

USER GUIDE

TO THE LOOKING AHEAD REPORT
FOR GROUP TRAINING ORGANISATIONS



Group Training Australia

The Largest Employer Network of Apprentices and Trainees

CONTENTS

INTRODUCTION

The *Looking Ahead* report commissioned by Group Training Australia was intended to provide a fundamental review of the group training business model after 30 years of operation and a foundation for the industry's future strategic planning.

That document had multiple audiences. This guide is intended specifically to assist group training organisations access and use the data contained in the report for their own strategic reviews and for planning purposes. Presentations to State associations have revealed that many members are interested in making better use of the report but found difficulties accessing the content. We hope that this document will make using the report easier and thereby assist our members to develop sound business strategies for the future.

While this document has been prepared for Group Training Australia by NIEIR, it does not contain new material. It will point group training organisations to key relevant parts of the report and help them to see how the data can be made more relevant to their organisation. GTOs wishing to obtain additional information and arrange an in-house seminar from NIEIR are free to do so by contacting the consultants directly.

James Barron
Chief Executive Officer
Group Training Australia

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USING THIS DOCUMENT

This is a 'how-to' document. We have tried to avoid repeating content already provided in the main *Looking Ahead* report. Wherever possible, page references have been included (as well as section, figure and table references) so the two documents can be read together. In this document the use of the word 'apprentice' denotes a traditional apprentice as opposed to a trainee.

GTOs are encouraged to work through the document from start to finish where possible. It is intended as a working document that generates a systematic approach to using the *Looking Ahead* information and a practical pathway through the larger document.

Users of this document may find that it jumps around at times to different parts of the *Looking Ahead* report. This is because the report was developed on a different basis to this document.

Where possible it would be advisable to use the structure of this document as a framework for reviewing your individual strategic plan (or at least a component of that review). This will allow users to develop their own workbook of supporting documentation.

EXAMINING YOUR PERFORMANCE

The starting point for any assessment of where your organisation is heading is to examine where you are today and where you have been.

To help you develop your own set of performance indicators, the report contains a proposed set in Part E (page 129). This comprehensive set of indicators may be beyond the capability of many GTOs at present but represent an objective for systematic reporting and benchmarking. The indicators are arranged under five headings:

- 1 **General measures of efficiency**
- 2 **Measures of cost efficiency**
- 3 **Measures of staff efficiency**
- 4 **Market performance**
- 5 **Measures of effectiveness**

The report used an initial set of indicators developed for the 2009 questionnaire of GTOs. If you still have the material supplied to NIEIR in 2009 it would be worth reviewing this as it will help you position your organisation in the report's various graphs and tables. If you don't still have this material, the questionnaire asked for the following information for 2008.

- a. **How many FTE GTO staff**
- b. **How many apprentices**
- c. **How many trainees**
- d. **Apprentices and trainees per FTE staff**
- e. **Completion rates (of those who start with your organisation, how many complete)**
- f. **How many employers do you deal with on a regular basis**
- g. **What is your revenue from:**
 - i. Employers
 - ii. Government
 - iii. Other
 - iv. Proportion of total for each of the above
- h. **What is your current business strategy**
 - i. Survival
 - ii. Geographic growth
 - iii. Industry diversification/specialisation
 - iv. Grow share in existing markets
 - v. Increase government revenue
 - vi. All of above/other

This information should be assembled before you start working your way through this guide so you can check your relative performance against the rest of the industry. At times the information will be used as ratios.



EXAMINING YOUR PERFORMANCE

COMPARING YOUR PERFORMANCE AGAINST INDUSTRY TRENDS

Part A of the report examines the performance of GTOs over the period 2001 to 2009. If you know your own performance over this period, you can track that against graphs for all contracted training, including existing workers (Figure 1.2, page 13) and all contracted training through GTOs (Figure 1.3, page 13). You will note that for all forms of such training there was steady growth (apart from a fall in commencements with the onset of the Global Financial Crisis in late 2008) whereas for group training the numbers have been flat (with a pronounced dip starting in 2008). How does your performance compare?

The growth of people involved in all forms of contracted training and lack of growth in group training numbers means that group training lost market share over this period. This loss of market share applies equally to the market for apprentices as can be seen in Figure 1.5, page 14. There are a number of reasons for this that are analysed in Part C, Chapter 9 (page 84). This analysis is undertaken on a state by state basis although the conclusions (page 90) are generalised for Australia (strong employment growth, increased apprentice intensity and other factors such as the growth of competitors and substitutes).

You can use the report to look at group training performance in markets where your GTO is active (regions and industries – Appendix 1).

Regional performance

Regions are based on local government areas (LGAs). Details of which LGAs are included in which regions are provided in Appendix 7 (page 434). They are referred to as SOR Regions as they are the regions used by NIEIR in compiling its State of the Regions report for the Australian Local Government Association (ALGA). In which State(s) and regions do you have substantial operations?

For a snapshot of GTO market share in specific SOR Regions in 2008, go to Table 13.1 (page 117). This shows the share of all apprentices in training in each of the SOR regions (share of Australian total) and the share of GTO apprentices (share of Australian total from the NIEIR GTO survey). The final column in this table shows the relative performance of GTOs compared to the share of the total

number of apprentices in Australia in that SOR region. A negative number indicates GTOs have below market share and a positive that they have above market share. How are GTOs performing in the regions where you are active?

In Part A, information is provided for very broad regions (capital city, provincial cities and rural). Table 1.1 (which is also used as the basis for Figure 1.9) shows how GTOs have performed in these broad regions (share of GTO commencements in total commencements expressed as an index with 2001 being the base year). In some of these broad regions GTOs improved their share but in many they did not. How did GTOs perform in the broad regions where you are active?

At a State level, a lot of information about GTO performance is available in Appendix 1 (page 148). Information is available for Apprentices, Other (trainees) and All training; it is available for In-training, Commencements and Completions, and; it shows performance at a State level in terms of group training market share. Changes in market share are available in both absolute numbers and three year rolling averages. It is also available by industry sector (see below). This information allows you to gain a very comprehensive insight into how training is developing in the states where you are active and how GTOs are performing in those states.

