GRADS of LIFE

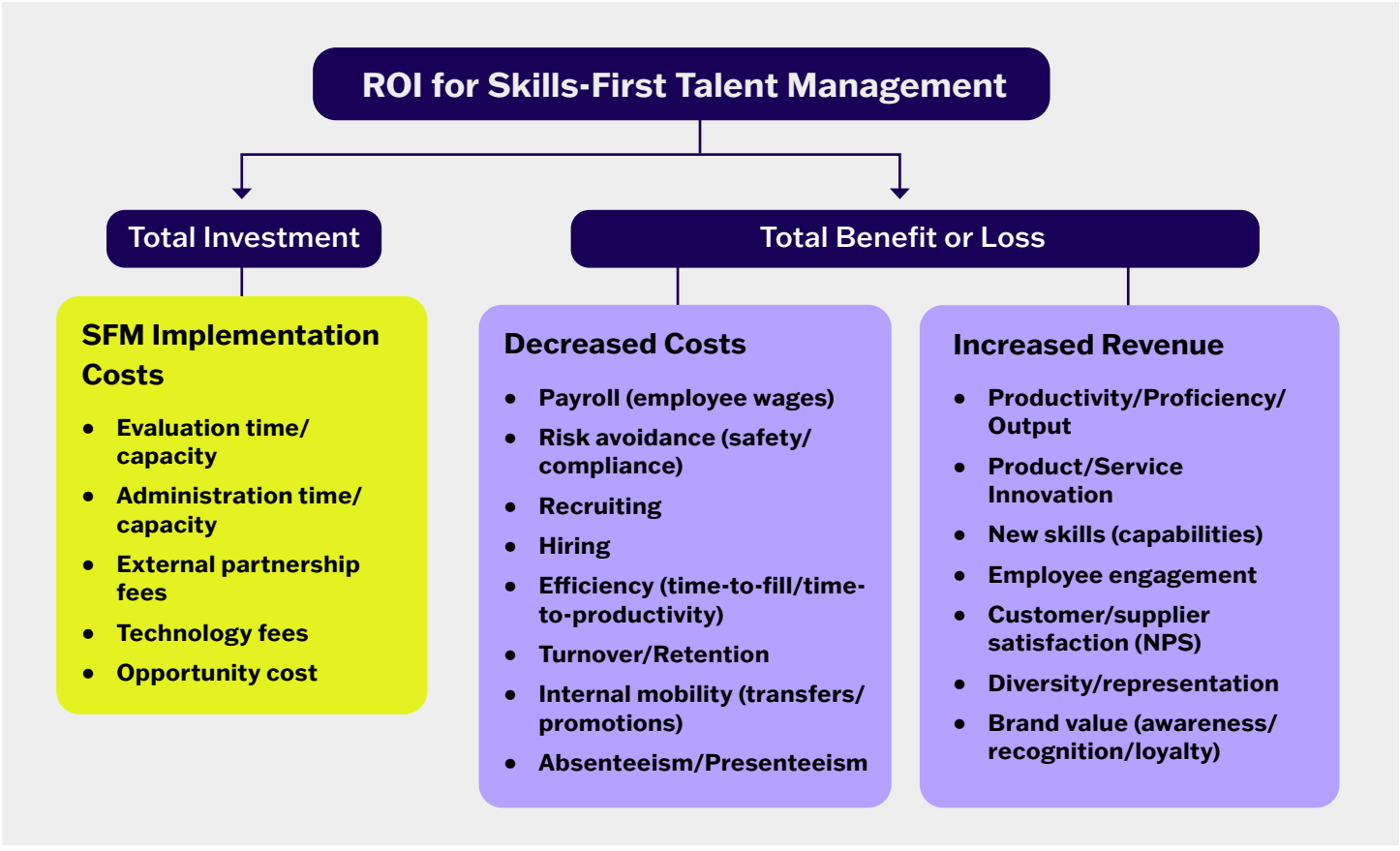
The Business Case for Skills-First: Strategies for Calculating ROI

Measuring the Return on Investment for Skills-First Talent Management

There is no one-size-fits-all approach to measuring the bottom-line impacts of skills-first practices. To truly capture the financial impacts of this work, employers must catalog the breadth of their skills-first investment, isolate and measure the associated outcomes, and translate those outcomes to financial impact. Based on an employer's activities and goals, this becomes a very custom process. To aid organizations seeking to calculate the return on investment (ROI) of their skills-first efforts, we have created a resource for employers featuring a set of factors to consider, an internal checklist, and an illustrative example of an ROI calculation at Company X.

Developing a Custom ROI Calculation

Using the standard ROI formula of (Net Return / Total Investment) x 100, companies must begin by identifying the investments and returns that comprise their organization's skills-first efforts. The following illustration shows common categories and metrics associated with a skills-first talent management approach. The benefit or loss factors are based on evidence of where skills-first practices tend to contribute business value and the investment factors are broad categories of the costs that typically go into corporate skills-first transformations.



