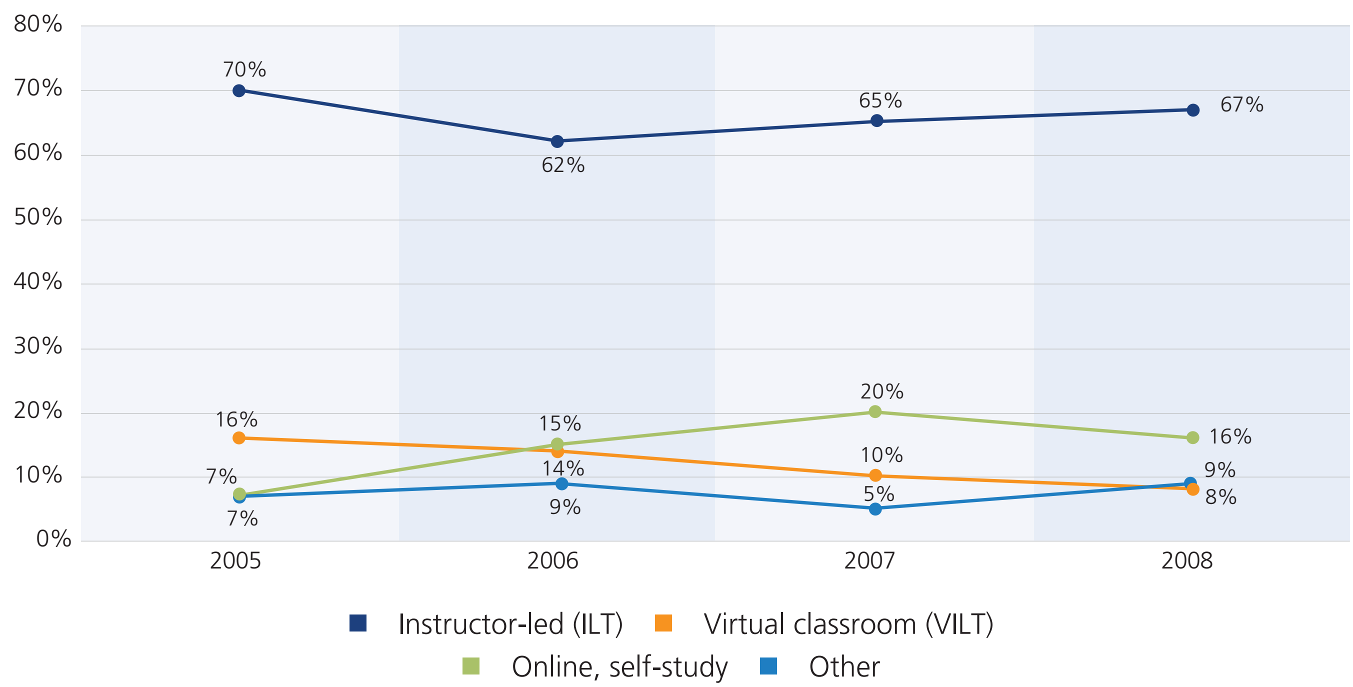
These online training hours were replaced by coaching, collaborative programs and other less-costly methods. Coaching programs have become especially popular and are now incorporated into 30 percent of all training programs. Group and peer-to-peer collaboration are being facilitated through social networking tools[4], such as communities of

4 For more information, *Social Networks for Enterprise Learning and Talent Management: A Primer*, Bersin & Associates / David Mallon, June 2008. Available to research members at www.bersin.com/library.

practice[5], wikis[6] and blogs[7]. In fact, the use of communities of practice[8] doubled from 2007 to 2008, making this the fastest-growing segment of the learning tools market today.

In the face of budget cuts, more companies are turning to collaborative approaches to conduct their programs. These group exercises and

Figure 2: Training Delivery Methods – 2005 to 2008



Source: *Bersin & Associates, 2008.*

5 A "community of practice" (or "CoP") is often defined as a group of people who share an interest or concern about a common topic, and who deepen their knowledge in this area through ongoing interaction and relationship-building within their group. While communities often come into being spontaneously, they nonetheless require nurturing if they are to become valuable to the members and remain viable over the course of their evolution.

6 "Wiki" is from the Hawaiian word for "fast" – and stands for web pages that can be collectively and collaboratively edited on the fly by readers.

7 "Blog" is a shortened form of the phrase "web log," which is a form of personal publishing that readers can discuss.

8 For more information, *Developing Communities of Practice: Best Practices and Lessons Learned from the Defense Acquisition University*, Bersin & Associates / Chris Howard, May 2007. Available to research members at www.bersin.com/library.

facilitated communications improve the learning experience and build social connections within the company, while keeping costs at a minimum.

External Providers Replace Staffs

As companies downsized their training staffs, many turned to external providers to fill the resource gaps. Large businesses, in particular, outsourced more functions to third-party providers in 2008, as their staffing numbers were hit the hardest.

KEY POINT

With leaner staffs, more companies are turning to third-party providers to fill the resource gaps.