Industry performance

At a national level, the performance of GTOs in different industry sectors can be seen in Figure 1.7 (page 16) and Figure 1.8 (page 17). This shows that in all industry sectors GTOs lost market share. Figure 1.8 shows relative performance using three year rolling averages to eliminate some of the year to year peaks and troughs. How do the industries where you work perform?

The report shows that GTOs have different levels of success in different industries so it is important to understand the industries where your GTO is working. Greater insight into how GTOs are performing in different industries can be gained by examining the tables in Appendix 1 that break this data down to a state level. Tables in Appendix 1 show changes in GTO performance by major industry sector for the years 2001 to 2009. This data is shown for apprentices, other (trainees) and all forms of training using both actual numbers and three year rolling averages.

EXAMINING YOUR PERFORMANCE

How to read the tables in Appendix 1 is illustrated below:

Reading Appendix 1

Appendix 1 Section for each State

APPENDICES

APPENDIX 1: GTO PERFORMANCE BY STATE AND INDUSTRY SECTOR **1**

VICTORIA: APPRENTICES

Actual numbers and also (next page) three year rolling growth averages

Category	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
GTA Intraining			4,687	4,827	5,140	5,326	5,293	5,351	5,126
ALL Intraining			38,132	40,389	42,587	44,195	45,536	47,773	48,871
GTA Commenced			1,921	2,108	2,223	2,118	2,010	2,249	1,668
ALL Commenced			15,981	17,759	17,657	17,414	18,516	20,645	17,735
GTA Completed	982	916	1,019	984	909	1,019	1,062	1,100	1,162
ALL Completed	5,774	6,573	7,023	7,282	7,614	8,088	8,649	8,851	9,402

Sub-section for 'Apprentices', 'Other' (trainees) and 'All'

APPENDICES

APPENDIX 1: GTO PERFORMANCE BY STATE AND INDUSTRY SECTOR **1**

VICTORIA: APPRENTICES (continued)

GT Intraining Industry Share	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Agriculture, Forestry and Fishing (A)	14.3%	13.2%	12.8%	12.4%	13.0%	13.7%	13.6%	13.0%	12.1%
Mining (B)	12.0%	11.1%	10.6%	10.3%	10.5%	10.9%	10.8%	10.4%	9.9%
Manufacturing (C)	12.4%	11.4%	11.1%	10.8%	11.0%	11.3%	11.0%	10.6%	10.0%
Electricity, Gas, Water and Waste Services (D)	15.7%	14.5%	13.9%	12.9%	12.4%	12.2%	11.6%	11.2%	10.7%
Construction (E)	15.8%	14.6%	14.1%	13.5%	13.5%	13.0%	12.0%	11.4%	10.3%
Wholesale Trade (F)	13.9%	12.8%	12.4%						
Retail Trade (G)	10.6%	9.8%	9.7%						
Accommodation (H)	6.5%	6.0%	6.1%						
Transport, Postal and Warehousing (I)	16.6%	15.3%	14.7%						
Information Media and Telecommunication (J)	14.1%	13.0%	12.5%						
Financial and Insurance Services (K)	15.0%	13.9%	13.5%						
Rental, Hiring and Real Estate Services (L)	14.4%	13.2%	12.8%	12.6%	12.9%	13.1%	13.0%	12.7%	12.2%
Professional, Scientific and Technical Services (M)	15.2%	14.0%	13.5%	12.8%	12.7%	12.6%	12.0%	11.4%	10.7%
Administrative and Support Services (N)	14.9%	13.7%	13.3%	12.8%	13.3%	13.8%	13.6%	12.9%	12.1%
Public Administration and Safety (O)	10.5%	9.7%	9.4%	9.2%	9.5%	9.9%	9.9%	9.7%	9.2%
Education and Training (P)	14.2%	13.1%	12.7%	12.0%	12.0%	12.2%	11.8%	11.3%	10.6%
Health Care and Social Assistance (Q)	8.0%	7.4%	7.3%	7.1%	7.0%	7.1%	6.8%	6.2%	5.8%
Arts and Recreation Services (R)	13.1%	12.0%	11.7%	11.3%	11.7%	12.3%	12.3%	11.8%	11.1%
Other Services (S)	14.3%	13.2%	12.9%	12.9%	13.3%	13.6%	13.9%	14.0%	13.9%

