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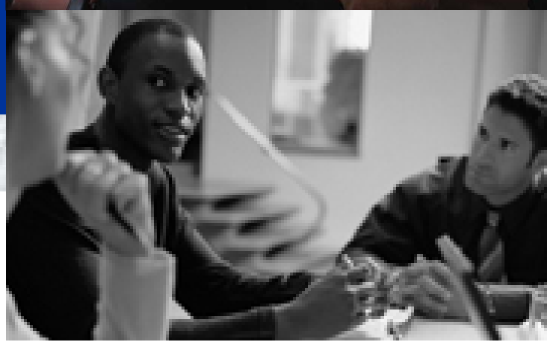

Converting From A Training Department To A Profit Center

GLOBAL
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The shift from cost center to profit center is vexing. For some corporate universities, it's anathema. Barriers that prevent the creation of for- profit models can be unexpected, too. Some stakeholders shudder at the concept of a corporate support division "making money" off of its employees, channel partners or customers. Claiming to be a profit center can cause deep misunderstandings and even turn customers away.

No one should argue with the benefits of a profit-minded approach. It keeps controls tight, energies focused and a healthy entrepreneurialism alive. It's also a great layoff defense in uncertain times. In the end, a for-profit culture keeps learning organizations customer-focused, makes associates more accountable and makes processes efficient. But perhaps the greatest reasons are that it makes work more manageable and fun, and it allows for a greater service offering for customers.

The solution to this conundrum of "think profit, but not too much profit" is to package the outcome to your stakeholders not as seeking profit, but as seeking cost recovery.

Recovering Without Controversy

The vast majority of corporate universities recover less than 5 percent of their costs through profit-making initiatives. As an example, the University of Toyota School of Retail Professional Development (SRPD) aims to recover 84 percent of its total costs for the fiscal year ending March 2005. Other corporate universities do much better.

Is it advisable to recover 100 percent? More? Maybe. The critical factor always comes down to what the university's stakeholders will allow and what they won't. Caring about recovering costs and trying to reduce learning expenses can often be misconstrued as "inflexibility" or "money grubbing."

Generally, customers are not interested in corporate mandates. Hence, communication is critical to let them know why paying for services benefits everyone. The goal is not to make a profit, but to expand at the rate needed to service customers well, whether it's 100,000 automotive sales, service and management people or 200 men and women working on a high-tech assembly line.

Often, training and coaching services expand or shrink like an accordion. In some years, a corporate university may see its volume double, only to have it shrink to half its size the following year. Having a solid cost-recovery program in place can offer great protection in both the up and down times. With budget reductions comes the need to demonstrate greater productivity. It's nearly a mantra: Do more with less. Without a strong cost-recovery program in place, it is impossible to make any significant productivity gains.

In shifting from "cost" to a "cost recovery" model, there are 10 steps to follow that will keep it all on a healthy path:

1.Organization

A typical business organization has five major groups: sales and marketing, design/production, distribution, finance and operations. This traditional model is set up around functional groups that work together (hopefully in harmony) to meet the needs of customers.

The traditional learning business is centered on product or service groups. The biggest advantage of the product-centered model is simplicity and ease of management. The huge disadvantage is expense of redundant responsibilities, the inability to share resources across training "silos" and a lack of consistency with the entire enterprise.

If things are turned around and the university is organized functionally, like a normal business centered on all products and services, there are immediate benefits. People know their roles and responsibilities, and they change from generalists to specialists. Experience tells us that world-class specialists perform better and are more engaged in their work than generalists. They are deeper into the specialist's discipline and have greater expertise within each area.

There are drawbacks, too. It is more difficult to manage an interdependent functional organization, and there is often an immediate perception that the education and training for a specific product audience will become diluted. But the benefits outweigh these concerns.

2. Human Resources: Selecting and Hiring

"It isn't just the right person, it's the right person in the right position," wrote Jim Collins, author of "Good to Great." But how do you hire the right people for a profit-minded organization? The first step is to define the functional job competencies with a very clear linkage to business acumen.

Next, create clear job descriptions for every position that emphasize the profit-center responsibilities. Look for people who are more than trainers. They need to be business savvy, first and foremost, and then have a heart for the development of people. There are too many people who love training but can't understand that they are really in the distribution business (i.e., facilitation) or the manufacturing business (i.e., curriculum development).

Finally, hire with the idea that what you may be building is a virtual organization. Can this person fit into that kind of fluid management system? As an example, nearly 80 percent of the University of Toyota School of Retail Professional Development's staff is made up of contractors, outsourced or temporary workers.