One area that has been rising steadily is the use of external instructors and facilitators. Sixty-nine percent of large businesses used outside professionals for facilitation and teaching in 2008, up from 42 percent in 2007. Traditionally, companies have brought in outside instructors or "experts" in the areas of leadership and technical training, rather than retaining these skills in-house. With leaner staffs in 2008, companies turned to outside instructors for a broader scope of programs.

Outsourcing of custom content development also increased among both large and midsize companies. In 2008, 61 percent of large and 52 percent of midsize businesses used external providers to produce custom content, figures that are 10 points higher than in 2007. As with instruction, these organizations turned to outside content developers to help with specific projects, while paring down their in-house staffs. In general, companies may choose not to maintain staffing resources for a function which is not considered to be a core competency. By using outside suppliers, companies have greater flexibility to bring in resources as needed.

Finally, outsourcing of LMS administration and operations also rose sharply in 2008. Some of these gains were driven by the rising popularity of hosted or Software as a Solution (SaaS) options. In 2008, two-thirds of companies were using an externally hosted LMS and one-third were using systems installed internally behind a firewall. The significant penetration of hosted systems is striking – it underscores the need for systems that are less costly, and easy to install and maintain.

What's in Store for 2009?

By most predictions, the U.S. economy will continue to struggle throughout 2009. Although we would like to think that the worst is behind us, the reality is that organizations may be tightening their belts for many months to come. For this reason, we see a trend toward greater centralization of the training function.

KEY POINT

In 2009, we expect the use of social networking tools to continue to grow.

More training organizations are adopting a fully centralized[9] or federated[10] governance model in order to eliminate redundancies and reduce overall costs. Both of these structures can reduce overall training spending by eliminating many redundancies in personnel, programs and systems. In addition, these structures can provide more consistent, enterprisewide programs – and can help to align resources and priorities toward strategic business goals.[11]

In 2009, we also expect the use of collaborative learning methods to continue to grow. Social networking tools (such as communities of practice, collaboration and coaching) are relatively low cost, but highly effective in a learning context. Our previous research demonstrates that (when done correctly) coaching is one of the highest-impact development tools a manager can use.[12] Companies are also finding that other types of collaborative programs (such as blogs, wikis, CoPs and expert directories) can enhance the learning experience, build social connections and enable workers to quickly find information when they need it.[13] We see this as a major area of growth in the coming years.

Cutting costs is difficult, but it is something more training organizations will be asked to do over the next year. The good news is that, so far, training organizations are not slashing their budgets indiscriminately. Instead, they are making smart choices about cutting programs that are

9 A "centralized model" places all budget, decision-making and operational staff in a central group, and uses shared services and outreach programs to service the needs of business units.

10 A "federated model" has a small core team that manages some technology and corporate programs, and empowers business and functional units to run their own training programs.

11 For more information, *The High-Impact Learning Organization: WhatWorks® in the Management, Governance and Operations of Modern Corporate Training*, Bersin & Associates / Josh Bersin, May 2008. Available to research members at www.bersin.com/library or for purchase at www.bersin.com/highimpact.

12 For more information, *2008 Talent Management Factbook: Global Trends, Facts, and Strategies in Corporate Talent Management*, Bersin & Associates / Karen O'Leonard, June 2008. Available to research members at www.bersin.com/library or for purchase at www.bersin.com/tmfactbook.

13 For more information, *Social Networks for Enterprise Learning and Talent Management: A Primer*, Bersin & Associates / David Mallon, June 2008.

KEY POINT

Over the next year, we may see training organizations becoming leaner – but also smarter – about what they are delivering.

not high value to their companies and are reallocating resources toward their most critical business problems. These are initiatives that training organizations should be doing, regardless of the state of the economy. Training groups need to run themselves like a business, by vigilantly:

- Tracking and controlling spending;
- Assessing the value of programs; and,
- Delivering programs that are high value and aligned with corporate goals.[14]

If training organizations do these things well, they will be more likely to weather this economic storm.

14 For more information, *Global Learning and Talent Solutions: Best Practices across North America, Europe and Asia*, Bersin & Associates / Karen O'Leonard, July 2008.

About Us

Bersin & Associates is the only research and advisory consulting firm focused solely on *WhatWorks®* research in enterprise learning and talent management. With more than 25 years of experience in enterprise learning, technology and HR business processes, Bersin & Associates provides actionable, research-based services to help learning and HR managers and executives improve operational effectiveness and business impact.

Bersin & Associates research members gain access to a comprehensive library of best practices, case studies, benchmarks and in-depth market analyses designed to help executives and practitioners make fast, effective decisions. Member benefits include: in-depth advisory services, access to proprietary webcasts and industry user groups, strategic workshops, and strategic consulting to improve operational effectiveness and business alignment. More than 3,500 organizations in a wide range of industries benefit from Bersin & Associates research and services.

Bersin & Associates can be reached at http://www.bersin.com or at (510) 654-8500.

About This Research

 The information and forecasts contained in this report reflect the research and studied opinions of Bersin & Associates analysts.