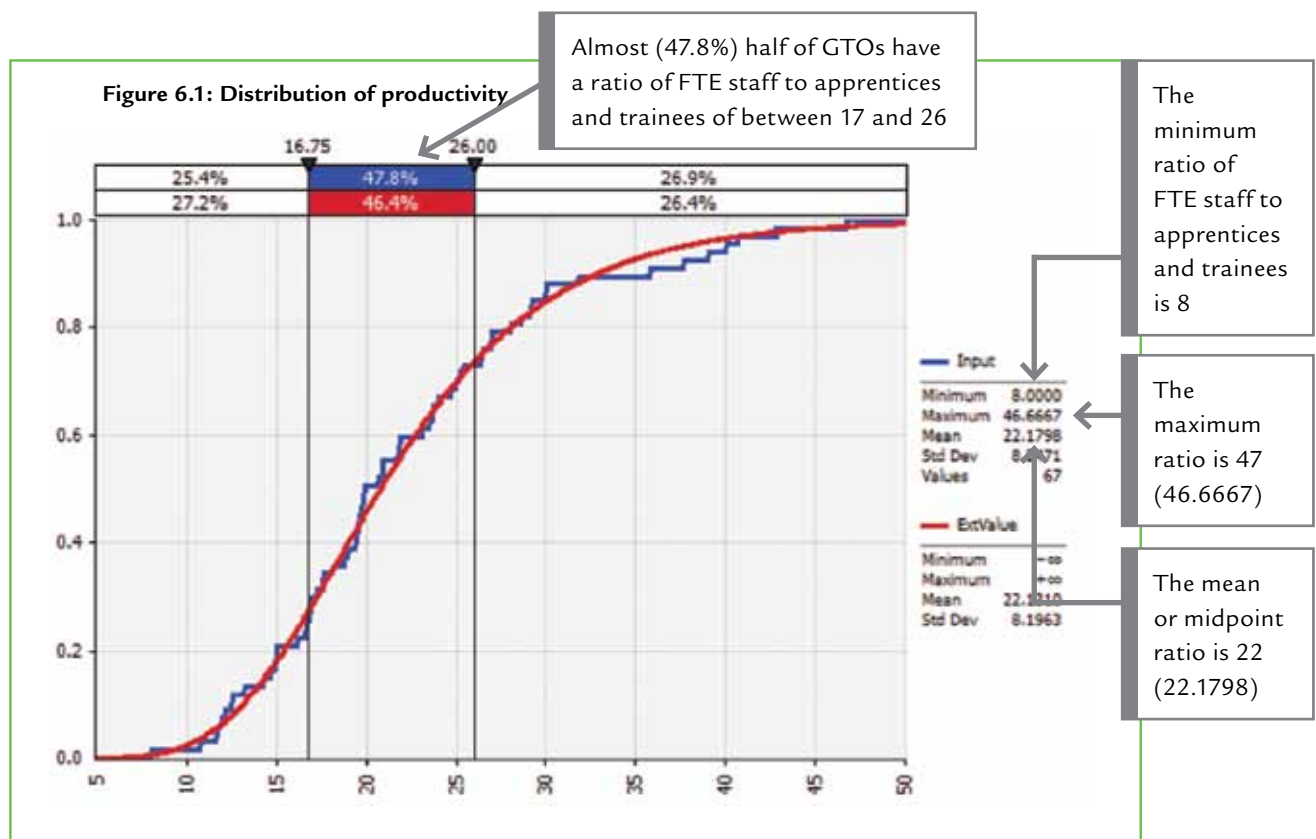
Industry sector data is provided for GTO share, GTO change in share (three year rolling averages) and as a bar chart to illustrate change over time.

POSITIONING YOUR GTO WITHIN THE INDUSTRY

Part C of the Report contains a comprehensive analysis of the industry performance and careful examination of this data will allow you to position your organisation in this analysis (based on knowledge of your own performance). This section uses different statistical approaches to analyse data collected in the 2009 GTO survey undertaken by NIEIR. As a minimum, you will need to know your FTE staffing level (that is all FTE staff associated with your GTO business); the number of apprentices and trainees, and; your effective completion rate for apprentices and trainees.

READING THE GRAPHS

Figure 6.1 (page 48) reproduced below shows the distribution of productivity rates between the 67 GTOs who completed the NIEIR survey in 2009. The figure has been annotated to show how it can be read to learn about where most GTOs sit as well as the highest and lowest performing GTOs on these each measure.



POSITIONING YOUR GTO WITHIN THE INDUSTRY

Using this approach, individual GTOs can position their own performance in terms of productivity (Figure 6.1), completion rates (Figure 6.2), apprentices and trainees per client (Figure 6.5) and so on. Where the graphs are steep, there is a very tight concentration of performance. For instance, Figure 6.5 shows that the distribution of apprentices and trainees per client for more than half of the GTOs surveyed only ranges between 1.6 and 2.6 even though the maximum is 12.

Having positioned your own organisation in the graphs between Figure 6.1 and 6.9 it is worth reviewing the graphs between Figures 6.11 and 6.19 to see how these various factors impact the performance of GTOs. For instance, Figure 6.11 shows that scale does not necessarily improve the productivity of GTOs surveyed for this report.

PEER PERFORMANCE

The Report spends some time evaluating the performance of GTO peers based on their responses to the 2009 survey (chapter 7). Essentially this process involved ranking GTOs based on a set of internal and external drivers (set out on page 68 and 70) of efficiency. The analysis then linked relatively efficient with relatively less efficient counterparts (GTOs that are most alike). The analysis aimed to discover what makes GTOs that share similar characteristics, relatively more efficient. A full description of the findings is set out in Appendix 2 (page 272) and a summary is provided in Table 7.1 (page 69). For confidentiality reasons it is not possible to identify individual GTOs in this analysis.

Subsequent analysis in Chapter 8 ranks GTOs based on two performance indicators; productivity (apprentices and trainees per FTE staff), and; average productivity and completion rates. This analysis then slices the GTOs into quintiles (20 percent) and analyses the characteristics of GTOs in each of the quintile slices. A full report on this analysis is included in Appendix 3 (page 274). The body of the report focuses on an analysis of the top and bottom quintile (page 77 and 78) and the main conclusions from this analysis (page 79).

FORECASTING FUTURE PROSPECTS

Part D of the report (page 92) looks at future markets for apprentices and the prospects for group training in this context.

This analysis will be useful in considering challenges and opportunities for your GTO through to 2020. The scenario used for the employment forecasts is described in Appendix 4 (page 293). The scenario description contains the assumptions that underlie these forecasts. The circumstances on which this scenario was constructed may change over time so it is important to understand this when preparing your business strategy.

The analysis in this section uses the SOR Regions detailed in Appendix 7. The first step in making use of this material is to be clear about the regions and industries your GTO intends to be active in over the next decade. You will need to list SOR Regions relevant to your business and the industry sectors (based on ANZSIC sectors used by the Australian Bureau of Statistics).

REGIONAL SUMMARY TABLES

For regions relevant to your business, it may be worth assembling data from various tables into a summary table such as the one below used in presentations to GTA State associations (the tables from which relevant data has been drawn is shown in the last column):

The first lines shows forecast employment growth for the region (in this case Melbourne Central) drawn from Table 10.1 (page 93); the second shows changes in the

apprentice intensity (ratio of total apprentice weighted employment to total employment) drawn from Table 10.2, and; the last line shows anticipated apprentice commencements for that region drawn from Table 10.3. In the case of employment and commencements, change in the region's share of the national total between 1998 and 2020 are also shown. Assembling the data in this way will allow you to gain a snapshot of the forecasts relevant to your regions. So for the region above, it is anticipated there will be strong growth in both employment and apprentice commencements with the region's share of the national total increasing on both measures. This is despite apprentice intensity falling between 2010 and 2020. This table can be produced for each of the SOR Regions.

