

INDUSTRY DEVELOPMENTS AND MODELS

Training and Development: Fertile Ground for BPO

Michael Brennan

Anna Danilenko

IDC OPINION

Learning business process outsourcing (BPO) is in the very early stages of adoption. In the near term, IDC believes that many large organizations will shift their buying patterns from discrete outsourcing of individual learning and development processes toward more comprehensive BPO as buyers of other HR services have. As the demand for HR BPO services bleeds into the training and development function, customer needs and preferences and the competitive landscape will rapidly evolve. Although different scenarios for learning BPO exist, IDC believes that over the next three to five years most relationships will be limited, as discussed below:

- ☒ Motivated by cost savings, learning BPO services in most cases will be limited to outsourcing of back-office learning operations, such as learning administration, transaction processing, learner and technical help desk, and hosting services for learning infrastructure and content.
- ☒ Learning BPO services will be sold on a standalone basis, as part of IT outsourcing contracts, or bundled with HR outsourcing engagements.
- ☒ The competitive landscape, like the market for learning BPO services itself, is far from established. IT outsourcers may take a leadership role; however, specialized learning outsourcers and HR BPO providers should also establish a solid presence in the market.

TABLE OF CONTENTS

	P
In This Study	1
Executive Summary	1
Situation Overview	5
Introduction	5
Current Industry Dynamics.....	7
Learning BPO Competitive Landscape and Vendor Profiles	14
Future Outlook	24
Scenarios	24
Essential Guidance	28
Actions to Consider	28
Learn More	29
Related Research	29

LIST OF TABLES

P

1	Drivers and Inhibitors of Learning BPO Adoption	2
2	Typical Learning BPO Deal Structure, 2002	17
3	Future Outlook for LBPO Services: Select and Total Scenarios for 2003–2004	25

LIST OF FIGURES

	P
1 Worldwide BPO Revenue by Select Corporate Function, 2002.....	6
2 Opportunity Areas for Learning Vendors	8
3 Business Functions Open to Outsourcing to a Service Provider	10
4 LMS Hosting, 2001 and 2002	11
5 Learning BPO Competitive Landscape.....	15

IN THIS STUDY

EXECUTIVE SUMMARY

Learning business process outsourcing (BPO) is in the very early stages of adoption. The term *learning BPO* refers to the transfer of management and execution of one or more complete ongoing learning processes or the entire training function to an external services provider. IDC has recently detected increased interest among a wide variety of services firms, from pure outsourcers to consultants to pure-play learning firms, in the training and development function as a BPO opportunity.

What do organizations want from their training and development functions? They want them to do more with fewer resources. There has been a move to tie employee learning more closely to business objectives (e.g., quicker penetration of new products, regulatory compliance, customer retention) and with other areas of workforce development such as performance management and staffing. Many chief learning officers (CLOs) and VPs of training and HR at Global 2000 organizations believe that the optimization of their talent necessitates a state-of-the-art technology platform that facilitates blended learning delivery, learner and content management, and centralization of third-party purchases. Many also believe that those responsible for training and development should adopt the customer-focused, bottom-line mindset of the business unit managers whom they support. The question remains, How much of a role will third-party vendors play in such a transformation?

In the near term, IDC believes that many large organizations will shift their buying patterns from discrete outsourcing of individual learning and development processes toward more comprehensive BPO as buyers of other HR services have. Both the drivers and inhibitors of this expected trend are listed in Table 1.

TABLE 1

DRIVERS AND INHIBITORS OF LEARNING BPO ADOPTION

Drivers	Inhibitors
There is a desire for standardization of training practices.	The jobs of influencers and decision makers may be at stake.
Economies of scale are attractive.	Custom and proprietary training programs are often the responsibility of autonomous business unit heads scattered throughout the organization.
There is a desire to turn fixed costs, including capital investments in IT infrastructure, into variable costs.	It may be too difficult to establish performance benchmarks for the outsourcer.
Integration of other outsourced workforce management processes related to learning can occur.	Employee training and development is considered to be a proprietary and competitive advantage by many.
It is necessary to more effectively track costs.	There is a lack of learning BPO success stories.
Training is not a core competency for many organizations.	
There is a lack of expertise related to learning technologies.	
Buyers are confused by the vendor landscape.	

Source: IDC, 2003

The competitive landscape for learning BPO services consists of four vendor types:

- BPO/processing services firms, such as Convergys and Exult
- Large IT outsourcers and integrators, such as IBM and Hewlett-Packard (HP)
- Firms specializing in learning with outsourcing capabilities, such as General Physics, KnowledgePlanet, and Intellinex
- Independent consultancies, such as Accenture

Each type brings with it unique strengths, weaknesses, and opportunities for partnership. Although the number of current learning BPO deals in the marketplace is small, IDC findings indicate that the approach toward the client varies greatly by the type of vendor selling the relationship (e.g., specialized learning firm versus a systems integrator or a BPO/processing service firm):

- BPO/processing services firms commonly provide learning outsourcing as part of HR outsourcing contracts. Their focus is on outsourcing high-volume, transactional processes associated with learning administration using a learning management system (LMS) backbone and on negotiating with third-party training vendors on behalf of their clients.

- ☒ Specialized learning firms provide learning BPO services on a standalone basis or as a subcontractor to an HR outsourcer. Their focus is similar to BPO firms, although they will also take on instructional design and delivery along with client staff.
- ☒ Independent consultancies and systems integrators are outsourcing varying amounts of learning processes on behalf of their clients. They have outsourced learning processes as a follow-on to a consulting engagement and, in a select number of cases, outsourced clients' entire training functions.

As the demand for HR BPO services bleeds into the training and development function, customer needs and preferences and the competitive landscape will rapidly evolve. At this time, various flavors of BPO exist in the corporate learning services market. IDC believes over the next several years learning outsourcing will unfold in one of two ways for large and midsize organizations that choose to offload the ongoing management and execution of training and development services to external parties. IDC predicts that the two scenarios will play out in tandem but that scenario 1, which is more limited in scope, will occur much more frequently for the next three to five years.

IDC predicts that the two scenarios will play out in tandem but that scenario 1, which is more limited in scope, will occur much more frequently for the next three to five years.

SCENARIO 1: SELECT LEARNING BPO

- ☒ **Scope.** In the select learning BPO (LBPO) scenario, the client's main objective for outsourcing select learning functions is cost reduction. Most learning activities will remain in the hands of end users' internal training departments, which will remain in tact for the most part. Learning BPO services in most cases will be limited to outsourcing of back-office learning operations, such as learning administration, transaction processing, learner and technical help desk, and hosting services for learning infrastructure and content. This is true of the vast majority of learning BPO relationships that have been established to date. Potential risks and benefits associated with these deals will be limited.
- ☒ **Approach.** The select LBPO scenario will have a slight effect on the vendor landscape. In the select scenario, learning BPO services will be sold primarily as part of IT outsourcing contracts or on a standalone basis. In many cases, learning BPO services will be bundled with HR outsourcing engagements.
- ☒ **Vendor landscape.** In this scenario, the playing field will be much more level for vendors of different sizes. IT outsourcers may take a leadership role; however, specialized learning outsourcers and HR BPO providers should also establish a solid presence in the market.

