COGNOTA

How to Effectively Calculate and Allocate Your Training Budget

Table of **Contents**

Introduction

Training budgets are a reality that must be dealt with by L&D professionals in organizations of all sizes. In a perfect world, there would be no budget and you could design training programs without the constraints of resource availability. But even those with millions of dollars available for their training budgets have to make decisions about how best to spend it.

Deciding how to break down and allocate a training budget is one of the most challenging tasks faced by L&D management. And, unfortunately, there is no "one size fits all" approach.

How you divide up your training budget depends on the budget size, organizational goals and challenges, and the priorities of both the L&D team and the wider business.

However, there are some best practices and trends to take into consideration that can help ensure you're spending your training budget as wisely as possible.

Training Budget Trends

Prior to 2021, training budgets were on the rise. In a LinkedIn Workplace Learning report from 2019, only 27% of L&D respondents expected to experience budget constraints compared with 49% in 2017.

But when the Covid-19 pandemic hit in early 2020, training budgets were hit pretty hard. L&D departments experienced budget cuts, freezes and reduced headcount and many are still trying to recover their previous budget.

However, a report published by Training Magazine in November 2020 showed that not all L&D budgets were hit equally hard by the pandemic and that, in fact, some L&D teams continued their upward budgetary trend:

Of those who increased their staff, the average increase was 10 people. Of those who decreased their staff, the average decrease was 11 people.

LinkedIn's most recent Workplace Learning report showed that even those who experienced a budget freeze or decrease due to the pandemic were confident in a fast bounceback within the coming year. The report showed that 33% of respondents expected their training budgets to increase in 2021.

So the future continues to look bright for L&D, at least in terms of the big picture. But as budgets go up and your department earns more attention and buy-in at the C-suite level, the pressure to produce results increases too.

That pressure can make it even more difficult to decide how to spend your training budget. Taking your lead from what others in the industry are doing can be a good place to start.

22%
Increased their staff

55%
retained the same number of staff

23%
lowered their staff numbers

How is L&D Spending Their <mark>Training Budget?</mark>

In terms of the types of training on which L&D plan to focus their budgets, respondents said they plan to spend more on the following:

- Management training (17%)
- Customer service (15%)
- Onboarding (15%)
- Executive development (15%)
- IT and systems training (13%)
- Compliance training

Beyond the type of training that L&D are planning to spend their budget on, other expenditures come into play too. This includes learning technology, external vendors and consultants, travel, training facilities, staff and more.

Learning Technology Expenditure

With the acceleration of the transition to online learning, it's no surprise that L&D are paying close attention to the type of learning tools and platforms they are adding to their tech stack, both in terms of learning creation and learning delivery.

Training Magazine's report breaks down respondent's prioritization of learning technology spending for the following year as follows:

- Learning Management System (41%)
- Online learning tools (40%)
- Authoring tools (37%)
- Content development (34%)
- Audio and web conferencing platforms (31%)
- Online classroom tools and systems (26%)
- Mobile learning (23%)
- Certification (23%)
- Courseware design (23%)

The Typical Training Budget Breakdown

While there is no "one size fits all" approach to the proportions you should use when allocating a training budget, there are some categories that will be taken into consideration by almost all organizations. It essentially boils down to who are you going to be training and how are you going to train them, but the associated costs of that include **overheads, technology,** and **annual cost per learner**.

But once you have outlined where money needs to be spent, you're met with the challenge of assigning a specific portion of your budget to each category. Sometimes this will be taken out of your hands. For example, Covid-19 meant that travel budgets were almost completely unnecessary in 2020. Otherwise, it's up to you to determine which components of your budget deserve the biggest chunks.

Your budget allocation can change drastically from one year to the next, whether that's due to external forces or internal reprioritization within your organization. Once the business has communicated their top priorities, it's up to L&D to determine how that should be reflected in the training budget allocation.