If your GTO is interested in particular industries within particular regions, forecasts for employment growth by industry sector by SOR Region are provided in Appendix 5 (page 312). Apprentice intensity and apprentice commencement forecasts are not provided by industry but some interpretation can be applied to the employment figures.

REGIONAL RANKINGS

A summary table ranking regions based on anticipated change in apprentices in training between 2010 and 2020 is available in Table 14.1 (page 124). This shows some regions have strong growth while others will experience negative growth.

Table 1: Melbourne Central Forecasts

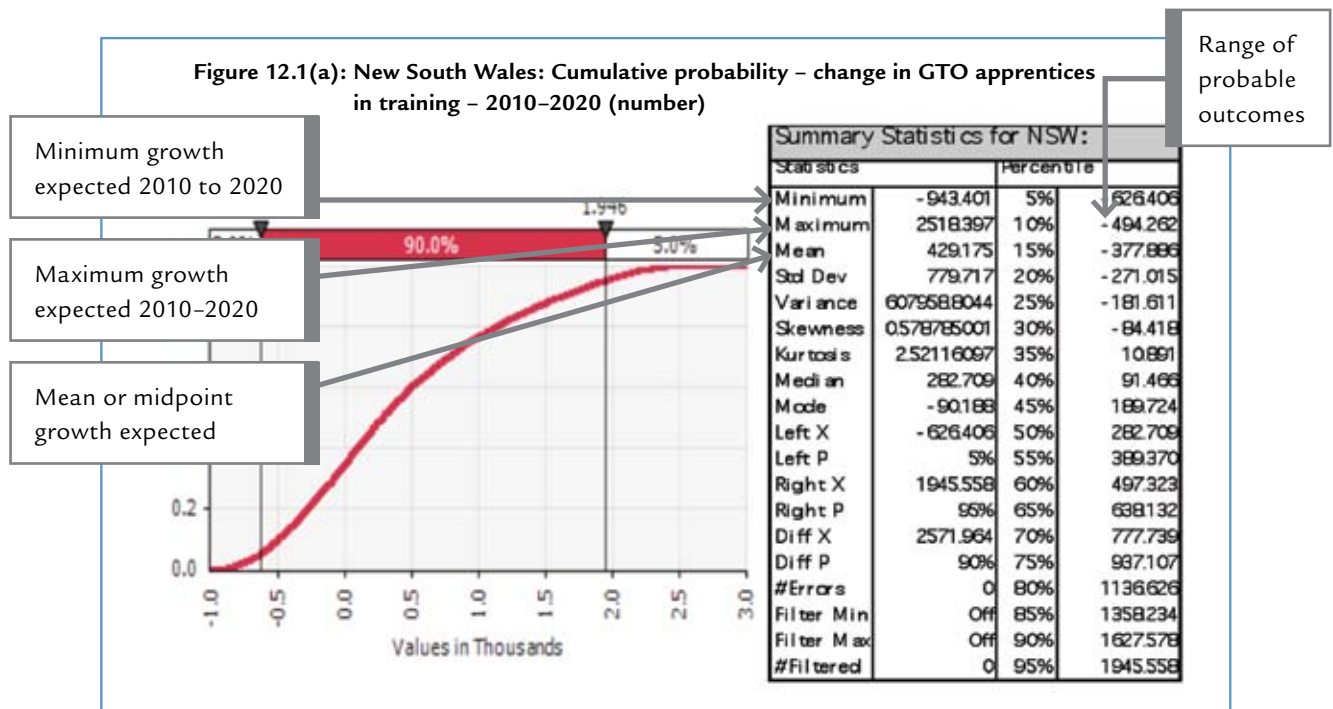
	2006	2010	2015	2020	Share		Table
					1998	2020	
Employment	255,259	285,270	321,197	361,649	2.4	2.6	10.1
Apprentice ratio*	87	97	93	88	2007	2020	10.2
Commencements	4567**	3740	4918	7655	6.0	7.3	10.3

*Base: 1998 = 100 **2007

FORECASTING FUTURE PROSPECTS

GTO GROWTH AND THREATS TO GROWTH

Chapter 12 (page 104) looks at the probability for growth in GTO apprentices in training through to 2020 for each State and Territory (a national total is also provided). This analysis is available for each of the SOR Regions in Appendix 6 (page 369). These graphs can be read as follows:



This section also includes a bar chart showing sources of risk to these projections from two principal areas; macro economic growth and crowding out due to demand for skills generated by the resources industry. This risk varies for each State and Region.

OPTIMISATION ANALYSIS

Chapter 13 provides an optimisation analysis that essentially indicates which regions are likely to be favoured by organic growth and in which regions GTOs will need to find their own growth. This analysis takes from other parts of the report three rules about the performance of GTOs in terms of productivity and completion rates. These are that productivity and completion rates of GTOs will improve when (a) there is slower growth in apprentices in a particular region, (b) the lower the ratio between apprentices in training and unemployed, and (c) the higher the unemployment

rate up to a given threshold. Using these rules, the Report looks to optimise growth across the whole GTO sector by allocating 500 additional field staff to regions where they can have maximum impact. The study finds that optimisation can increase GTO market share but there are winners and others. Table 13.2 (page 119) identifies the winners and others from this optimisation strategy. It means that those regions not 'favoured' by this strategy need to look for other opportunities and approaches for GTOs to increase their market share as they will not be favoured by economic conditions.

REVIEWING YOUR STRATEGIC PLAN

Based on the foregoing, you should now have some detailed information you can use in reviewing your strategic plan. At this point you should review the industry analysis contained in Part B of the **Looking Ahead** report. This will refresh your thoughts about your two main customers (employers and governments) and the thoughts of your peers on threats and opportunities for the industry. Chapter 5 will also provide you with a way of looking at your business in a competitive environment by reviewing industry dynamics, your customers, suppliers, barriers to entry, competitors and substitutes. At this point you should have some clear ideas about the type of business model you are trying to follow; whether you see yourself as a community group, as a regional business, an industry-based operation or as a national corporate entity (whether for profit or not for profit).