SCENARIO 2: TOTAL LEARNING BPO

- ☒ **Scope.** In the total learning BPO scenario, corporate clients will outsource most learning processes, if not their entire training and development functions. In addition to cost savings, the objectives will include business-related goals such as faster time to market for new products and employee satisfaction. All three components of BPO engagements — people, process, and technology — will be notably involved in the total scenario. Most decision making and much of the client's internal training staff would shift to the outsourcer.
- ☒ **Approach.** In this scenario, vendors may outsource learning on a standalone basis or take on training as part of broader HR outsourcing engagements or business transformational deals.
- ☒ **Vendor landscape.** This scenario would have more significant implications for the competitive landscape in comparison to the select scenario. In the unlikely

Such deals would drastically change the way learning services are bought, sold, and delivered.

event that this scenario dominates, it would provide large consultancies and IT services firms with a strong competitive advantage and weaken learning BPO specialists' position in the marketplace. There would be merger and acquisition activity among vendors as large BPO and business transformational outsourcing (BTO) players look to fill the gaps in their service offerings. The vendors that would dominate are EDS, IBM Global Services, and Accenture.

Vendors that wish to change the way their clients create, deliver, and manage learning should consider the following actions:

- ☒ **Monitor the market.** The jury is still out as to what the demand is for learning outsourcing. For the short term, vendors should focus on offering business process support, as opposed to execution, to build up trust of the outsourcing concept with their clients.
- ☒ **Build fully integrated total solutions.** Presence of the following array of functional expertise is needed in-house or through partnership, depending on the vendor's approach: business consulting, IT consulting, business function expertise, project management, systems integration, outsourcing, training, processing services, and application management services.
- ☒ **Provide short-term cost savings/ROI justifications.** In the current economic and competitive environment, vendors will be hard pressed to sign a large deal without them.
- ☒ **Partner with clients as much as possible.** Partnerships should entail common financial goals, risk- and gain-sharing arrangements, joint go-to-market or business expansion strategies, and coinvestments in new initiatives.
- ☒ **Develop higher-value strategic service offerings.** This is an important capability for vendors aiming to provide a comprehensive learning BPO offering and transformational outsourcing service. In addition, this is an important competitive differentiator that helps counteract commoditization and price erosion.
- ☒ **Strengthen capabilities along the HR value chain.** Learning is only part of employee management and should be integrated with other areas of HR that are increasingly being outsourced.
- ☒ **Gain access to content.** A sound network of classroom- and technology-based training providers is important to any learning outsourcer.
- ☒ **Build up learning utilities.** It is apparent that customers buy into the business service provider (BSP) model for learning administration and content delivery.

SITUATION OVERVIEW

INTRODUCTION

Although business process outsourcing offerings have existed for well over a decade now, there is a renewed interest in such services. For organizational buyers, cost savings is the most common reason for outsourcing in tough economic times. However, corporations also consider strategic business objectives when buying outsourcing services. Today, these objectives include the ability to focus on core competencies, keep abreast of new technologies, and increasingly transform the way they do business by unlocking new sources of value.

MARKET DEFINITION

IDC defines *business process outsourcing* as the transfer of management and execution of one or more complete business processes or entire business functions to an external services provider. The BPO vendor is part of the decision-making structure surrounding the outsourced business process or functional area, and performance metrics are primarily tied to cost savings, customer service, and strategic business value. Strategic business value is recognized through results such as increased productivity, new business opportunities, new revenue generation, cost reduction, business transformation, the improvement of shareholders' value, or all of these.

IDC defines *business process outsourcing* as the transfer of management and execution of one or more complete business processes or entire business functions to an external services provider.

BPO services can be distinguished from another category of business services known as processing services in that processing services do the following:

- Involve individual activities or single business processes that tend to be high volume and automated
- Have performance metrics that are primarily tied to accuracy, timeliness, and efficiency of high-volume service capabilities
- Are typically standardized and involve little or no customization

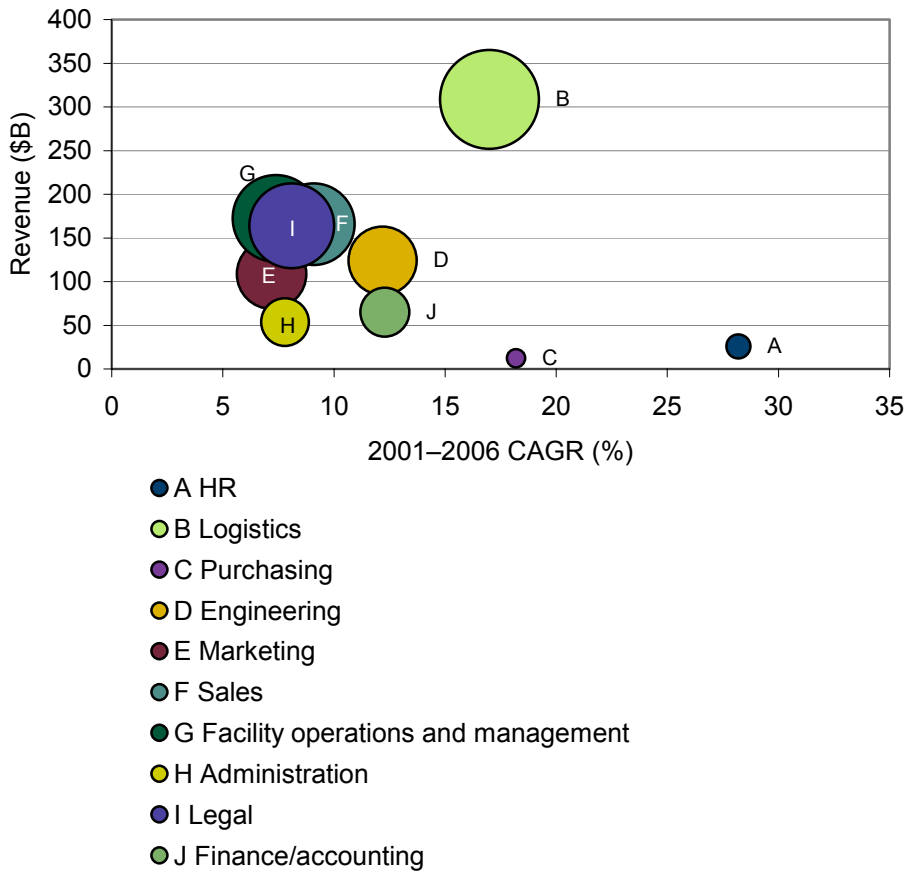
Learning business process outsourcing refers to the transfer of management and execution of one or more complete ongoing learning processes or the entire training function to an external services provider. Learning processes that may be outsourced include learning plan development, course development, and learning administration.

A PRIMER: MARKET OPPORTUNITIES OUTSIDE LEARNING

Figure 1 indicates that the size, projected growth, and maturity level of the BPO opportunity varies widely by corporate function. Logistics BPO is the largest and a fast-growing market that is predicted to increase at a five-year compound annual growth rate (CAGR) of 17%. The HR outsourcing space is the fastest-growing, albeit the second-smallest, BPO opportunity. It is expected to increase at 28.2% CAGR between 2001 and 2006. IDC analysis reveals that the most mature corporate functions with regard to the BPO market are marketing, facility operations management, and administration. For more information on BPO market sizing and a forecast by corporate function, please refer to *Worldwide Business Process Outsourcing Forecast and Analysis, 2002–2006* (IDC #27504, July 2002).

