QUANTIFY YOUR INITIATIVE & ITS IMPACT ON THE BUSINESS

Measuring Return on Investment of Mentoring

together
an Absorb company

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Prove it: Mentoring initiatives need to be measurable

How enterprise learning & HR metrics are changing

Learning and HR teams deal with scrutiny from executives and finance teams when proposing new initiatives. The truth is that other business functions, like finance, take return on investment into consideration with every business decision they make. If you're lucky, you have business partners that intuitively understand the benefits of mentoring from a cultural standpoint, and are natural allies when it comes to mentoring initiatives. However, the reality is that "it will improve our culture" is not a defensible argument when other teams are proposing projects with clear, measurable impact. If you want to win budget, you'll need to equip yourself with a different approach.

Staple metrics: not good enough

At Together Software, we've spoken with a number of Learning & Development professionals at companies like Glassdoor, Cisco, Lever, and many others. All of these professionals strive to make their initiatives more quantifiable. Common across all of these teams and initiatives are a set of metrics that are a requirement for any initiative. They are:

- **Usage**
- **User/learner satisfaction**
- **Anecdotal cultural improvements**

Unfortunately, usage and satisfaction are one layer of abstraction away from really understanding impact on the business. If you instituted a new initiative called "video game Fridays" you might excel in some of these metrics as well.

That being said, these metrics still must be measured. Impact on the business can take some time - months, or even quarters, to materialize through other more concrete metrics, and in the meantime you need to know you're off to a good start. These metrics also help you as a program administrator, to tweak programming.

Better metrics

ROI of learning initiatives, and mentoring programs in particular, can be quantified through 3 main metrics.

Table: Better metrics for HR and L&D teams

Metric	Description
Employee turnover	The rate at which employees leave (voluntarily or involuntarily)
Performance, skills and promotion	Absolute score on performance reviews and/or rate of promotion
North star	The "North star" is the metric that is most important to a particular team taking part in mentoring, e.g. for Sales: new revenue

Next, we describe these three metrics in more detail, with methodology. Note that the total return on investment for a program is sometimes the sum of two or more of these metrics. For example, employee turnover is a cost to the business, so by decreasing turnover, you create return via cost savings. However, if you also improve the number of new deals for the sales team, you provide additional return via new revenue.

In each metric, we'll provide steps to measure additional revenue brought in, or costs saved. The reader can then figure out their expected cost to run their mentoring program to complete an ROI calculation.

> **'It will improve our culture' is not a defensible argument when other teams are proposing projects with clear, measurable impact**

Employee turnover

A universal cost-savings metric for mentoring programs

You may not realize it, because people quitting or being terminated is a natural part of the workplace, but employee turnover is extremely expensive. Turnover happens all the time, but a slight increase or decrease in the rate of it could cost or save millions for the business. HR and Learning leaders should see this as a powerful opportunity to come to the table with ROI opportunity.

Cash costs include termination packages, recruiting and marketing, and training for new hires. On top of that, there are non-cash costs stemming from loss in productivity of your business when someone is underperforming, when a role is vacant, or when a new hire is being onboarded.

The table below shows estimated annual costs of turnover for a range of business sizes and employee salaries, at a reasonably low turnover rate of 15%.

Table: Estimated cash costs of 15% annual turnover for a range of businesses

	Avg annual salary					
# of employees	**$50K**	**$70K**	**$90K**	**$110K**	**$130K**	**$150K**
100	$375K	$525K	$675K	$825K	$975K	$1M
500	$2M	$3M	$3M	$4M	$5M	$6M
1,000	$4M	$5M	$7M	$8M	$10M	$11M
5,000	$19M	$26M	$34M	$41M	$49M	$56M
10,000	$38M	$53M	$68M	$83M	$98M	$113M
50,000	$188M	$263M	$338M	$413M	$488M	$563M

A good mentoring program will save you about 10-20% of your turnover cost.

In this report, we focus only on the cash cost of employee turnover, but HR & Learning teams can also tack on estimates for non-cash costs if they feel up for it.

Shortcut to measuring ROI

If you'd like to calculate your turnover cost and ROI on mentoring in 1 simple step, visit this link for **our turnover calculator.**

Calculating cost of turnover

Step 01

Approximate your cost of turnover per employee

As previously mentioned, cash costs include recruiting, training and termination packages. A typical estimate is 50% of an employee's annual salary when they are replaced.

Step 02

Calculate your annual turnover rate

Your average annual turnover is the number of people who left the company in the last 12 months (voluntarily or involuntarily), divided by the average total number of employees for the last 12 months. Typical annual rates range from 10-30%.

Example: On January 1, ACME co had 3,000 employees. On Dec 31, twelve months later, ACME co had 3,500 as they hired steadily throughout the year. The average number of employees this year was 3,250. ACME also had 500 employees leave the company. ACME's turnover rate is 500 / 3,250 = 15%.

