Business Process Outsourcing - Pros and Cons

April 2005 - Josh Bersin

Everywhere you go, people are talking about outsourcing. A recent statistic projected that the market for training outsourcing alone will grow to $20 billion over the next few years. What is the real story? Last summer, Bersin & Associates performed an extensive study, "The Economics of Outsourcing Training Technology and Operations," and found several important trends. Outsourcing is having a major impact on e-learning and the technology side of training. Several new business models bring tremendous resource and cost savings for learning organizations. However, the study also found that the market for business process outsourcing (BPO), the traditional type of outsourcing, is still immature. What does outsourcing mean to learning and development? Is outsourcing something your organization should consider? There are pros and cons to consider before determining if this business option makes sense for your organization.

What Is Outsourcing?
Outsourcing is not new in learning and development. In fact, training is one of the industries where outsourcing has been popular for years. Most learning organizations are relatively small groups of people who are expected to be experts in a wide variety of topics, skills and procedures. Well-run training organizations have always outsourced content development, a wide variety of learning programs, management and executive education, and many functional tasks, such as production of books, training materials, videos and CD-ROMs.

Today, the term "outsourcing" really means three things. First, it refers to the traditional use of vendor services described above. Second, it refers to the outsourcing of training technology: learning management systems (LMSs), e-learning content development, content integration and the hosting of complex LMS and learning content management system (LCMS) software. Last, the term refers to the outsourcing of business processes, also called business process outsourcing (BPO). This area includes the outsourcing of help desks, vendor management, classroom administration and the training personnel themselves.

Research shows that approximately 40 percent to 60 percent of learning organizations fall into the first category of outsourcing—the traditional use of outside vendors for content development and other related tasks. Research suggests that this number will hold steady in the future. The area of huge growth is the outsourcing of training technology. In the study, 47 percent of companies surveyed use hosted LMS services, and 70 percent used hosted services for other learning technologies, such as virtual classroom, content management or collaboration. Far fewer companies do true business process outsourcing.

Why these trends? Training technology is dauntingly complex. LMSs, e-learning content, content management, development tools, assessment tools, simulations, virtual classroom tools and integration with internal HR and financial systems are far more complex than many other enterprise technologies today. Most learning organizations are starved for technical resources. IT organizations usually serve training last, and the few training technologists available are often spread quite thin.

Learning technology is changing rapidly. Nearly one-third of the LMS vendors in the market three years ago have gone out of business. Why? Because the rapid rate of change in learning technology makes it hard for even seasoned technologists to keep up. How can a small or medium-sized training organization expect to stay current and fresh?

Although business process outsourcing makes sense for business functions such as IT and HR, it is difficult to deliver for training. Learning is an inherently decentralized operation. Most companies do not truly know how much they spend on training across the enterprise. The

process varies widely from group to group and company to company. Outsourcers make money by becoming efficient at repeatable processes. When you look across a large learning organization, often 70 percent or more of the programs that are developed are customized and unique to that organization. The only way an outsourcer can reduce costs is by taking this customized solution and making it more generic and repeatable—something that may reduce quality. This is not to say that BPO will not grow. However, research shows that it is growing slowly and will not take over learning the way many others predict.

Outsourcing Saves Money
The economic benefits of outsourcing are real and significant. Outsourcing LMS technology and operations reduces costs in three areas:

- **Implementation costs:** Outsourcing companies save time and money by leveraging the outsourcer's IT investments and professional expertise. Implementations are simplified and streamlined because configuration options and customization options are typically limited. Research shows that in the first year of LMS implementation, companies implementing their own LMSs spent an average of $392 per learner. Those using a hosted LMS spent an average of $328 per learner—a 16 percent savings.
- **Operational costs:** Companies that manage their own LMSs spend more than twice as much per learner annually in LMS maintenance and upgrades than those companies using outsourced LMSs. The dramatic cost savings are largely based on LMS outsourcers' ability to pass on economies of scale and efficiencies of centralization to their customers.
- **Reduction in technical staff:** Those companies that manage their own technology typically have a dedicated technical staff—a big cost with no training benefits. The research shows that companies that use outsourced technology platforms are able to reduce their technical staffs by almost half, compared to companies with internally managed systems.

Why are these savings taking place? Technology outsourcers (application service providers and managed service providers) have developed excellent economies of scale. Providers become experts at implementation, configuration, customization and operation of an LMS. They integrate content only once and can share that technology integration across dozens to hundreds of clients. They offer "standard" customizations, which are then used by many clients and can be implemented in minutes, while customizations in companies running their own LMSs can take months. Once they have integrated with a particular vendor's HR system, providers can easily integrate again. Examples of companies that deliver such savings include GeoLearning, Learn.com, General Physics, Intellinex and KnowledgePlanet.

Outsourcing Frees Valuable Staff Resources
Companies that outsource also realize measurable benefits in other areas of training, even if outsourcing is limited to technology functions. The research shows that companies that outsource spend, on average, 31 percent less per learner and have a 26 percent lower staff-per-learner ratio. They also have 30 percent to 40 percent smaller program staffs and 25 percent smaller administrative staffs. In addition to generally running tighter ships, companies that outsource often have the option of offloading registration, help-desk support and reporting functions.