FIGURE 1

WORLDWIDE BPO REVENUE BY SELECT CORPORATE FUNCTION, 2002



Source: IDC, 2003

The number of business functions that corporations across various industry sectors now consider outsourcing is increasing as business and IT executives look for new ways to cut cost and unlock value within their enterprises.

EMERGENCE OF LEARNING BPO MARKET

Considering that market dynamics and business opportunities vary significantly by corporate function, a large number of BPO vendors are looking to diversify their BPO offerings by extending services to newer, faster-growing outsourcing opportunities. Not surprisingly, IDC has recently detected increased interest in the training and development function as a BPO opportunity among a wide variety of services firms, from pure outsourcers to consultants to pure-play learning firms. Vendors that we spoke to when putting together this study indicated that their learning BPO pipelines and client bases are both growing. The remainder of this document examines the drivers and inhibitors of learning BPO as a trend and examines vendor approaches to growing their learning products and services businesses through outsourcing engagements.

CURRENT INDUSTRY DYNAMICS

What do organizations want from their training and development functions? They want them to do more with fewer resources. An onslaught of IT investments and an economic downturn have recently led to corporate training functions being scrutinized more closely by senior management and the business units they are intended to support. Both parties need to be convinced that employee training and development efforts result in positive movement of key performance indicators. Thus, there has been a move to tie employee learning more closely to business objectives (e.g., quicker penetration of new products, regulatory compliance, customer retention) and with other areas of workforce development such as performance management and staffing. Such integration holds the promise of an improved experience for employees as well as operational efficiency and workforce competence for their employers and shareholders. Without it, a breakdown at a large organization may result in setbacks in operational efficiency and employee morale. For example, a manager may have trouble filling a position due to a hiring freeze despite the fact that qualified candidates in the same organization are being let go (unbeknownst to him or her).

Before training and development's integration with other elements of workforce management can take place, enterprises often need to procure infrastructure such as LMSs. For many organizations, a lack of IT resources committed to the training function results in low visibility for management as to where and how training and development money is spent and, in some cases, poor quality of service to an enterprise's learning community (e.g., employees, partners, customers). However, it is difficult to justify capital expenditures in IT in the current economic climate.

Another key ingredient to improvement of organizational learning is flexibility in delivery. Heads of training are trying to keep up with their competitors in transforming the way learning takes place. Indeed, organizations are becoming more pragmatic when it comes to using elearning. Many organizations continue to be most impressed by the efficiencies gained when using elearning to train audiences that include employees, customers, and supply chain partners. They are also satisfied with the flexibility that elearning provides when it is blended with classroom training. Others have been burned by their endeavors in training over the Web for a variety of reasons, such as cultural resistance, a lack of content quality, and insufficient IT infrastructure. Vendors are making improvements to the way learning content can be both pushed to and pulled by learners, but many buyers are skeptical, not prepared to implement such innovative products and service delivery models, or both. High reward is seldom accompanied by low risk.

Many CLOs and VPs of training and HR at Global 2000 organizations believe that the optimization of their talent necessitates a state-of-the-art technology platform that facilitates blended learning delivery, learner and content management, and centralization of third-party purchases. Many also believe that those responsible for training and development should adopt the customer-focused, bottom-line mindset of the business unit managers whose needs they must address. The question remains, How much of a role will third-party vendors play in such a transformation? Will organizations continue to look externally for IT infrastructure and instructional services such as training delivery and content development related to particular interventions as they typically do now, or will they look increasingly to vendors to take responsibility for the ongoing management and execution of one or several learning processes or even the entire training function? IDC believes an increasing number will do the latter.

Figure 2 shows that organizations have higher propensities to outsource some learning processes than others. Organizations have traditionally chosen to outsource those processes listed toward the base of the pyramid, which are technology focused, high volume, or both. They are more apprehensive with regard to outsourcing

For many organizations, a lack of IT resources committed to the training function results in low visibility for management as to where and how training and development money is spent.

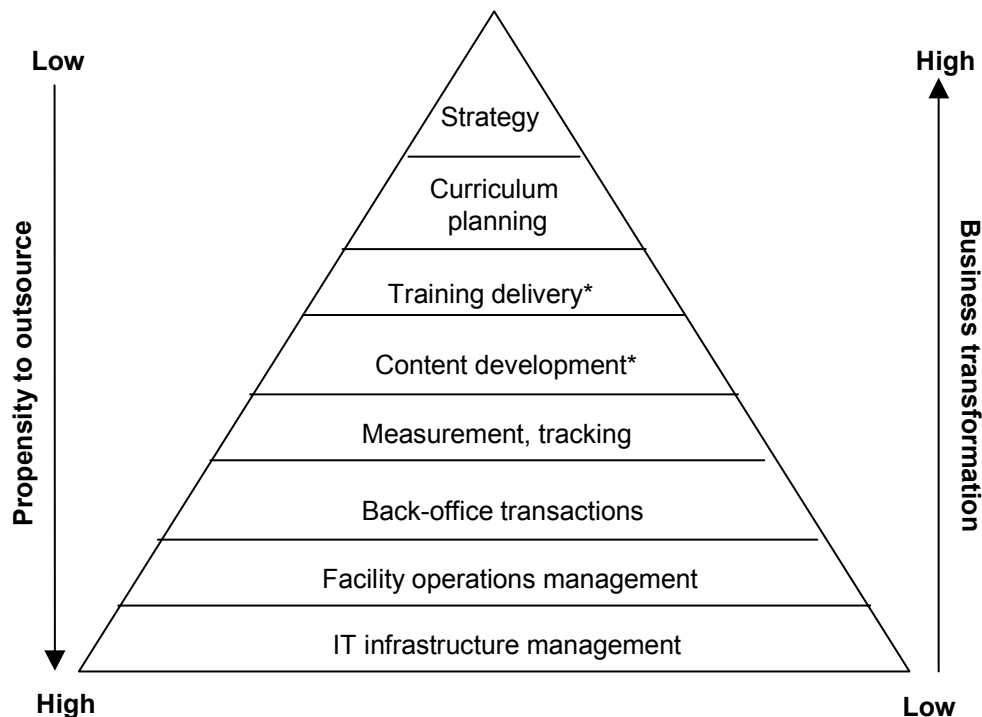
The question remains, How much of a role will third-party vendors play in such transformation?

process- and people-intensive functions, such as strategy development and curriculum planning. Those charged with learning tend to fall on both sides of the fence when it comes to content development and delivery. Neither process is in the traditional, transaction-based domain of outsourcing. Moreover, many of an enterprise's training programs are proprietary and specialized for its constituents. However, a significant amount of the subject matter taught at many organizations, such as desktop training, leadership development, or Occupational Safety and Health Administration (OSHA) training, is neither strategic nor proprietary. Hence, it is often outsourced to vendors on an as-needed basis. BPO providers recognize this and are developing partnerships with training content providers. The value of doing this is to negotiate favorable terms on behalf of their client bases (i.e., a consortium of clients possesses more buying power than a single customer). This concept is discussed further in the Learning BPO Competitive Landscape and Vendor Profiles section of this document.