Following this, you should turn to Part E. This reviews the main findings of the statistical analysis and builds on the definition of four GTO business models from Part B. It stresses the importance of being clear which business model your GTO is pursuing, as confusion about the business model will lead to confusion about strategy. Of the four strategic steps outlined in Chapter 14 (page 125), two relate to understanding your business model. The next step is to be clear about who your customers are, what services they really value from your organisation and how you can build your relationship with those customers by providing additional services (consistent with your skills and capabilities).

Other steps you will need to consider involve reducing costs by amalgamating services through mergers or cooperation with other GTOs and reviewing the skills available within your organisations to execute a strategy in line with one of the business models. This report

stresses the opportunity for GTOs to progress from being a community service organisation to a full workforce development partner. Not all GTOs will want to follow that path but those that do will need to review their strategy, their management structures and their skills base. Up-skilling and building relevant skills is as important for GTOs as it is for their customers. It will also involve changes in the way you talk about your business and market your services. Although, it is important to remember that the external brand needs to be built on the internal culture and competencies.

SUMMARY ISSUES FROM STATE GTA PRESENTATIONS

The following points summarise issues made in State GTA presentations.

- GTO model has variable strength through the business cycle, from region to region and in different industries
- The future will see changing demand between industries and regions
- Need clarity of business model, targeted strategy, market intelligence
- Bigger is not better without market and staff development
- GTOs have two customers with different needs and expectations
- GTOs need to transition from 'what we do' to 'how can we create value for customers'
- GTOs can move from 'problems' to 'solutions' for government (strong partner)
- All GTOs need to commit to performance measures and better industry data



FURTHER ADVICE AND INFORMATION

NIEIR can provide a tailored presentation to an individual GTO that would form the basis of a half day (or full day if required) strategy discussion with your Board, senior management team or both. That discussion would help craft a medium to longer term strategic plan for the organisation. The presentation could include all or some of the following elements:

- 1 A summary presentation on the *Looking Ahead* report, its key themes, rationale and messages that would set the context for the discussion;
- 2 An analysis of the individual GTO based on information provided by that organisation as part of the quantitative survey of group training organisations in 2009 (assuming the organisation participated), and any subsequent information provided by the GTO. Elements of this component would be;
 - a. An analysis of the business model being employed by that GTO and where NIEIR would see that organisation positioned in terms of the four business models identified in the *Looking Ahead* report.
 - b. An analysis of where the individual GTO stands in relation to (a) its peers (using the peer analysis contained in Chapter 7 of the report) and (b) GTOs generally (using the quintile analysis contained in Chapter 8). This would provide some benchmarking for the organisation in relation to present productivity performance and a range of other factors (scale, unemployment rate, host density, other income, market density, completion rates, industry diversity, geographic focus, completion rates);
- 3 An analysis of the GTO catchment or main catchments at State level in terms of overall performance and, where the GTO operates in selected industries, industry performance (based on Appendix 1)
- 4 An analysis of regional performance for the main regions where the GTO operates explaining employment performance, apprentice commencements and GTO share of apprentice commencements
- 5 A forecast for change in the major regions where the GTO operates in terms of employment, apprentice commencements and the potential for GTOs to grow market share.

This material would be summarised to highlight what NIEIR sees as the main strategic considerations for the GTO. The summary would set up a strategic conversation for the GTO in terms of what sort of GTO the organisation wants to be (business model); what the implications of this decision would be in terms of how the GTO is structured and builds its capacity, the customers it is seeking to serve and what those customers may be seeking from the GTO. It will challenge this strategic vision with what the potential may be in terms of industry and geographic expansion and the opportunities there may be to expand the product or service offer of the organisation.

Cost:

\$5,000 professional fee plus costs
(travel, accommodation if necessary etc) +GST

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APPENDIX 1

EXECUTIVE SUMMARY FROM THE *LOOKING AHEAD* REPORT

Recent reports have highlighted the role of group training organisations (GTOs) as ‘intermediaries’ in the labour market linking employers seeking to develop their skilled labour force with employees seeking careers in skilled occupations. GTOs effectively facilitate this relationship; absorb risk and enhance outcomes for both parties. The National Workforce Development Strategy¹ identified intermediaries including GTOs as ‘brokers of business and skills development’ while the National Resources Sector Employment Taskforce² saw them as ‘facilitators of skills development’. A recent NCVER report on ‘high quality traineeships’ identified the value of GTOs as ‘contributing significantly to the quality of traineeships and critical to safeguarding employer interests while also protecting employees from potential exploitation’³.

These observations come as GTOs struggle with competing demands placed on them and a business model that has inherent limitations. In response, many are transitioning themselves to a broader and more commercial focus to ensure their longer term survival. This transition brings the competing demands into sharper relief. As commercial organisations, GTOs will align themselves with what adds value to the customers who pay for their services (predominantly employers) and reduce or eliminate services that do not have a clear commercial driver (often the services government expects them to provide). Government policy makers expect GTOs to provide superior performance (in terms of promoting Australian Apprenticeships and achieving high completion rates); to work with the more expensive employer segments (SMEs), to deliver labour equity programs, and to provide input to public policy formulation (all services lacking a commercial driver).

Recognising two key customers and reconciling their competing demands is a key first step for GTOs in devising a strategy for the future of group training. At present there is some ambivalence in the attitude of GTOs to government and vice versa. GTOs generally see government income as a very small part of their overall revenue base compared to revenue from employers (less than five per cent) but also (predominantly) see government funding and government policy direction as vital to their future. For (most) policy makers GTOs have a special place due to the sheer number of apprentices and trainees employed but the relationship is moving to a more transactional basis. This follows a pattern identified by the Productivity Commission⁴ in its recent report on the not-for-profit sector⁵. Government is constantly reviewing its payments to GTOs and looking for clearer measures of performance and demonstration of outcomes. It also funds organisations such as Australian Apprenticeships Centres (AACs) that compete with at least some of the services provided by GTOs.