Step 03

Multiply by number of employees and salaries

Multiple your Step 1 cost by your average employee salary

Example: Dollar Cost of 1 turnover = $70K avg employee salary x 50% cost = $35K

Multiply your Step 2 turnover by your expected number of employees this year

Example: ACME expects 4,000 employees next year x 15% = 600 will leave.

Step 04

Total cost

Total cost is found by multiplying the numbers from Step 3

Example: Turnover will cost ACME 600 employees leaving x $35K = $21M per year

As you can see, for a company of 4,000 people, the costs of turnover are massive.

Step 05

Addressing turnover

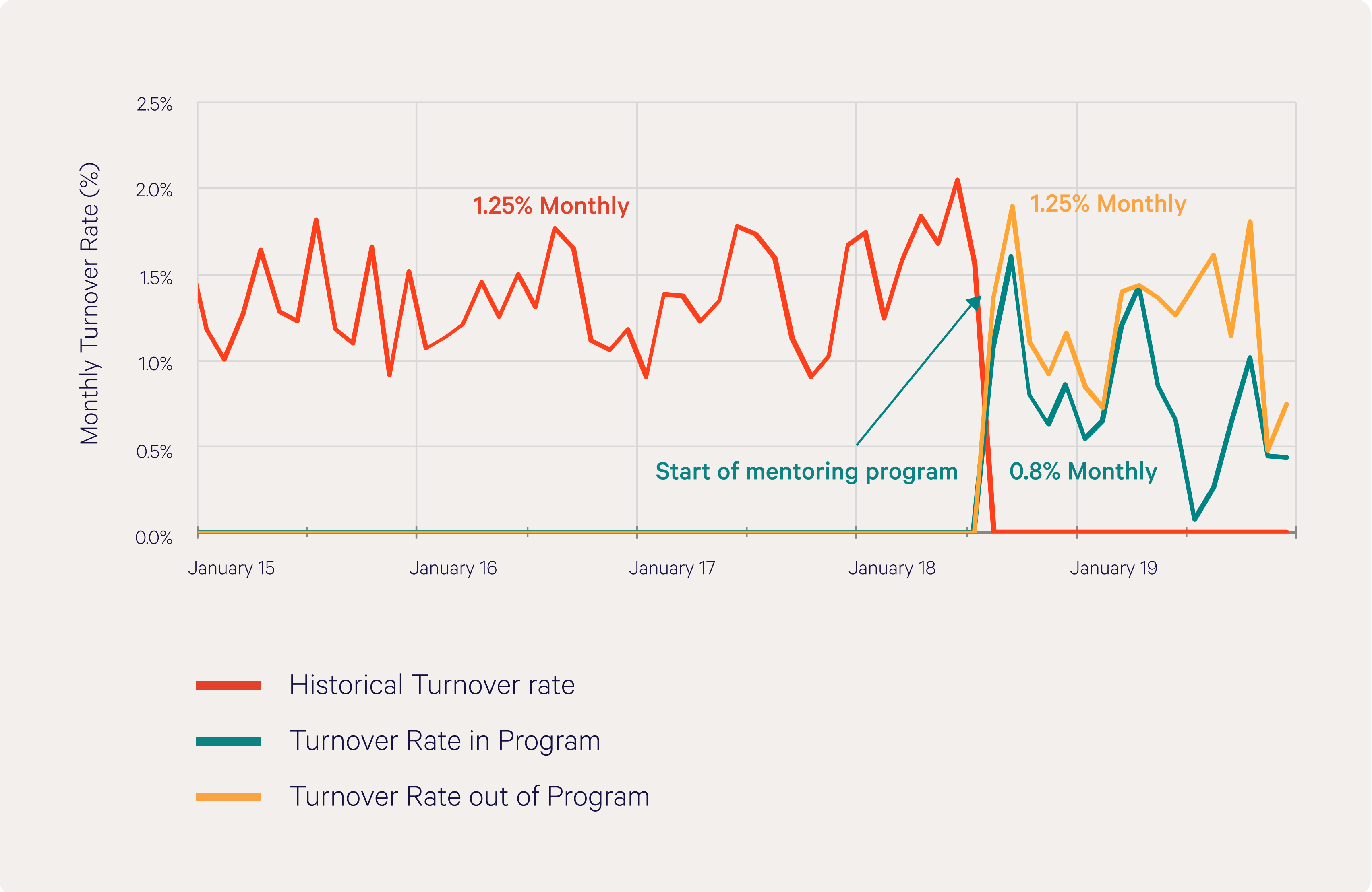
A good mentoring program will significantly decrease turnover. That's because mentoring gives opportunities to learn, improves workplace support networks, and gives people better reasons to stay. Our customers typically see a 10-20% reduction in turnover.