One of the most interesting aspects of the study compared the differences in staff allocations between companies that outsourced and those that did not. In addition to having smaller administrative, technical and support staffs, companies that outsource devoted 28 percent of their training staff to content development, compared to 17 percent in non-outsourcing companies. This means that these outsourcers can focus on more strategic activities: building and delivering the right content to meet their immediate business need.

Outsourcing Increases Business Effectiveness
Does outsourcing impact business? Bersin & Associates asked companies how well they rate themselves in delivering learning that impacts the business. The findings were surprising: Companies that outsource are 18 percent more likely to rate their learning as extremely effective than those that run all of their learning programs and technology internally. This confidence indicates that companies that outsource focus more on training programs tied to business impact. Consequently, the training organizations feel closer to the business.

Conversely, companies that do not outsource are more likely to rate their training as not very effective (one out of 12 non-outsourcing companies gave themselves this rating, compared to one out of 33 outsourcers). This result shows that companies that do not outsource suffer from some amount of frustration with administrative and technical operations that precludes laser focus on learning that drives business value.

Outsourcing Facilitates Reallocation of Resources
When training managers and other executives were asked how they spend time saved in outsourcing, they responded:

- Focus more on strategic planning with line managers.
- Spend more time on measurements and analytics.
- Spend more time planning and budgeting.
- Work with line managers to better understand training needs.
- Evaluate new technologies and approaches for greater efficiency and effectiveness.

Notice that all of these areas are strategic and put the learning organization closer to the business. The more back-office functions that can be offloaded, the more effective the learning organization can be.

Business Process Outsourcing Is Still New
While most companies are comfortable deciding to use outside trainers or content developers, outsourcing of the entire learning and development function is still a new approach and one that is unfamiliar to many learning professionals. Moving from a training model that is completely managed in-house to one that involves dependence on one or more vendors is indeed a big leap.

The biggest perceived benefit of BPO is the ability to turn a fixed cost into a variable one. When the demand for training is low, you can "turn off the spigot," and unneeded resources disappear from the company's bottom line. When demand returns—or even increases—theoretically, you can "turn on the spigot" to get the resources now required.

Boeing is one example of a company that finds this to be an attractive approach. The downside of this model is that the outsourcer typically needs some kind of revenue guarantee to accommodate this flexibility. Thus, while overall costs may be lower, they are not fully flexible. For instance, Boeing must guarantee a certain number of hours of training to its external provider.

One major issue drives BPO: financial stress. When companies have a tremendous need to cut costs, outsourcing is often used as a way to dramatically reduce the total expenditure on learning. This is not necessarily a strategic benefit—it is often a desperate move to reduce expenditures as quickly as possible.

Decentralized Budgets Are a Challenge
One challenge to outsourcing is the decentralized nature of training. Outsourcing is easiest when learning is centralized and a single organization controls most of the resources and decision-making power. Getting multiple groups to agree on outsourcing-related decisions can be an obstacle. Often, outsourcing proposals also are viewed as a test to autonomy and control.

Business units are sometimes reluctant to support initiatives that, in the long run, might lessen their autonomy and cause them to lose staff—especially individuals who are experts in their unique training requirements.

In addition, finding the necessary budget for outsourcing can be a challenge for organizations with decentralized learning functions with dispersed budgets. Many companies don't know how much they're spending on training or even where it is being spent. Finding and centralizing the money to fund outsourcing initiatives can be extremely difficult, even if various departments agree that outsourcing would be for the greater good of the organization.

Outsourcing May Limit Technical Flexibility
One factor that often limits technology outsourcing is technical flexibility. Large enterprises typically require tight LMS integration with HR, financial and IT systems. In many cases, integration capabilities drive the entire LMS decision. A hosted solution may not offer the same customization flexibility as one that is managed internally. Flexibility in other technical functions, such as customized reporting, also may be limited. Companies that use hosted LMSs and other technologies typically must follow the upgrade cycle of their LMS provider and may have to wait to get the features and functions they need. However, companies should keep in mind that as LMSs become more customized, they also become more costly. The projected costs for implementing and maintaining customization should be considered in tandem with the cost benefits of outsourcing.

Weigh the Pros and Cons
While outsourcing isn't right for every organization, it is an option that should be considered and evaluated by managers on a periodic basis. Studies show significant cost and strategic benefits, including:

- Reallocation of staff for concentrated focus on content development and program management.
- Enabling learning executives and staff to spend more time with line managers and field operations.
- Freeing resources for measurement, evaluation and overall operational and quality improvement in training programs.
- Greater flexibility and responsiveness to meet business demands.

In general, those organizations that outsource report high levels of satisfaction within their staffs and from the clients they serve. These organizations also take a highly pragmatic, business-driven approach to the learning function. Outsourcing is a trend that will continue to grow, especially the outsourcing of technology. Increasingly complex solutions, integration initiatives, budget and staff constraints, and the demand for diverse training resources are among the factors that will fuel the trend.

However, the research does not support the belief that the outsourcing of business processes will dramatically increase at this time. Unlike HR and IT, areas that lend themselves well to outsourcing since the needs and functions are consistent across most organizations, much learning is unique. While technologies and basic skill requirements are similar for all organizations, business-specific strategies and training processes can differ widely.

Companies need to consider outsourcing as part of the regular planning and budgeting process. When used under the right conditions, outsourcing can have near-term value to learning organizations and the clients they serve. Even if outsourcing is not appropriate for your organization, the diligence you've shown will help you make smarter decisions.