A significant amount of the subject matter taught at many organizations, such as desktop training, leadership development, or Occupational Safety and Health Administration (OSHA) training, is neither strategic nor proprietary.

FIGURE 2

OPPORTUNITY AREAS FOR LEARNING VENDORS



* Dependent on strategic and proprietary characteristics of the subject matter

Source: IDC, 2003

LEARNING BPO: DRIVERS AND INHIBITORS

Although the reasons to outsource or not outsource various learning processes differ from organization to organization, there are some common drivers and inhibitors (refer back to Table 1). These are explained further in the following subsections.

MORE THAN A FEW SPHERES OF INFLUENCE

Training and development is often scattered throughout an organization. For example, executive education (degree or nondegree) is not related to IT training. As a result, IDC research has shown in the past that only one-third of training purchase decisions are made centrally by the training function (see *eLearning Vendors: These Are Your Customers*, IDC #25699, October 2001). Based on conversations IDC has had with corporate training managers in the past as well as discussions with outsourcing vendors, we believe that the decentralized nature with which training is provided at most large and midsize companies will be a boon for the learning outsourcer's cause in some sales situations, and a deal killer in others.

The decentralized nature with which training is provided at most large and midsize companies will be a boon for the learning outsourcer's cause in some sales situations, and a deal killer in others.

DRIVERS THAT ARISE FROM DECENTRALIZATION

Management may be convinced that centralizing training efforts through an outsourced provider could result in the following:

- ☒ **Standardization and quality assurance for training development, delivery, and administrative practices.** Large employers may want to ensure that learning opportunities and experiences are consistent for employees regardless of where they are located in terms of both geography and business unit.
- ☒ **Economies of scale for transactional processes.** For example, there is limited value in designing registration, scheduling, and payment processes in unique ways because they are high volume and repeatable. Organizations can reap cost savings and focus on core competencies by opting to outsource these repetitive processes.
- ☒ **Better alignment of training offerings and corporate objectives through more effective prioritization of business unit training efforts.** Curriculum will be more effective if it is designed to achieve management's goals. It will be even more effective if content is targeted at individual learners based on their job roles and career plans. Successful learning BPO vendors will demonstrate the ability to integrate employee learning with other areas of workforce development such as performance management, which organizations are showing a greater propensity to outsource (see *Worldwide and U.S. HR Management Services Forecast, 2003–2007*, IDC #28963, March 2003). Research that has recently been done in IDC's HR Management Services program shows there is growing interest among buyers in the integrated management of hiring, performance, learning and development, and career management. This holistic view of workforce management and performance will grow in its influence on the buying criteria when vendors assess services and technologies that support hiring, performance management, and learning.
- ☒ **More efficient tracking of training costs, both internally and with third-party training vendors.** The good and bad news for learning BPO vendors is that they will often have a nice mess to clean. Many companies cannot confidently identify where, on what, and with whom they're spending training dollars because the function is so decentralized. Therefore, there are a number of redundancies that an outsourcer can often rationalize, making learning administration a natural point of attack for them. For example, learning BPO can create efficiencies in course purchases by using a single provider to leverage volume purchasing across its clients, consolidating vendors, and reusing content. An outsourcer may also optimize the use of learning platforms and eliminate redundant learning management systems. (For more on business benefits of LMS consolidation, see *U.S. Enterprise Learning Management System Forecast and Analysis, 2001–2006*, IDC #27700, August 2002.)

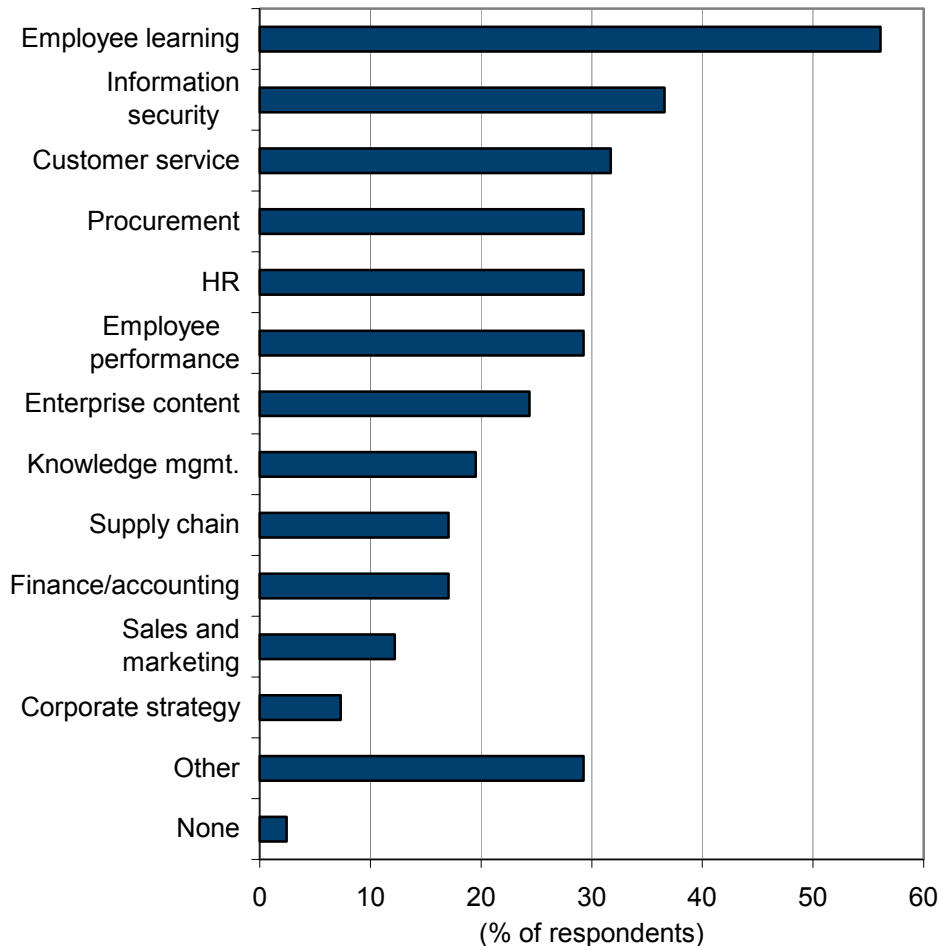
There is growing interest among buyers in the integrated management of hiring, performance, learning and development, and career management.

☒ **Added competencies in the training function.** If these processes are decentralized, upper management — the likely BPO contract signers — may believe training is not a core competency and should be turned over to a provider with the appropriate level of expertise. Figure 3 depicts the results of a recent IDC survey of senior-level IT professionals at 52 companies. The results suggest that those outside the training department do not consider training to be a core organizational strength. It appears from the figure that employee learning is even lower on IT's list of priorities than HR in general. These results also imply that they may not want to dedicate IT people or invest in other resources to manage learning systems. Figure 4 supports the latter notion. It shows that although the majority of learning management systems are installed, organizations have increasingly bought into the idea of allowing external providers to host them.