Group training will not only need to respond to the challenging policy environment to define its future, it will need to respond to an ever changing business environment and learn from its experience through the oscillation of the economic cycle.

1 *Australian Workforce Futures: A national workforce development strategy*, Skills Australia, Canberra, 2010.

2 *Resourcing the Future: National Resources Sector Employment Taskforce*, Discussion Paper, Australian Government, Canberra, 2010.

3 *High Quality Traineeships: Identifying What Works*, Smith E, Comyn P, Brennan Kemmis R, Smith A, National Centre for Vocational Education Research (NCVER), Adelaide, 2009.

4 *Contribution of the Not For Profit Sector*, Productivity Commission Research Report, Productivity Commission, Canberra 2010.

5 GTOs include both ‘for profit’ and ‘not for profit’ organisations. Government policy initiatives tend to sit more comfortably with ‘not for profit’ organisations because they tend to not have a strong commercial driver but ‘for profits’ are not excluded (as evidenced by the GTO national registration system and national standards requirements to access government funding).

APPENDIX 1

EXECUTIVE SUMMARY FROM THE *LOOKING AHEAD* REPORT

THE GROUP TRAINING BUSINESS MODEL

Group training as a concept is now 30 years old, this study shows that while it continues to be a very significant employer of apprentices and trainees, it lost market share over the period from 2001 to 2009. This report has identified three factors contributing to this loss of market share:

- strong employment growth over the period undermined the competitiveness of the group training model (group training would appear to be less competitive in a tight market);
- group training didn't respond to the growth in the market for skills training either because it chose not to enter new segments that emerged or it did not have the capacity; and
- group training faced other challenges such as the emergence of Australian Apprenticeships Centres (AACs) promoting lower cost alternatives to employers through direct employment.

Examination of the performance of group training over this eight year period highlights some of the challenges the business model faces and why many GTOs are looking to expand their business base. The analysis found that:

- demand for group training (as measured by group training share of all apprentice commencements) is not uniform through the business cycle and is noticeably less in a tight market for skilled employees;
- demand for group training (same basis as above) is not uniform across regions and is influenced by labour market conditions (demand is lower where there is a high growth in commencements and group training is less successful where there are very high or very low rates of unemployment); and
- demand for group training varies across industries and tends to be strongest in traditional industries such as wholesale trade and transport (and to a lesser extent manufacturing, mining and telecommunications).

Responding to the changing market and business environment, GTOs have adopted a range of approaches or business models ranging from the traditional community service model to a model that sees group training as one service offered by an integrated corporate entity. NIEIR has defined four business model types for group training:

- a community model (reflecting the origins of group training);
- a regional model (regionally-based enterprises);
- an industry model (generally focused on one industry), and;
- a corporate model (national, multi-region, multi-product).

It would be wrong to imply that there is one optimal business model or that one model is right and others wrong. This will depend on the circumstances of the individual organisation (e.g. size, geographic spread, industry spread, purpose etc.). While models may have different levels of performance in terms of operational efficiency and completion rates, one model does not exhibit optimal performance in both.



APPENDIX 1

EXECUTIVE SUMMARY FROM THE *LOOKING AHEAD* REPORT

EVOLVING TOWARD A FUTURE MODEL

In general, there is a move by GTOs toward a more diverse service offer and greater geographic spread. However, responses to the changing business environment are not uniform. One of the objectives of this study was to understand the different responses and to understand the most performance-enhancing approaches to creating a future for group training. To do this NIEIR interrogated statistical data, quantitative survey data, qualitative survey data and NIEIR econometric models. It applied a range of analytical tools to this data. Some of the key findings are as follows.

- In general there is a clear trade off between higher levels of performance in terms of productivity (Australian Apprentices per GTO FTE staff) and completion rates (proportion of Australian Apprentices completing indentured training).
- For GTOs of the same scale and geographic structure, a focus on community objectives (labour market equity programs) can lower productivity by up to 25 per cent and lower completion rates by five to 10 per cent compared to GTOs with narrow commercial objectives.
- Corporate GTOs are over-represented in the best performing GTOs for productivity (Australian apprentices per GTO FTE staff) while regional GTOs are over-represented in the group with the lowest performance for productivity.
- Scale by itself does not lead to superior performance. Large scale GTOs are over-represented among the lowest performing GTOs. Expansion by industry and regions will not succeed unless it is well-resourced with the right people, relationships and resources.
- Industry diversification does not by itself improve performance. In fact, specialisation will in general improve performance.
- For GTOs with the same geographic structure and single industry focus, those that focus on high value trade skills (e.g. construction, mining) have productivity and completion levels of between 15 and 30 per cent higher than GTOs that focus on lower skills (e.g. hospitality).
- Geographic diversity by itself does not improve performance. Given similar scale, GTOs with more geographic diversity will have 25 per cent lower productivity and (potentially) a similar decline in completion rates compared to GTOs that operate in one region.

Current performance of GTOs was analysed by ranking GTOs based on effectiveness (productivity and completion rates) and comparing groups of peer GTOs (similar size, structure, focus) with the best performing GTO in that group. It showed performance could be improved through:

- targeted regional diversification (based, for instance on labour market conditions);
- tighter industry specialisation
- generally (with careful targeting) increasing Australian Apprentices per host employer; and
- diversifying services.

More effective GTOs tend to be distinguished from their less effective peers because they:

- have a strong management culture and clear organisational objectives;
- are optimised in terms of scale and/or regional markets;
- are industry specialists rather than industry generalists;
- have customers in high skill industries (with an appropriate scale of operation); and
- offer a diversity of services to meet customer needs.