Organizations can select the factors that align best with their strategic priorities, availability of data, and historical investments to include in their evaluation. Some values will be more straightforward (e.g., the cost of an external consultant or a software license); others will require collecting data from different sources within the organization and running separate analysis to translate economic impacts (e.g., change in brand value or employee engagement).

To quantify returns, companies must identify specific metrics to prioritize and track in order to measure changes in outcomes as a result of skills-first practice adoption (e.g. time to hire for a given role before and after skills-first practice adoption). Once companies begin to see changes in the outcomes of their priority metrics, they will need to establish how to assign monetary values to those changes (e.g. what is a 4% reduction in turnover for this department worth?). These numbers can then be used to populate an ROI calculation.

Employer Checklist

Is your company ready to calculate the ROI of your skills-first investments? Before using this resource, consult the list below to ensure you have the necessary foundational elements in place to conduct a viable ROI calculation.

- Set robust skills-first goals in line with organizational priorities
- Assemble key stakeholders and leadership to build buy-in and align strategy
- Identify priority metrics and KPIs to track progress and outcomes of skills-first initiatives
- Establish data collection, analysis, and reporting processes and infrastructure
- Collect and document baseline data for priority metrics
- Implement and document skills-first initiatives with fidelity over time, recording associated costs
- Monitor and iterate data collection strategy as needed, noting changes and trends and drawing reliable correlations between practices and outcomes
- Interpret changes in priority metrics overtime to capture and isolate outcomes associated with skills-first practices where possible
- Document internal calculations to establish reasonable assumptions about the impact of skills-first outcomes on revenue or cost savings

Note: Indirect benefits are often difficult to track and measure and skills-first practices do not always have a 1:1 correlation with specific outcomes. The best business case is one that articulates the skills-first benefits that are most important to your company. If your organization has existing goals or metrics that are not listed above, start there!

ROI Calculator in Action: A Proposed Scenario

Background
In this fictional scenario, privately held manufacturing Company X seeks to identify the investment, cost savings, and ROI of certain skills-first practices aimed at reducing employee turnover.

Company X had faced a significant challenge- high turnover rates among its entry-level technicians were driving up costs and disrupting operations. With 310 entry-level manufacturing technicians on staff and a turnover rate of 16%, the company incurred annual costs of $857,508 due to hiring expenses and training replacements.

The Strategy
Determined to tackle this issue, Company X invested $200,000 annually in skills-first initiatives designed to reduce turnover and improve the hiring process. Key steps included:

- **Recredentialing Roles**: In partnership with external consultants, redefined job qualifications to prioritize skills over formal degrees
- **Dedicated HR Support**: Hired a full-time HR professional to lead and sustain these efforts
- **Technology-Driven Hiring**: Implemented cutting-edge skills-based assessment tools to identify high-potential candidates regardless of their educational background

The Results
These efforts delivered tangible results. The turnover rate for entry-level manufacturing technicians dropped from 16% to 12%, saving the company $14,377 annually. This translated into a **7% ROI** in the first year—a promising start for the company's revamped approach.

Drawing from the ROI factor tree, the following tables show the cost savings and skills-first talent management implementation costs to populate the ROI formula.

Cost to Hire: the cost of hiring a new employee, including advertising for open positions, conducting candidate screenings, trainings, etc.	
Recruiting	**$8,000**
Training	**$8,000**
Cost of Separation: the cost of employee departures, including severance pay, unemployment insurance claims and continued benefits	
Severance	**$1,288**
Number of Employees	**310**
Turnover Rate Prior to Skills-Based Practices	**16%**
Annual Cost of Turnover Prior to Skills-Based Practices	**$857,508**
Cost of Skills-Based Practices: cost of identifying and adopting skills-based practices	
Consultants	**$100,000**
Dedicated Personnel	**$85,000**
Technology	**$15,000**
Reduced Turnover Rate due to Skills-Based Practices	**12%**
Annual Cost of Turnover after Skills-Based Practices	**$643,131**
Cost of Investment	$200,000
Gross Return	$214,377
Net Reurn	$14,377
Return on Investment	**7%**

Return on Investment = $\frac{\text{Gross Return (\$214,377 – Cost of Investment (\$200,000)}}{\text{Cost of Investment (\$200,000)}} \times 100\% =$ **7%**

Key Takeaways

This scenario highlights how a targeted, skills-focused strategy can deliver measurable financial and operational benefits. By rethinking traditional hiring practices and investing in the right tools and expertise, organizations can effectively address costly turnover challenges, improve employee retention, and pave the way for sustainable growth.

Calculating the ROI of skills-first talent practices requires a tailored approach that aligns with an organization's specific goals and data availability. By carefully selecting relevant metrics and assigning them a dollar value, employers can gain a clearer understanding of the financial benefits of their skills-first initiatives. This process not only helps in justifying investments but also in driving continuous improvement and sustainable growth.

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