FIGURE 3

BUSINESS FUNCTIONS OPEN TO OUTSOURCING TO A SERVICE PROVIDER

Q. *What business functions would your company consider outsourcing to a service provider?*



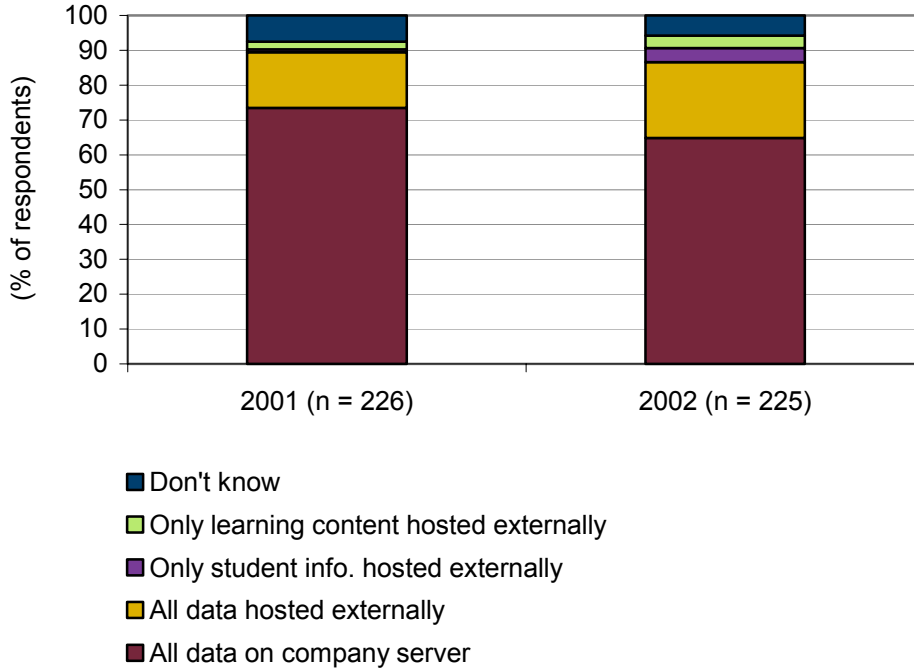
n = 52 IT purchase decision makers

Source: IDC's *Solutions Services Demand Survey*, 2003

FIGURE 4

LMS HOSTING, 2001 AND 2002

Q. *Is the LMS installed on your company's servers, or is it hosted by an external provider?*



Base: organizations that have adopted an LMS

Source: IDC and *Training/Online Learning Magazine Buyer Survey*, 2002, and IDC and *Online Learning Magazine Buyer Survey*, 2001

INHIBITORS THAT ARISE FROM DECENTRALIZATION

Efforts to centralize training and development, especially through an outsourcer, may never see the light of day for the following reasons:

- ☒ **It may be like herding cats.** Decentralization suggests business unit level autonomy and decision-making capability with respect to training vendor procurement and program delivery. Outsourcing to a single provider may be counterintuitive in a flat, entrepreneurial hierarchy. In addition, there may be a lot of training customization that needs to be done at the business unit level, which will further deter centralization through a third party. Training and development efforts at some organizations may be too interdependent with other processes at this level to standardize, which will greatly diminish the benefits a single outsourcer can produce. High levels of customization would also run counter to offshore outsourcing because a good deal of interaction would be necessary.
- ☒ **It may be difficult to prove progress.** Potential outsourcers may have difficulty devising ROI estimates because training and development costs in most organizations are currently spread out and not well tracked. This is a fundamental driver of vendors using learning administration as their first target of attack.

Decentralization suggests business unit level autonomy and decision-making capability with respect to training vendor procurement and program delivery.

OTHER FACTORS AT PLAY

In addition to decentralization, there are several other dynamics present in corporate training, some that favor BPO and others that hinder it.

OTHER DRIVERS

Lack of technological expertise. eLearning has had a disruptive effect on corporate training, increasing technology's role in the way training is created, delivered, and managed. Online learning will continue to play a bigger part in employee development, yet most organizations do not have the capabilities or resources to build, deploy, and maintain blended learning programs that include online elements on their own. Because building the necessary technologies and instructional design expertise in-house to administer blended learning programs on an enterprisewide scale can be cost prohibitive, many will continue to turn to external providers for assistance and to gain access to their technologies.

Speaking of one of its customers, a representative from one learning BPO provider summarized it as follows:

Not only can we get the solution up and running faster, but the level of support provided through our ASP-hosted environment would sometimes not be possible for our customers, or would be a lot more expensive. For example, one of our large high-tech customers recently compared the costs of our ASP-hosting with managing the solution themselves in-house and found that it was 30% less expensive to have us host the solution for them rather than trying to go in-house.

IDC identified the business service provider concept several years ago. *BSP* is shorthand for the delivery of BPO services in a service provider fashion. BSPs either support business processes or actually perform the business processes on behalf of their clients. BSPs are typically doing this over the Internet and in a one-to-many fashion. Processes done using the BSP model are characterized by their ability to be the following:

- Delivered over a network
- Externally managed
- Delivered as a service in a one-to-many business model (with little customization for the customer)
- Charged for as an ongoing service (as opposed to a flat, one-time fee)

The emergence of elearning in the late 1990s suggests that there are some elements of the training function that can be delivered in a BSP model. These include the following:

- Content delivery, both synchronous and asynchronous
- Student enrollment and registration
- Resource management (e.g., instructors, classrooms, lab equipment)

An elastic pricing model. Weak corporate profits in recent quarters have led to cost cutting within organizations. A driver of many BPO engagements in more mature BPO functional areas such as legal services and marketing is the

outsourcer's ability to make fixed costs variable, which frees up capital and affects lower costs when demand for the process (e.g., answering customer inquiries in a call center) is low. The same can be said for internal training functions, which may leverage sizeable fixed costs associated with staff, technology, facilities and real estate, and preset contracts with vendors. Of course, the ability to handle fluctuating demand is predicated on two assumptions:

- The outsourcer has at its disposal the infrastructure and resources (e.g., network capacity, subject matter experts) necessary to scale during periods of high demand.
- The outsourcer is in tune strategically with the goals of the organizations it serves and, in turn, can determine what training is actually needed in addition to how much.

A natural extension of HR self-service. Many organizations already have self-service systems in place via a strong portal strategy or an HR information system. One learning outsourcer told IDC that adoption rates tend to be higher among these organizations because users (employees) are somewhat used to going to a central area for service and self-directed ownership of career development. In addition, these organizations have already set out to reduce employee-related costs by outsourcing other HR functions such as payroll, staffing, health, and wealth.

A lack of visibility. Some executive managers do not know what resources are spent on employee development from both financial and operational standpoints. Although poor tracking of training costs will make hard-and-fast ROI a shaky basis for outsourcing to someone else, some decision makers may be convinced that an outsourcer should at least be given the opportunity to assess how and where money is being spent on training. Such assessments may eventually lead to out-tasking of administrative learning activities, and perhaps even complete outsourcing of the entire training function. One learning outsourcer that spoke to IDC as this document was being written indicated that one of its clients uses a third-party auditor to periodically assess the costs and benefits of the outsourcing relationship based on benchmarks identified during contract negotiations. Quick monetary paybacks achieved by organizations moving more of their training online using learning technology, service, and content vendors over the past few years should at least make some executives curious about the prospect of outsourcing more and more activities.

