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What is an appropriate training budget for a Professional Services firm? It's a bit like asking how long a piece of string is? At every annual budget planning session at [Professional Services firms](#), there is no doubt the annual argument over the training budget.

Many times that argument is settled from a bottom-up approach. There is a discussion about the possible training requirements over the next 12 months, estimates of training costs and then the sum total of those costs to form a budget. However, if the possible training requirements are not well defined, this training budget often ends up being very small. Thus a bad cycle begins - the previous year's small training budget does not create an atmosphere which inspires training and so the next year's possible training requirements are not given much thought...which leads to yet another small training budget.

So let's break the cycle. A bottom-up training budget is excellent when you have a well-defined training plan, supported by position descriptions, training needs analysis and personal training plans. However, what if you don't have that level of detail? Alternatively, even if you do, how do you know if the total of all those training requests is appropriate?

Standard training budget calculations

Your first step is often a search of comparative data. Here's a great list of articles and reports on various averages of training budgets and training budgets per employee. You can explore this list later if you are interested in more detail. Right now, we are going to save you considerable time by doing the analysis here...and even package it all up in a training budget calculator.

- [2017 training budget per employee](#) (US based) - \$1,075, ranging from \$399 for large firms, \$941 for medium firms and \$1,886 for small firms
- [2012 training budget as a per cent of revenue](#) (Australia based) - 68% companies spend <5% of revenue, 19.5% spend 5-10% of revenue.
- [2017 training budget per employee](#) (US based) - \$1,273.
- [2017 training as a per cent of salary](#) (Australia based) - 5.7% for <200 employees and 4.4% for 200-499 employees.

From those articles, you will often see three metrics...

- Training budget as a per cent of revenue.
- Training budget as a per cent of salary.

- Training budget per employee.

Method 1: Training budget per employee

Let's deal with the last metric first - training budget per employee. This is a wildly variable number and hard to use as a benchmark. Some industries are not people dependent, while other industries are entirely built on human capital. Some industries are stable, while other industries are undergoing rapid change and reskilling. Training needs can vary by experience and role. In all cases, a like-for-like comparison based on dollars spent per employee in a training budget is difficult.

However, it is a data point. If you review the various studies and links above, the training budget per employee tends to fall out at around \$900-1,400 per employee.

Method 2: Training budget as a per cent of revenue

Next, we have a training budget determined by overall revenue. This metric is also subject to some wild swings! Industries or firms with a higher reliance on human capital might have a higher requirement for training than industries with heavy reliance on capital and machinery. Yet the revenue of those firms may be the same, yielding the same training budget.

Still, this does represent another data point, and it is indeed a good 'top-down' analysis. Drilling into specific industry averages can also improve accuracy by adjusting for the reliance on human capital.

Indeed, most benchmark analysis suggests that Professional Services firms average around 0.5% to 2.0% of revenue on their training budget (although there are no doubt many professional services firms which have 0% too, as well as some which spend >5%).

The correlation between revenue and training is also a good one as it links training to a critical business outcome. So perhaps as revenue grows, there is a good argument that the training budget - which may be at least partially driving that revenue growth - should be increasing.

Method 3: Training budget as a per cent of salary

This next metric - training budget driven by overall salaries - is a beneficial one for a Professional Services training budget. It more accurately links training needs with human

capital. For example, growth in salaries through new hires should, therefore, result in a higher training budget to support induction processes. This metric can also be examined on a per industry basis for extra accuracy.

Most benchmarks suggest that Professional Services firms average between 2% and 6% of total salaries on their training budget. For Professional Services firms with total salaries averaging around 35% of total revenue, this will yield a similar result to a training budget as a per cent of revenue. The 2-6% range will be a bit wider and will skew higher or lower as the dependency on human capital changes. Now we have a third data point.

Method 4: Training budget versus training outcome

These first three metrics are useful starting points. They shouldn't be ignored as they reveal the collective experiences and wisdom from 1,000s of businesses and their attempts to define an appropriate training budget. However, these data points are removed from their outcomes - they define possible training budgets without any reference to what that training is trying to achieve.

So let's consider a fourth data point - training budget as a per cent of training outcome. Imagine that your business has specific strategic outcomes to achieve over the next 12 months - an increase in revenue, more new clients, reduced expenses and so on.

You could consider that in a Professional Services firm, some part of those outcomes may be achieved through business-led initiatives like improvements in process, development of new services or increases in marketing spend. However, some part of those outcomes may also be driven by improvements in human capital - through training. It might be better sales skills, improved technical know-how or better personal productivity. Outcomes are therefore determined by some combination of improvements in business and human capabilities.