Overheads

- Training facilities
- L&D staff salaries
- Travel
- External vendors/consultants/trainers

Technology

- Project management
- Digital collaboration
- Authoring
- LMS

Annual training cost per learner

How to **Calculate** and Allocate a Training Budget

Recommending a Training Budget

When it comes to devising a training budget or requesting a budget increase, there are several ways you can calculate your overall recommended L&D budget.

Salary expenditure percentage

Many departments use a percentage formula to calculate their recommended budget. For learning and development, using a percentage of the organization's salary expenditure is a good benchmark. Most organizations will use between 2-5% of the salary figure to determine how much they should be spending on training.

So, if your organization spends $1 million per year on salaries, your training budget should be anywhere between $20,000 and $50,000.

Industry benchmarking

Reliable industry reports are another good way to decide on your training budget. See what organizations that are similar to you in size and industry are spending on training and align your L&D department accordingly. Since good learning programs can play a critical role in establishing a competitive advantage, these figures can also be useful when seeking a budget increase.

Working backwards

Another way you can calculate an L&D budget is to work backwards in two ways. First, you can outline what your team needs to successfully achieve departmental and organizational goals for the year ahead. Once you've calculated the cost of what you need to be effective, you can determine whether it's a realistic budget and request it, or start reducing down your planned costs until you reach a realistic budget.

Another way to work backwards is to examine previous budgets. How much has the business been spending on training in previous years? What percentage are those numbers of the overall salary expenditure of the company? Has this budget been sufficient or does it need to be increased based on the past performance of L&D?

How to Calculate and Allocate a Training Budget

Budget Allocation

Establish the necessary costs

There are certain items which must be assigned a specific amount from the beginning. This includes things like the salaries of the existing L&D team and any overheads or technology which are necessary for the department to function.

Calculate and assign these costs first so you know what you're working with for other initiatives and potential new overheads.

Prioritizing training initiatives

Similarly, some training initiatives will be absolutely mandatory to fulfill and you'll already have an idea of how much they will cost. This includes mandated compliance training, for example. Outline all these indispensable training initiatives first.

After that, you'll have to start prioritizing planned or desired training initiatives, estimating their cost and deciding which new learning experiences can be developed within your budget in the coming year.

You can rely on the rest of the organization to help you establish this priority list. Starting a Learning Advisory Committee, for example, can put the onus back onto your stakeholders to decide which training is high priority for the business and which ones can wait.

Prioritizing overheads

Overheads can change from year to year. Perhaps you previously relied on an external vendor and now you want to move the training in-house. Or a piece of technology is being underutilized and can be dropped from the learning technology stack in favor of a replacement. You might be looking to add some extra members of staff to the team.

Regardless of whether you plan to add or drop any overheads, you can prioritize them in much the same way: establish which overheads are unavoidable and create a priority list for any extras to decide how to allocate budget.

Prioritizing one-off initiatives

One-off initiatives for the L&D department can come in many forms. It might be a training request from the business for a oneoff training session with an external vendor. It could be a much needed upgrade to a new LMS or revamping your eLearning solutions to ensure they are mobile-friendly.

Just like new training courses, these one-off initiatives can be costly. When there is only so much budget to go around, you might have to start prioritizing what should be completed this year and what will have to wait for thenext budget.

How to Maximize Your Training Budget

Every budget, no matter how big or small, has limitations. But there are lots of things you can do to maximize your budget and make sure it goes as far as it can for your team and your learners.

1. Consolidate your learning tech stack

It happens in all corners of the business. You're spending precious dollars on lots of different tools and you're not quite sure anymore if they make sense for your team to use. Perhaps there are cheaper options available that do exactly the same thing as some of your existing tools. Or there is a platform that could consolidate a bunch of your processes into one place to save time and money.

This goes beyond learning technology such as authoring tools and the LMS. Evaluating all the pieces of technology that your team touches, such as project management software or digital collaboration, can help you find alternative technology that will put money back in L&D's pocket directly and help you save further resources through time efficiencies.