Quick monetary paybacks achieved by organizations moving more of their training online using learning technology, service, and content vendors over the past few years should at least make some executives curious about the prospect of outsourcing more and more activities.

An overabundance of suppliers. Although some learning market segments are more fragmented than others, buyers of virtually all learning products and services are confused by the number of providers and promotional messages. The fact that many buyers have been disappointed by smaller providers for reasons including a lack of depth and lower-than-expected content usage may lead them to look to larger outsourcers.

OTHER HINDRANCES

It is like inviting the turkey to Thanksgiving dinner. Any learning outsourcer's number 1 competitor is the internal training and development function. This competitor is likely to be stronger if it is centralized. There will be those who want to maintain the status quo, particularly if they perceive this as their best means for continued employment. Vendors are addressing such opposition in one of two ways, depending on their market approach. Those offering to provide multiple services without taking on the entire training and development function are selling to VPs of HR and other business units. Those that wish to take over the

entire function may begin with this approach as a first step to establish a relationship or head directly to the C level.

- ☒ **Employee learning and development is strategic.** There is a perception among senior managers at many organizations that they currently treat employee development as a strategic imperative and view their employee training programs as a competitive differentiator. Regardless of whether or not this is actually the case for a particular organization, the idea of offloading all of its learning content development and delivery efforts to an external provider will likely strike it as nonsensical. Content areas they may be reluctant to outsource are those considered proprietary and specialized, including product sales training, employee orientation, and process training. Outsourcers will attempt to mitigate this through noncompete agreements, but it will not work in every case.
- ☒ **Many training and development efforts need to be built from the ground up.** This is a major obstacle for IT outsourcers that will need to align themselves with vendors that have expertise providing upstream training activities (e.g., learning strategy and design, curriculum planning, content development, and classroom instruction). For example, an LOB manager rolling out a new training program may prefer to work in conjunction with the content developers themselves, not a middleperson (e.g., an integrator or business consultant).
- ☒ **Short-term growth is threatened by a lack of learning BPO success stories.** The road of training and development has not been a frequently traveled one for BPO providers, so there is a lack of direct experience that needs to be addressed. Points of proof are absolutely necessary to generating interest and comfort among potential customers.

LEARNING BPO COMPETITIVE LANDSCAPE AND VENDOR PROFILES

Services vendors are aggressively building out their outsourcing offerings for a number of corporate functions and promoting BPO (often called business transformational outsourcing services). In addition to customer interest, vendors' reasons for offering BPO services include annuity-based revenue streams, long-term client relationships, the price erosion of IT services, the opportunity to bundle project-based services in outsourcing contracts, and mindshare among C-level executives.

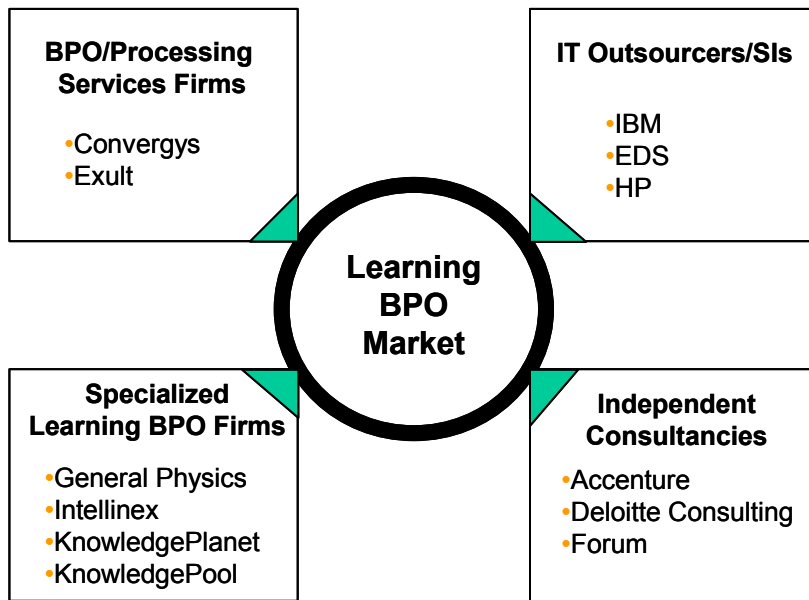
Consulting services play an important role in outsourcing engagements. Enterprise assessment, strategy, change management, and other consulting capabilities are critical to a company that plans to gain a strong competitive position. Consulting and systems integration activities are a part of all learning services engagements involving IT, particularly those that involve third-party vendor products. The level of consulting volume varies based on the scope and strategic significance of the learning engagement for the client, the degree of involvement of business executives, and the clients' existing IT infrastructure and available IT personnel.

COMPETITIVE LANDSCAPE

As Figure 5 indicates, there are four major competitive segments that currently hold a share of the learning BPO market. Although the number of current learning BPO deals in the marketplace is small, IDC findings indicate that the deal structure varies greatly by the type of vendor selling the relationship (e.g., a specialized learning firm versus a systems integrator or a BPO/processing service firm).

FIGURE 5

LEARNING BPO COMPETITIVE LANDSCAPE



Source: IDC, 2003

BPO/PROCESSING SERVICES FIRMS

BPO firms' background in technology, processing services, and outsourcing of other business functions, such as HR, finance and accounting, and procurement provides this competitive segment with a solid base for building its presence in the learning BPO space. Usually, BPO players' advantages also include significant scale of business, availability of offshore and nearshore resources, BPO-specific tools and methodologies, and the IT outsourcing component.

Challenges to winning learning deals might include a lack of in-depth learning services knowledge, limited relationships with C-level executives at the client companies, a narrow global footprint, and, in some cases, an inability to provide high-value strategic consulting and change management services.

IT OUTSOURCERS/SYSTEMS INTEGRATORS

Systems integrators leverage their technology and IT project-based expertise, such as IT consulting, systems integration and application development, and in-depth knowledge of enterprise software applications in the learning BPO market. For most systems integrators, challenges to entry into the learning market include, but are not limited to, a lack of strategic advisory expertise and limited mindshare (as providers of learning services) with clients' senior training, HR, and business executives.

INDEPENDENT CONSULTANCIES

Independent consulting firms' entrance to the learning BPO space could be achieved by leveraging these firms' learning consulting expertise, change management competency, strategic advisory services, and strong relationships with clients'

business executives. The independency of consulting firms as unbiased strategic advisors that are not attached to a particular technology or service offering could also play a positive role in gaining presence in the learning BPO market. For many vendors, challenges to winning learning BPO business include lack of scale, limited technology expertise, and no access to the offshore resources. There may also be a perception among buyers that these firms are using outsourcing simply as a means to keep their pipelines for lucrative consulting engagements full.

SPECIALIZED LEARNING BPO FIRMS

It is almost needless to say that among the major competitive advantages of learning firms in the market are best-of-breed learning expertise and a laser focus on helping clients' learning organizations. Other advantages include familiarity with clients' executives responsible for the learning function and possession of proprietary learning technologies and processes. Challenges to expansion in the learning outsourcing market include limited scale of offerings, lack of strong general consulting and change management expertise, narrow industry knowledge, and limited geographic reach.