3. Managing People and Performance

Give rewards and recognition frequently. Of course, this is important for a product-centered training group, too. Rewards have to be emphasized even more in a functionally organized training group because many of the people are farther way from the end customer. They need to be reminded of their importance. Employees in a product-centered training organization are naturally closer to the customer so they receive intrinsic rewards more often by seeing student development unfold before their eyes.

Rewards can happen in many forms: bonuses, a luncheon, a kind word, a mention in a newsletter, a great performance review. On the monetary side, you should tie increases in salary and bonuses to each staff members' performance and personal objectives. Daily and weekly recognition supports this, raises morale and fosters greater interdependency and interdepartmental cooperation.

4. Changing Your Corporate Culture

Creating a "pay for performance" culture is a vital component in creating a cost-recovery-based organization. It's not easy. It means there will be unequal rewards based on unequal individual performance. It means dealing fairly and responsibly for the good of the group. It means when the rubber isn't hitting the road, there are real consequences. It may mean dismissing or demoting a significant portion of your total workforce due to this new accountability environment.

Embrace the concept of letting go. Organizational guru Stephen R. Covey said, "Desired results in the organization are created not by the mechanic, but by the gardener." Profit-minded managers must encourage here and water there, while pruning and pulling weeds. Empowering staff members, even if they are largely independent contractors, can be frightening. Be frightened. Empower them to the point of being uncomfortable.

5. Choosing Partners

Finding alliance partners is an economical way to quickly expand your talent pool and improve quality. There are a couple of keys to success. Find alliance partners that have a strong reputation and proven experience. Make sure it's a name that customers and employees can be proud of. Make sure the two organizations share the same values and that there is a clear and defined mission. After that, you can begin to talk commitments and mutual benefits. Measurement is key, too. Measure to ensure there is a payoff for both sides and that there is continuous improvement.

6. Creating New Communication and Marketing

The greatest failure in marketing is not having a clear fix on your target customer or sponsor and then not delivering the right message to them. Planning your communications program means listening and delivering your message through vehicles that your customers pay attention to. What are their hot buttons? What do they want to hear? You also may have a secret sales force you're not utilizing. These are your regional offices, district managers, field people, facilitation staff members, and your coaching and consulting staff. Arm them with messages and marketing materials. Make them your secret weapon.

Also, make sure there is a consistent and reliable communication plan for all stages of product development, pilot and launch. Another effective marketing technique is instituting unique programs for local and regional staff members that encourage them to sell your educational products and services. They may surprise you as a very willing and effective sales force.

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7. Financial Measurement and Tracking

To be profitable, first define what profitability means to your organization. How will it be measured and what levels will you track? Will you set annual net recovery goals?

Once you've decided what will be measured, build a financial system around those metrics. Other measurement tools can track non-financial resources and issues. It's important to invest in a finance system to not only smooth out accounts payable and receivables, but also to track operations and create meaningful financial and operational metrics that serve as a continual financial "dashboard."

8. Non-Financial Measurement and Tracking

A profit-minded training organization has to move past Level One measurement to ensure that customers are really receiving value for their tuition or payment. A good measurement and evaluation group can conduct ongoing studies to determine the impact training has on customers' business results. If you spend only 1 percent of your operating budget on the measurement and evaluation department, it's likely it can justify the remaining 99 percent to your stakeholders. A sophisticated measurement and evaluation department can also move past the usual Level One measurement criteria. This enables better targeting of what customers' needs are, what they are looking for and what they are willing to pay for. With strong measurement tools in place, you can identify problems quickly and correct them. This allows you to respond more effectively to the customer at all levels.

9. Process Management

Processes dramatically affect an organization's ability to recover costs. Understanding processes becomes critically important when planning for big growth or a major organizational change. With effective procedures in place, you can offer more with less without jeopardizing quality. Strong process management can help streamline development costs and reduce possible redundancies. It also provides the ability to track resources and their cost implications.

10. Sustaining Your Profit

Now that you've increased your recovery, how do you sustain it? The answer is continuous improvement. This is an ongoing state of mind. At Toyota, we call it "Kai-zen." When it's combined with strategy and planning, sustaining your cost recovery path is much easier. The characteristics of a solid "sustainment" system are a strong vision and mission, a regularly updated strategic road map, a culture that continually brings to light gaps, failings and successes, and a management team that acts quickly when there are problems.

The Path to Recovering Costs

Getting on the road from cost center to profit/cost-recovery center can be rewarding in many ways. Some may ask, why bother? The answer is simple: Managing cost-recovery programs is vital to a corporate university's future as a viable operation. It means you can come back to your stakeholders with a balanced view of how you're achieving your mission. More importantly, when you're in a healthy cost-recovery mode, a funny thing happens—the stakeholders often will let you do the things you want to do.

That's priceless.

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