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DEFINING A FUTURE FOR GROUP TRAINING

GTOs have a sense of where their future lies. Qualitative survey work with GTOs pointed strongly toward a more integrated service offer (group training plus other skilled employment-related services), demonstrated performance, strong expertise and brand. This is broadly consistent with how employers see the future. They want quality candidates to meet their skill requirements with minimal complexity at a competitive price. They want to work with trusted partners to develop skilled employees. Partnerships will be based on long-term relationships, quality supervision and value for money. While simply stated, delivering on a future for group training will require fundamental changes in how GTOs position themselves in the market, research their markets and customers, staff their organisations, think about the service they offer, manage and lead their organisations and control costs.

The future of group training organisations will be as genuine intermediaries in the labour market offering a suite of workforce development options that generate long-term value for their employer customers. Most will also seek to meet the needs of government customers as valued partners who can be relied on to deliver superior policy outcomes. A first step will be to define the business model that best suits each organisation.



Community business model

Not all GTOs will be the same. The community model will tend to have a close affinity with government policy objectives (labour equity programs) and work in areas that are less commercial making these GTOs more dependent on government support. To win support they will need clear performance measures; not generic measures but measures that demonstrate performance in more challenging markets where completion rates will be lower and costs higher (performance relative to a particular cohort rather than general rates). The strength of this model will be its relationships with employers in the community. But they will need to understand their market and not take it for granted. They will need to look at their costs and could improve efficiency through aggregation or sharing of back office services. They will need to look at their service offer and opportunities to strengthen this through alliances or agreements with third parties.

Corporate business model

Corporate GTOs will by definition work national markets strategically focusing on the most opportune segments with a comprehensive skilled workforce service offer. They will develop high level relationships with senior managers in customer organisations to understand their issues and recommend solutions. The solutions they offer may be group training; outsourced management of apprentices; recruitment; temporary staff or labour hire. They will be able to offer services of an RTO, an AAC, a Human Resource consultant or an agency (recruitment, temp, labour hire). The danger will be a lack of key management competencies, staff capabilities and strategic discipline (to avoid pursuing size for the sake of size or geographic spread for the sake of being national). They will be able to spread costs over a larger range of services but will need to ensure this opportunity results in competitive prices. They will need to put together management and staff teams that deliver a quality service at a competitive price and capture synergies through integration of the service offer rather than simply offering a range of services. The model does not necessarily abandon the community heritage of group training. For instance, an organisation may establish a business unit within its corporate structure to focus on labour equity programs or services for government customers. Tracking and benchmarking performance would be just as important to this model.



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Regional model

Regional GTOs will have elements of both the corporate model and the community model. The challenge here will be the discipline applied to market research and understanding their region as well as the opportunities for growth. Regional GTOs have the highest risk of being stuck in 'no-man's land' particularly if they are in a region with static or shrinking demand for apprentices and trainees. In trying to be 'all things to all people' they risk losing clarity about their customer base, what generates value and (more importantly) what does *not* generate value (either for customers or themselves). They will normally lack size and scale to maintain a competitive cost base, develop a comprehensive service offer, an optimal management structure and staff skills. In attempting to respond to changes in the operating environment they would be prone to making bad choices because they lack capacity to evaluate business options. The factors that give them an advantage in their home markets – relationship with employers – would work against them if they chose to expand to new regions (lack of relationships). For regional GTOs cooperation agreements to share back office services and broaden their product offer will be most important (if not mergers that achieve the same outcomes). They will be highly dependent on the networking opportunities to accelerate learning and adaptation to the changing business environment. Solid market research will be vital to developing their strategy for the future.

Industry model

Industry GTOs have the advantage of good relationships and a clear focus for their business. However, this report shows that some industries are more opportune for group training than others. Even in industries where there is a relatively strong opportunity for group training, relationships built on solid performance will be important (and an affiliation with the relevant industry association). Industry-based GTOs tend to be strongest in construction but have struggled in weaker skill areas such as hospitality. The main opportunity for improvement is through market research to understand customer requirements, lower costs and broaden the service offer to respond to market opportunities.

The risk for industry-based GTOs will be failing to demonstrate clear performance to customers; for other organisations in the industry (labour hire firms) to expand into group training or; to fail to secure customer relationships (creating an opportunity for competitors).

There are a number of issues that apply regardless of the business model selected. These include the following.

Performance measures

This report has stressed the need to develop a more solid basis for measuring and evaluating performance of GTOs. This will be necessary for negotiations with government. It will also be necessary as a driver for improved performance. Corporate GTOs will need to track performance relative to their peers. As well, regional GTOs will need to understand performance within their market and their market relative to others. Similarly industry GTOs will need to look at performance within their industry and their industry relative to other industries. The present level of performance tracking within the industry should be a major concern to participants.

Positioning in the market

A major handicap identified in this report is the external perception of group training (communicating the value proposition to customers) and the internal perception (many GTOs are locked into the concept of group training rather than understanding the service they offer). Group training describes a way of operating (a railway) rather than what it does (transport). GTOs need to focus on the services they provide to customers (and how that relates to what creates value for them) rather than communicating a concept. The precise words would need to be the subject of a separate exercise but essentially GTOs offer workforce development solutions to employers and a policy delivery platform to government. Emphasising service delivery has the potential to liberate thinking within GTOs and the group training movement generally and focus on customer needs.

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Market research

There is a concerning lack of market research. Scenarios forecasting demand through to 2020 developed for this report shows there are major problems on the horizon for GTOs in a number of key markets. In many parts of Australia demand for apprentices will be static or fall over the next 10 years while in other areas it will grow strongly. In some industries, there will be little growth while in others there will be strong growth. Some industries are more accustomed to working with group training and are therefore more prospective, others are not. GTOs need to understand their customer needs and develop the internal competence to respond to those needs.

People and competencies

This report notes that one reason group training lost market share was because it failed to respond to growth in the apprentice market over the past eight years. One reason was that group training did not have the capacity to respond to this market shift. GTOs will need to fundamentally rethink and rebuild their organisations around a service delivery role. Current staff competencies contribute to locking GTOs into the existing model. A limited range of competencies limits the ability of GTOs to respond to a shift in the market or seek new opportunities. Few GTOs have a marketing or market development function. Few have staff with the capacity to develop successful workforce development strategies for their customers. At least one has experimented with hiring different (more expensive) personnel and seen rewards from this. There is a tendency, perhaps stemming from the community foundation of GTOs, to work with lower paid staff with generally excellent interpersonal skills but limited professional competencies in, for instance, Human Resource strategies.