Table: Estimated savings from reducing annual turnover by 20%

	Avg salary					
# of employees	$50K	$70K	$90K	$110K	$130K	$150K
100	$75K	$105K	$135K	$165K	$195K	$225K
500	$375K	$525K	$675K	$825K	$975K	$1M
1,000	$750K	$1M	$1M	$2M	$2M	$2M
5,000	$4M	$5M	$7M	$8M	$10M	$11M
10,000	$8M	$11M	$14M	$17M	$20M	$23M
50,000	$38M	$53M	$68M	$83M	$98M	$113M

To find the ROI attributable to your mentoring program, run your program on a subset of your population, then compare turnover of the participants versus all other employees (called an "A/B test"). Example results are shown below:

Chart: Comparing turnover of employees in mentoring program versus outside



Your ROI is your reduction in turnover rate times your total turnover cost from Step 4

Example: ACME reduced their turnover rate from 1.25% monthly to 0.8% monthly, as shown in the previous graph. Their annual turnover has therefore dropped from 15% to 9.6% over 12 months. That's a 32% drop in turnover. If their annual turnover was $21M, ACME will be saving $21M x 32% = $6.7M, if the mentoring program rolls out company-wide.

Case study: Randstad Canada

A good, formal mentoring program can reduce your turnover cost significantly, by as much as 20%. Results of our mentoring program with Randstad Canada, a 1000 employee division of the global HR consulting firm, showed this is possible.

Key stats:

Employees:
1,000 (Canada Only)

Programs:
1x general population

Results:

$ 2.8 k
Savings per year per participants in retention

49%
Reduction in employee turnover

3.9/4
Average feedback

randstad

Final thought: Sample bias

When Learning and HR leaders run a mentoring program A/B test, they often choose high-potential or engaged employees to be the pilot participants. That's fine to do, but you must account for and remove sample bias in your metrics.

For example, in this case study, while reduction in turnover for the pilot group was 49%, Together Software eliminated half of that effect due to sample bias of the pilot group, which included very engaged employees.

Performance, skills and promotion

Benefits of mentoring extend into skill progress

Many of the companies we work with specifically deploy mentoring as an upskilling or knowledge transfer initiative. In specific industries, like engineering and construction management, there is a need to pass on knowledge from older, close-to-retirement employees to their successors, in an organized way. Regardless of industry, there are a few common **use cases** of mentoring for knowledge transfer:

Develop new managers

Manager training and 360 reviews can only go so far. Mentorship is a way to continually drive and reinforce learned skills, reflect on and improve from 360s, all with accountability from peer mentors.

Make the best onboarding experience

Get your newest employees up to speed on culture across your company. Whether they shadow other employees in different departments, or meet for coffee to discuss career plans, you can make sure they get the resources needed to be more effective, quicker.

Motivate high potential talent

Keep your top talent motivated and driven to succeed. Pair them with top leaders in your company to learn, grow, and develop their career.

As people become more competent, performance reviews and the rates at which they get promoted improve. **Research by McKinsey** showed that among companies with "effective capability-building initiatives", 89% tied the success of their initiatives to measurable changes in performance, compared to just 53% among companies that do not have effective initiatives. Overall, this category can be measured directly in one of 3 different ways:

Change in performance review scores

Self-reported skill progress

Change in promotions per capita

Unfortunately, these metrics such as self-assessed skill progress or promotions per capita are hard to convert into an ROI number. We offer an alternative, all encompassing metric:

Change in salaries / bonuses

More productive employees are paid more in the long run. This is either through promotion, raises, bonuses or moves into new, more demanding roles. That's why we suggest using increases in salaries to measure the ROI of mentoring due to performance improvements. On a shorter term scale, e.g. under 6 months, it's likely that your company will not adjust salaries or titles for employees fast enough to use in an A/B case study. Instead, you may want to use quarterly or annual bonus data, or swap for projected salary increases, collected through talks with managers.

Calculating ROI

Performance ROI starts with understanding the dollar productivity of employees. Dollar productivity is the average amount of revenue an employee generates in your company, for each dollar in wages. It also implies that on average, an employee who gets paid twice as much will make twice the impact on revenue.

Step 1: Determine the average "dollar productivity" of your employees

Example: ACME co has annual revenues of $25B and annual salaries of $4.8B across 48,000 employees. ACME's dollar productivity is 25 / 4.8 = $5.2 revenue per $ in salary.

Step 2: Measure baseline salaries

Make sure to run an A/B test by only involving a subset of your employees in the mentoring program. Find the baseline in salaries for both groups:

Group	Number of employees	Initial avg salary
Out of program	47,700	$75K
In Program	300	$78K

If you are dealing with a group whose performance is heavily tied to a bonus or commission metric, such as in Sales or Professional Services, you have an even easier metric to measure. You can modify the table as follows:

Group	Initial bonus / commission (% of salary)
Out of program	20%
In Program	21%

Step 3: Measure change in salaries

Find the average % change in salaries in both of your cohorts. As a reminder, you can use projected salaries if needed.