The more these strategic outcomes are dependent on improvements in human capabilities, then there is an argument for a higher training budget. Training is the investment in improved human capital. It is the same as an investment in better software, more marketing or improved machinery.

Example: Training budget to support a larger average sale

Let's consider an example. Say your strategic goal for the next 12 months was a 10% increase in the size of an average sale, project or transaction. Let's say that represents \$100,000 of additional revenue with all other things being equal (same number of sales,

projects or transactions). The discussion at your strategic planning event or annual budget meeting should be based around how that outcome will be met - what per cent will be driven by business initiatives and what per cent needs to come from improvements in human capital?

In this example, let's contend that 50% will come from business initiatives. You might increase your prices and launch a new value-added service. The remaining 50% will have to come from improved human capital - better upselling skills and improved client relationship management skills for example.

On this basis, training is responsible for delivering \$50,000 of the desired outcome. So what's an appropriate training budget to drive that training outcome? To put it another way, what's a good 'return on investment for training?'. Now that question is up for debate!

Training budget versus training 'return on investment'

Most training RoI measurements occur after the event. They focus on determining what the RoI was, not what the RoI should have been. Setting a target RoI for training isn't easy either, and it's not always measurable via a metric. What is the RoI for staying compliant with technical knowledge or improving your delegation as a team leader?

For this analysis, we are going to have to set an average RoI metric to work across a range of training. Let's suggest 500%. For every dollar you spend on training, you would like a five times return. Remember, we are seeking an average. Some training initiatives might justify a higher return - such as in sales or marketing - while other training initiatives are focused on non-monetary returns like morale, teamwork or innovation.

If we continue with our example above and apply a 500% RoI, then a training budget of \$10,000 would seem appropriate to drive the \$50,000 desired outcome.

Taking this further, if we could identify the significant measurable outcomes your business is seeking over the next 12 months, determine what per cent is driven by improvements in human capital and apply an average training RoI, then you could calculate an appropriate spend for training for each of those initiatives. The sum of the training spend for each outcome would yield a partial training budget.

Interestingly, this data point would be directly linked to your strategic outcomes. To complete the budget, you could add additional spend for training which is not linked to measurable strategic outcomes, like compliance or technical training. In combination, you

have a training budget linked to strategic outcomes.

A training budget calculator

With this analysis, you now have four data points for a training budget. Within those data points, a suitable training budget should become apparent for your business. Higher human capital and higher demands on improvements in that human capital should result in higher training budgets.

To make all this easy for you, you can download our training budget calculator. It's a simple Excel spreadsheet (no macros) which calculates all four of these data points for you.

- You need only enter six strategic metrics for your business (revenue, number of clients/transactions, per cent of repeat clients/transactions, general expenses, total salaries and number of employees).
- You can then indicate the extent to which training will need to drive up to five common strategic outcomes: higher average transactions, more repeat clients, increased new clients, lower expenses and increased productivity.
- Finally, you can select your desired training RoI.

The training budget calculator will then provide four data points, including high/low ranges, and average them to indicate a recommended top-down training budget for your business.

Whether you calculate each of these metrics yourself or quickly derive the outcome with our training budget calculator, you will now have a much clearer idea of a top-down training budget. From there, you can start to consider your training needs, and how to drive the outcomes you are seeking!

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Example Training budget calculator in action

As a final example, let's see how the training budget calculator works for an accounting firm with the following key metrics.

- Revenue: \$1,750,000, with a next year goal of \$1.850,000
- Annual transactions: 990 transactions (clients and their entities), with a next year goal of 1,020. So that's an average transaction size of \$1,768 this year, growing to \$1,814 next year

- Repeat transactions: 95% as this is a very sticky client base. So just 5% new clients needed each year
- General expenses (ex Rent, Utilities, Staff): \$280,000, with a next year goal of \$300,000
- Salary expenses: \$525,000, climbing to just \$530,000 next year
- Number of staff: 10, with no change next year