2. Evaluate your vendors and suppliers

Sometimes, it's not about spending less money. It's about extracting further value from places where you already spend a large chunk of change.

Vendor relationships can change over time and you might find that where you were once getting a good deal, there are other options available to you. Or existing service providers may have the capability to help you out with items such as one-off training initiatives at a fraction of the cost it would take to create them in-house.of your team is essential to the efficient scheduling of training projects.

3. Move training online

Many learners prefer to receive training online and at their own pace. Plus, it's often dramatically cheaper to produce and distribute than in-person training.

While there are some scenarios where you and your learners might always prefer ILT, evaluating what is suitable for online learning and making that transition can free up a huge chunk of your training budget.

4. Review your budget frequently

Many organizations are realizing the importance of effective training programs and how critical they are to business success. But, for some L&D teams, winning executive buy-in and budget increases is an ongoing battle.

The benefit of reviewing your training budget is twofold. First, it allows you to see whether your current spending is effective. Measuring the ROI of your training expenditure can help you identify whether your budget allocation needs to be re-worked and assigned to different initiatives.

Secondly, it can enable you to present a hard hitting case for a budget increase to executive management.

By using the industry benchmarking, salary percentage calculations and tying current spending to training ROI, you can show how much more effective L&D could be with more budget to work with.

Conclusion

Regardless of your organization size and your existing budget, there are many ways to calculate what you should be spending and how you should be spending it. As long as you remain focused on leveraging your training budget to create value for the organization, you're on the right track.

From your overheads to your technology, there are always opportunities to create efficiencies and maximize a training budget of any size.
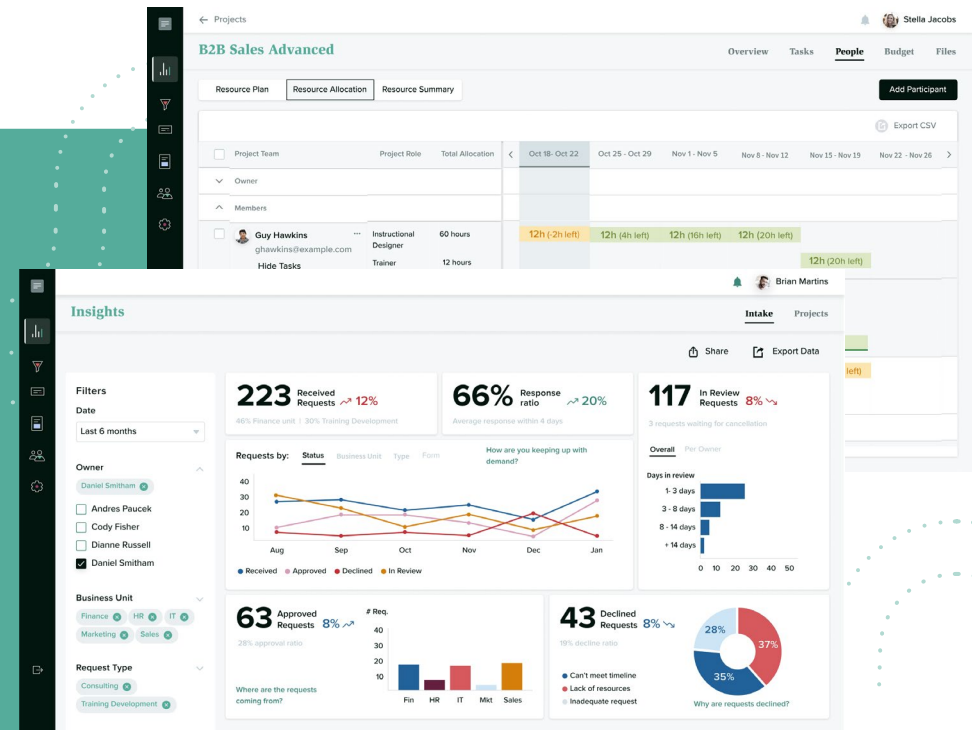
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