PARTNERSHIPS

With training and development as an outsourcing opportunity a relatively new concept, vendors are still in the process of shaping up their partnership and alliance strategies. The most developed partnerships that learning BPO vendors currently have are related to learning infrastructure, a segment whose consolidation will be hastened by a trend in learning outsourcing. Specific partnerships are discussed in the vendor profiles later in this document.

COMPETITIVE APPROACHES

Although the number of current learning BPO deals in the marketplace is small, IDC findings indicate the approach toward the client varies greatly by the type of vendor selling the relationship (e.g., specialized learning firm versus a systems integrator or a BPO/processing service firm):

- ☒ BPO/processing services firms commonly provide learning outsourcing as part of HR outsourcing contracts. Their focus is on outsourcing high-volume, transactional processes associated with learning administration using an LMS backbone and on negotiating with third-party training vendors on behalf of their clients.
- ☒ Specialized learning firms provide learning BPO services on a standalone basis or as a subcontractor to an HR outsourcer. Their focus is similar to BPO firms, although they will also take on instructional design and delivery along with client staff.
- ☒ Independent consultancies and systems integrators are outsourcing varying amounts of learning processes on behalf of their clients. They have outsourced learning processes as a follow-on to a consulting engagement and, in a select number of cases, outsourced clients' entire training functions.

LEARNING BPO DEAL STRUCTURE

The learning outsourcing market is still in the process of its definition. Therefore, IDC expects that buyer behavior, vendor selling strategies, and packaging of learning BPO offerings will evolve considerably over the next several years. Table 2 provides a look at the current average learning BPO deal structure.

TABLE 2

TYPICAL LEARNING BPO DEAL STRUCTURE, 2002

Structure	Data
Average deal size (\$M)*	911
Average length of deals (years)	4
Revenue per employee (\$)*	117,331
Dominant pricing structure	Combination of fixed time/fixed price and transaction based
Primary buyers of LBPO services	VP of HR, VP of training and development

n = 8 vendors offering learning BPO services

* Data is based on input from three vendors with a combined \$20 million in learning BPO revenue in CY02.

Source: IDC's *Survey of Learning BPO Vendors*, 2003

The average length of deals is four years, which is in line with the average length of BPO deals for other corporate functions signed in the last 12 months. The average revenue per vendor employee is \$117,331. This metric is lower than the average revenue per consultant in the IT services business. This difference is attributable to a number of factors, including the emerging nature of the learning BPO market and pricing models used.

Most learning BPO vendors responding to the survey noted in Table 2 stated that they utilize a combination of fixed-time/fixed-price and transaction-based pricing for the learning outsourcing deals. This finding is in line with overall pricing trends for BPO deals. Other pricing structures that are currently being used in learning BPO deals are pure fixed-time/fixed-price and pure transaction-based pricing. In some cases, pricing options also include the elements of gain/risk sharing. Risk/gain sharing arrangements, where the BPO vendor does not charge the client anything at the outset but prices its services as a percentage of the gains (revenue growth/cost reduction) that arise from the BPO services rendered, are less common in learning BPO relationships than in other functions. This is also attributable to the immaturity of these engagements.

VENDOR PROFILES**ACCENTURE**

To address organizational learning for its corporate and government clients, Accenture brings to bear its 2,000 human performance professionals and industry expertise as well as assets related to workforce performance consulting, BPO, and learning content development (including patented simulation technology). Launched in December of 2001, Accenture Learning has set the mission for itself to "transform learning to drive business results" in its large enterprise clients. While the company is increasing its focus on outsourcing its clients' entire learning organizations, it maintains contractual relationships with clients of a smaller scale. Accenture Learning's go-to-market approach is centered on three offerings that span the business outcomes achievable through improved learning capabilities:

- ☒ **Learning transformation outsourcing.** Accenture will run its clients' entire training and development, including the ongoing development of learning strategy (with business strategy input from the client), content development and delivery, and learning administration and logistics.
- ☒ **Learning BSP.** This offering includes content development, hosting, and administrative services leveraging a global network of 14 learning delivery centers. Accenture's instructor-led training leverages three professional training facilities and a network of educational service providers in 70 countries.
- ☒ **Performance Simulation.** Accenture's patented simulation technology, Performance Simulation, provides specific interventions that increase the performance of an area such as increase sales force effectiveness of call center effectiveness.

Accenture solutions are based on three core capabilities:

- ☒ **Business Interlock** explicitly links learning strategy and solution delivery to business strategy and performance objectives.
- ☒ **Leveraging proven learning processes and technologies** enables increased reach and cost effectiveness of learning activities. Accenture maintains a suite of patented or proprietary content authoring and performance management tools as well as systems simulation and performance simulation technologies.
- ☒ **Running learning as a business** by establishing clear objectives, putting appropriate metrics in place, and managing learning commitments with accountability around quantifiable learning and business outcomes.

Notable client examples of Accenture's learning BPO offerings include Avaya, Citrix, and British Telecommunications (BT). Avaya has outsourced its entire learning organization to Accenture. Accenture has assumed management of Avaya University, taking on staff from Avaya. The University provides training for Avaya employees, partners, and customers. Citrix now offers its customers and channel partners the opportunity to build skills anywhere and anytime by accessing its own branded elearning courses that are developed, hosted, and supported by Accenture. Accenture Learning's focus with BT, which has largely been directed at hastening the time-to-productivity of salespeople while lowering training costs, has been part of a larger relationship in which Accenture has helped the company redefine its HR service delivery approach.

Accenture Learning has partnerships in several areas:

- ☒ Live elearning technology: Centra and Interwise
- ☒ Learning management and learning content management: Docent, Click2Learn, and Siebel
- ☒ Learning content development and delivery: SkillSoft, Intellexis, NETg, Pearson, Franklin Covey, Forum, Global Knowledge, and Wilson Learning

CONVERGYS

Learning Services is a product/service line offering within Convergys' Employee Care, which also encompasses HR functions, including health and welfare benefits, payroll, and staffing. The company has been involved in HR BPO for more than a decade. All Convergys engagements, regardless of the HR domain, are managed by single technology and operations functions. Learning Services' mission is to take on clients'

learning administration functions. Convergys leaves curriculum design in the hands of its clients, shares course development with them, and will fully outsource all aspects of learning administration, including facilities management and handling relationships with third-party content providers. The company aims to transform employee development by increasing the use of employee and manager self-service and automation of administrative processes. This is enabled by learning technologies that Convergys hosts.

The company's learning outsourcing experience includes relationships with AT&T Business Markets Division, Lucent Business Communications Systems, Sumaria Networks, and the state of Florida. The state of Florida signed a seven-year contract with Convergys in 2002 to provide its 180,000 employees and elected officials with services such as recruiting, benefits and payroll administration, and learning. To support its learning clients, Convergys can leverage the same service centers it uses for its customer care, billing, and larger HR BPO practices. These service centers combine email, interactive chat, and the Web with more traditional means of communication such as phone, fax, mail, and interactive voice response (IVR). Convergys has developed a partner network with classroom and elearning providers of both technical and business skills content.

Convergys' learning outsourcing experience includes relationships with AT&T Business Markets Division, Lucent Business Communications Systems, Sumaria Networks, and the state of Florida.

