

Calculating The Cost of Lost Opportunity

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The Total Cost of Training

There are many factors to consider when calculating the total cost of training. It is not enough to simply determine the development costs, one must also determine the delivery costs to arrive at an accurate result. Most of us already know that. However, when calculating the total cost of training, we sometimes forget to include the cost of “Lost Opportunity.”

What is Lost Opportunity?

Simply stated, Lost Opportunity is the value of reduced productivity or time lost due to an individual's absence from the job. Anytime an individual is not performing the tasks of their job; the organization incurs the cost of Lost Opportunity. This applies to time an individual spends receiving training. When utilizing managers or other field employees to conduct a training session, the organization also incurs the cost of instructor's Lost Opportunity.

Calculating the Cost of Lost Opportunity

The cost of Lost Opportunity can have a significant impact on your organization. It may even guide your decision-making process when comparing alternative training delivery options.

There are a number of methods that available to calculate the cost of Lost Opportunity. Compare the two methods described below. If these methods do not match your situation, you may need to do a little research. You may need to get creative. Just remember that your goal is to quantify the value. You may want to consider working with your finance organization to help you accurately calculate the cost.

The Labor Cost Method

In situations which temporary personnel substitute for employees attending training, you may calculate the cost of Lost Opportunity using daily salary information. You need to know the following:

- Number of temporary personnel hired to replace or fill-in for employees attending training
- Daily Salary of the temporary replacement personnel
- Length of the class (in days)

After determining the information listed above, you can calculate the cost of Lost Opportunity using the formula:

$$\text{Lost Opportunity} = \text{Number Temporary Personnel} \times \text{Daily Salary} \times \text{Length of Class}$$

When determining the length of the class, be sure to include any travel time required for the students to attend the training. For example, if students spend one day traveling to class, three days attending class, and one day returning, the total length of the class is five days. Do not forget to include the cost of temporary workers who replace instructors.

The formula shown above assumes the temporary personnel operate at the same efficiency as the regular employees. To account for possible inefficiencies introduced by the temporary personnel; you may want to include an Inefficiency factor. Convert the factor to a decimal value for use in the formula.

To do so, include the employee's productivity level (100%). In other words, to include a 20% reduction, use 1.2 as the Inefficiency factor (100% + 20% = 120%, or 1.2).

To include a 50% reduction, use 1.5 as the Inefficiency factor (100% + 50% = 150%, or 1.5). When the Inefficiency factor is included in the calculation the formula becomes:

$$\text{Lost Opportunity} = \text{Number of Temporary Personnel} \times \text{Daily Salary} \times \text{Length of Class} \times \text{Inefficiency Factor}$$

The Value Contribution Method

Another method to calculate the cost of Lost Opportunity is to use the amount of money each employee contributes to the organization's gross revenue. To calculate the cost using this method, you need to know the following:

- Gross Revenue earned per employee
- Number of Annual Productive Days
- Length of the class (in days)

After determining the information listed above, you can calculate the cost of Lost Opportunity using the formula:

$$\text{Lost Opportunity} = (\text{Gross Revenue} / \text{Annual Productive Days}) \times \text{Length of Class}$$

Annual Productive Days are the number of days you expect an employee to work. To determine the number of annual productive days, you need to know the following:

- Number of holidays
- Number of days vacation
- Number of sick leave days

After determining the information listed above, you can calculate the number of annual productive days using the formula:

$$\text{Annual Productive Days} = 261 - (\text{Holidays} + \text{Vacation Days} + \text{Sick Leave Days})$$

You may wonder where the value 261 originates. There are 365 days in a year (we are going to ignore the ¼ days and leap year). If you subtract 104 days to account for the 52 weekends in a year, you are left with 261 potential workdays. After you back out the holidays, vacation days, and sick days, you are left with the number of Annual Productive Days.

Summary

Although often overlooked, the cost of Lost Opportunity is an important factor to consider when calculating the total cost of training. Two methods for calculating the cost of Lost Opportunity are the Labor Cost Method and the Value Contribution Method. Your finance organization may be an excellent resource to help you with this type of calculation.