Management and leadership

People issues in GTOs go to the top in many cases with Boards that reflect solid community foundations but a limited range of professional competencies and senior staff who are often drawn from within the industry and whose thinking may be locked into the existing business model. One area for improvement identified in this report is strategic financial management. GTOs need to be able to track, benchmark and improve their performance and understand the impact different drivers have on their operations such as scale, employer (customer) characteristics, market characteristics (size, growth, and unemployment rates), economic conditions, internal skill and competency needs. GTOs will need skills in market research, marketing, mergers, acquisitions, alliances and product development. CEOs will need to think holistically and strategically but also understand the financial drivers of their business so 'babies are not thrown out with bathwater'.

RELATIONS WITH GOVERNMENT

Government will continue to be a key relationship for group training. It will set the policy environment in which GTOs operate and develop its own workforce development strategies. GTOs have the option to work with government policy makers as partners, helping them realise their policy goals, or move to an increasingly transactional relationship. To accept the offer of a partnership however will require GTOs to work with government on solutions rather than just present problems for policy makers to solve. They will need to accept that Government, like other customers, are interested in outcomes rather than the group training model for its own sake.



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Part of the solution policy makers are looking for can be solved by developing enhanced performance measures for group training organisations. As long as policy makers can only see general across-the-board performance measures, GTOs who take on high cost and lower performance elements of skills development (such as labour equity programs, working with SMEs, retaining ‘out of trade’ apprentices etc.) will have trouble communicating their performance and policy makers – no matter how supportive – will have trouble arguing for ongoing support with Treasury and Finance officials. On the other hand, Government needs to be clear it is asking GTOs to provide services that do not have a commercial driver and needs to recognise (and it largely does) that these services provide a public good that needs to be paid for.

Working with government as partners will assist GTOs gain recognition for issues they see as problems such as building the flow of people into apprenticeships and traineeships without adequate reference to the type of people moving into these trades and occupations. A number of GTOs have made the point that simply ‘growing the size of the pipe’ channelling people into Australian Apprenticeships does not ensure an improved skills outcome for industry. Ensuring programs are effectively targeted is an area where GTOs and government can become very effective partners. This partnership will not be effective however if GTOs are seen simply as protectors of the status quo as appears to be the case in the current debate over competency-based training.

To make this relationship work, GTOs will need to be flexible and take a broad perspective on workforce development (as opposed to group training). Equally, there are issues that Government will need to address and this report highlights government funding for AACs as an issue that requires resolution. It would appear to be inconsistent with Government commitment to competitive neutrality that organisations funded by Government are competing with GTOs in the provision of certain services (at no cost to employers) when GTOs need to charge for these services.

GROUP TRAINING AUSTRALIA

Group Training Australia (GTA) will have a key role in driving this agenda forward and providing the leadership required to steward GTOs through a process of evolution and change. It will be important that GTA approaches the task constructively and inclusively creating opportunities for individual GTOs to change. There are tasks that GTA will have to lead such as the development of the brand that represents the service offer being provided, development of performance measures, skills development, the industry’s own workforce development strategy and creating opportunities for alliances and other forms of joint and cooperative action between GTOs that can reduce costs and enhance the service offer of GTOs. In short, GTA will need both the capacity and the mandate to provide leadership to the process of evolving the future of group training.

APPENDIX 2

KEY MESSAGES FROM THE *LOOKING AHEAD* REPORT

- 1** Group training is currently caught between competing demands of different customers (employers and governments) that are reflected in different GTO priorities. Some see their first obligation as community service while others see their first obligation as strong commercially viable intermediaries in the workforce. These objectives are not mutually exclusive but need to be recognised as separate and competing demands on GTOs; the ‘two customers’ approach.
- 2** The difficulty of reconciling these different demands of GTOs is highlighted by the observation that there is a trade-off between GTO commercial and community objectives. For GTOs of the same scale and geographic structure, a focus on community objectives can lower productivity (Australian Apprentices per GTO FTE staff) by up to 25 percent and completion rates (proportion of Australian Apprentices completing indentured training) by five to 10 per cent.
- 3** The competitiveness of group training with other forms of employment (e.g. direct employment) is not the same through the business cycle (it is less competitive in a tight market). Group training is not equally competitive across regions (demand is lower where there is high growth in commencements and is less successful where there are very high or very low rates of unemployment). Nor is it equal across industries (more successful in traditional industries such as wholesale trade and transport).
- 4** Four group training business models have been identified; community, corporate, regional and industry models. The report does not show that one model is better than others. The appropriateness of each model will depend on the circumstances of each GTO. However, for GTOs to optimise their performance, they need to be clear which model they are pursuing.
- 5** Growing size and scale, increasing geographic or industry diversity will not by themselves strengthen GTOs. Growth in size and scale needs to be well resourced with the right people, relationships and resources. Geographic diversification needs to be carefully targeted and, generally, industry specialisation will be more successful than industry diversity. GTOs in industries with higher value trade skills will be more successful than those in industries with lower value skills.
- 6** The future of group training will be as a genuine intermediary in the labour market offering a suite of workforce development options that generate long-term value for employer customers at competitive costs. Most will seek to meet the needs of government customers as valued partners in policy development who can deliver superior policy outcomes.
- 7** A major impediment to GTOs achieving this future is a focus on the mechanism (group training) rather than the service (workforce development). Emphasising service delivery to identified customers has the potential to liberate thinking within GTOs and the group training movement generally. It will allow GTOs to think broadly about the value they create for employers and developing broad-based long-term partnerships.
- 8** Delivering the future for group training will require fundamental changes to how GTOs position themselves in the market (their brand) and the service they offer. It will require comprehensive market research of customers (by industry and region); development of staff competencies and appropriate structures, and; managers who will lead GTOs through a period of change, negotiate shared service agreements or mergers, understand markets, innovate and tightly control costs.





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