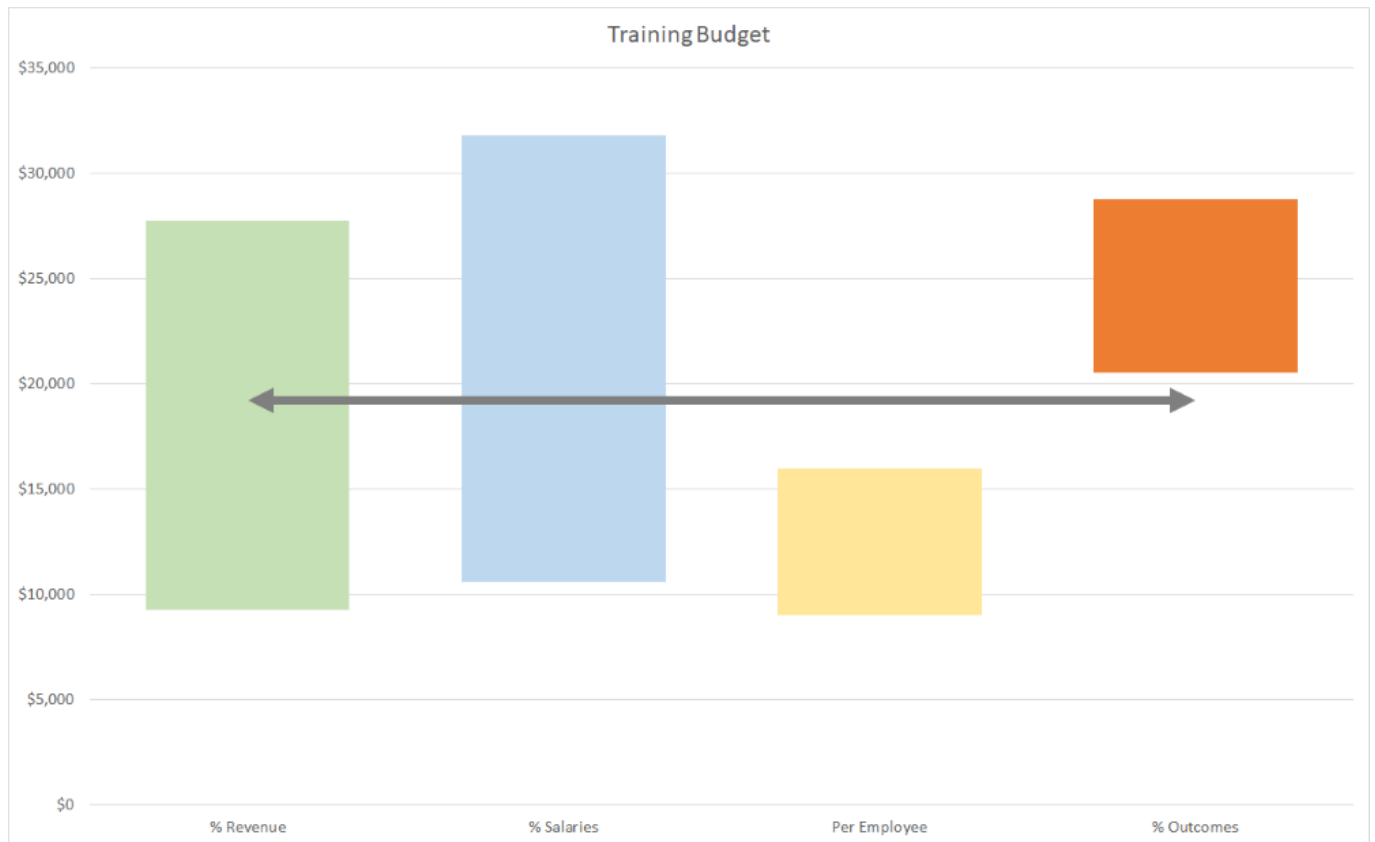
The training budget calculator then asks for the attribution towards four (out of five) key business outcomes. The fifth outcome, of reduced general expenses, is eliminated by the calculator as expenses are forecast to increase. It is decided that training is responsible as follows for each of the four remaining business outcomes (chosen from a simple drop-down menu in the training budget calculator).

- 2.6% Increase in average transaction size. Training is responsible for ALL this increase.
- 3.0% Increase in repeat business. Training is responsible for MOST of this increase.
- 3.0% Increase in new transactions. Training is responsible for a LITTLE of this increase.
- 5.7% Increase in staff productivity. Training is EQUALLY responsible for this increase.

A 500% average training RoI is selected.

The result for this firm is a recommended training budget of \$19,200. As you can see, this falls mid-way in the revenue and salary benchmarking, and above average per employee budget. It is driven up by the outcomes benchmark, as training has a significant responsibility for driving business outcomes. The training budget calculator shows the high/low ranges of the four data points and the recommended budget against those ranges.

If you haven't already done so, download the training budget calculator from this article and you could be estimating your training budget in just minutes from now.



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