Group	Number of employees	Initial avg salary	End projected salary	% Change
Out of program	47,700	$75K	$80K	+ 6.7%
In Program	300	$78K	$85K	+ 9.0%

In the bonus or commision scenario, this looks like:

Group	Initial bonus / commission	End bonus / commission	% Change
Out of program	20%	23%	+ 15%
In Program	21%	31%	+ 48%

Note that this approach will heavily weight changes in salaries of the highest-paid employees, over the lower-paid employees in each group. For example, if there is one employee that is paid $1M and that bumps up to $1.1M, that will translate to a good-looking % change across the 300 employees in this cohort. For that reason, you could segment your table by title or seniority for a more accurate analysis.

Step 4: Find the incremental change in salaries

You'll need to compare your control group with your mentoring program to find the effect due to mentorship. In our example, the regular group became more competent over time, to the tune of +6.7%, which is expected. The mentorship group increased by 9.0%, so the incremental change was 2.3%.

Step 5: Apply dollar productivity

Multiply the incremental change in salaries, the number of employees in the full roll-out and the current average salary to find the change in salaries attributable to mentoring. Then multiply this by the dollar productivity, which tells us how much additional revenue that change in salaries will bring.

# of employees in full-rollout	**50,000**
	×
Initial Avg Salary	**$75K**
	×
% mentoring change	**+2.3%**
	=
Change in salaries, due to mentoring	**+$86M**
	×
Dollar productivity	**5.2**
	=
Total Expected change in Revenue	**$450M**

North stars

Measure how you help employees with their day-to-day

What are North stars?

Every team, whether it is sales, marketing, product, etc, has a different set of metrics they aim to impact.
In marketing, for example, common metrics include Cost of Customer Acquisition (CAC), Number of Qualified Leads, Landing page conversion rates, etc.

The North Star is the most important, all encompassing metric that the business function is optimizing their work for. All other metrics roll-up to affect this one. For example, your marketing team might maintain this is Number of Qualified Leads.

If you are running a mentoring program for a specific business unit, this is a great measurement technique that allows you to measure ROI of your mentoring program. If the program is doing its job, it should improve the ability of participants to do their job.

Calculating ROI from mentoring

We'll use the marketing team as our example, though you could replace this with any business function.

Step 1: Find the incremental change in the North star

Run an A/B test and see how many more qualified leads your marketing team gets after around 6 months in the mentoring program. You could do this either by splitting your marketing team in two, which is best, or by including everyone and comparing to their past performance.

Step 2: Find the value of a unit change in your North Star

If your North Star is qualified leads, the value of a unit change is the value of one qualified lead. The team should know this already, but for marketing, it could look something like:

$ value of qualified lead = % conversion to sale * average sale value.

For example, if your conversion rate to a sale on a qualified lead is 10%, and on average they are worth $10K, the unit change value is $1K.

Step 3: Multiply the unit value by the change

Run an A/B test and you might find that your marketing team, which normally brings in 2,000 qualified leads a year, brought in 5% more leads after going through a 6 month mentoring program, whether compared to their peers or compared to their past performance. Multiply this out by the baseline and the unit value to get your incremental revenue.

$ incremental revenue = 2,000 x 5% x $1000 = $100K

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Save time: ROI on software

There are other simple ways to justify your program

In previous sections, we saw that there are a number of avenues to find impact of mentoring on your user base. Mentoring tends to bring at least 10x return on investment from employee turnover alone, when you factor in the cost of running a program.

Sometimes, you might already have a program running and simply think it's a headache to run. You spend days and weeks matching people or writing marketing emails.

Your time is valuable too. If you spend 2 weeks on setting up a mentoring program, that's about 4% of your annual salary in cost, or $4K if you cost $100K a year. Mentoring software will not only give you those two weeks back, but will improve the overall delivery of your mentoring program too. Depending on the size of your program, the software costs may not greatly exceed the cost of your own time. This provides instant justification of buying some help!

About Together

Together's mentoring software empowers enterprise organizations to drive performance through relationships. Whether you're running traditional 1:1 mentoring programs, peer or group mentoring programs, or just want to connect employees over a cup of coffee, Together matches employees at scale.

Together has consistently been granted the #1 mentorship software award for user experience by G2, the world's leading software review site.

Together Administrators Report...

94%
Improved Employee Skills

95%
A More Connected Company

100%
Improved Inclusion and Support

79%
Improved Retention

Some of our customers include

Crayon

Kellogg's

randstad

Discovery

Teladoc HEALTH

New York Life Foundation

Book Demo