EDS

Currently, learning BPO services are not an area of primary focus for EDS. At EDS, learning BPO is an embedded capability within its Human Resources (HR) Business Process Services service line that resides in the firm's Enterprise Shared Services (ESS) line of business. The major building blocks of its HR outsourcing practice are benefit administration, payroll, HR management systems, compensation management, recruitment and staffing, workforce administration, and workforce development. For the most part, learning BPO activities are bundled with HR outsourcing deals and are provided primarily on an as-needed basis.

The firm's current BPO footprint allows it to enter the learning BPO space at any point of the learning BPO ecosystem (refer back to Figure 2). Its extensive leverage of strength in the IT outsourcing market and processing services space as well as solid offshore footprint delivered through the firm's BestShore sourcing model allows the firm to capture the lower levels of the pyramid, such as IT infrastructure management and processing of back office transactions for the learning function. Its ability to leverage A.T. Kearney's learning consulting expertise may allow the firm to tap into the high value learning BPO services, such as curriculum planning, business analytics, and strategy.

Learning BPO services that the firm has been engaged in to date include learning strategy, content development, and training delivery. In order to provide these services, the firm used internal capabilities as well as partnerships formed on a deal-by-deal basis with learning firms such as Thomson Learning and DigitalThink.

IDC expects EDS to continue evaluating the learning BPO opportunity as its current HR BPO relationships evolve.

EXULT

Consistent with its approach to HR outsourcing, Exult focuses on outsourcing the transactional processes of learning. What IDC refers to as the "people component" of BPO is not a core part of the Exult Service Delivery offer. *What* goes into learning plans is always determined by clients' training and development personnel. *How* training is delivered is managed by Exult, which uses an LMS to capture, track, and fulfill learning plans. Inevitably, a degree of organizational change occurs as a result of the outsourcing of the transactional work, and Exult offers services in advising,

guiding, and supporting the client organization in achieving successful change processes. Exult has a consulting business (Gunn Partners) that focuses on providing clients with advice on shared services in finance and HR. Gunn Partners is run separately from the BPO practice within Exult; however, Gunn consultants are brought into engagements when needed. Exult has client teams of learning specialists who are organized by services focus area:

- ☒ **Managing learning demand.** Activities include the creation, maintenance, and operation of employee learning paths, scheduling, and administering classroom-based and technology-based courses using an LMS.
- ☒ **Fulfillment.** Through the use of the LMS, Exult team members maintain the data required for individual classroom-based sessions, capture all the details required for vendor integration, undertake course costing and purchase order processing, and ensure that learner assessments are captured in the system.
- ☒ **Delivery.** Tasks include the production of the individual session rosters, automated issue of emails and session document management, learner progress tracking through the LMS, and instructor support. Additional administrative responsibilities of this team include facilities support, rosters, security, and equipment/catering.
- ☒ **Evaluating, updating, and reporting.** Exult's role is in providing the LMS, which acts as the repository of all data associated with the learning process, and in supporting the level of learning assessment clients want.
- ☒ **Vendors, accounting, and costs.** Exult supports strategic sourcing initiatives where high-volume activity exists on behalf of clients in order to leverage its purchasing power. Data contained within Exult's vendor database encompasses activity level, total costs, evaluations, and individual course costing, which provide budgeting and resource planning insights for the company's clients. Exult also produces training cost data to allow the clients' accounting function to manage the appropriate business charge-backs.

Exult leverages several partner offerings to bring learning BPO to market. Core to Exult's offering is a specifically configured Docent LMS (version 6.5). To fit into clients' existing operations, Docent is interfaced to ERP and other client value-add systems. The LMS is not only Exult's back-office engine but also the clients' front door on learning for employees, managers, and the learning community. This front door may lead to elearning content from SkillSoft, with which Exult partners. Docent also provides Exult applications for client learning content management and performance management. In addition to the learning infrastructure, the company leverages enabling technology in its Client Service Centers from Siebel. Operational support and maintenance capabilities are provided by the company's partnership with Unisys, which provides hosting of hardware and LMSs.

To date, Exult has signed on three learning BPO clients, all of which were already outsourcing multiple HR activities to the company. Decision makers for its learning BPO offering include VPs of HR and CLOs.

GENERAL PHYSICS

General Physics (GP) is the principal operating subsidiary of GP Strategies Corp. The company's consulting services focus exclusively on the learning function rather than overall business operations. GP established Learning BPO as a strategic growth initiative in 2001. Since that time, GP has expanded infrastructure, developed assessment and implementation tools, and implemented a proactive business development strategy to expand its presence in this space. As a training and

To date, Exult has signed on three learning BPO clients, all of which were already outsourcing multiple HR activities to the company.

workforce development company, the company's learning BPO practice area is branded as Learning Resource Management (LRM). GP's consulting and BPO practices are integrated. The LRM organization comprises LRM business consultants responsible for consulting for training outsourcing, assessment of client training organizations, transition and implementation, and ongoing governance of outsourced relationships. Additionally, the company is aligned by market sector.

GP will outsource part or all of a client's training and development function. GP outsource engagements are led by a dedicated outsource practice, with IT as a collaborative partner to the solution. A single program manager leads the engagements and has responsibilities for all aspects of the outsource. The assessment includes job assessment, definition of organizational structure requirements, transition and transformation, and change management. GP's approach is to assist its customers in defining a future state for the learning enterprise, including a transition plan to move them from their current state to a future state (transformation). With regard to IT infrastructure, including selection of learning management systems (if the client has not already selected one), General Physics provides an assessment of existing needs, establishes specifications for procurement, facilitates the selection of vendors, and follows through with systems integration. The level of IT services varies based on whether existing infrastructure is to be used, GP infrastructure is to be used, or a third-party IT solution is to be selected and leveraged.

GP recently inked deals to provide its learning BPO services to Agilent Technologies and Eli Lilly. GP establishes dedicated partnerships and alliances to round out training solutions not core to the firm. For content, GP currently has an established strategic alliances with AchieveGlobal. For learning and performance management technology, the company partners with Docent, Oracle, Gen21, THINQ, and Plateau Systems.

General Physics recently inked deals to provide its learning BPO services to Agilent Technologies and Eli Lilly.

IBM

With its acquisition of PwC Consulting in July 2002, IBM clearly moved to establish credibility in business process and business process outsourcing to augment its leadership in IT outsourcing. By combining the industry knowledge and business process expertise of PwC's consultants with IBM's IT infrastructure and process expertise, IBM is building BPO offerings, including those that relate to learning. IBM has indicated to IDC that it is making a major commitment to enhance its ability to deliver learning outsourcing to its clients. Its Learning Emerging Business Opportunity (EBO) practice is focused on aligning resources across IBM (e.g., hardware, software, and services) to assist customers with their learning efforts.

At IBM, the learning practice, which comprises consultants, instructors, and technical personnel in 160 countries, is now part of the Business Consulting Services (BCS) practice. When the unit launches learning projects, it uses teams composed of cross-service areas, including learning, technology, finance, human capital, change management, and program management. In terms of learning process and technology, IBM looks in-house for a number of activities. For example, the company may host learning infrastructure and leverage its knowledge factories to develop custom content. The company also uses help desk functions to provide services worldwide in 15 different languages. IBM provides application management support for IBM learning-specific software such as Lotus as well as for partner products, including Saba, Docent, or Plateau. The company also has partnerships in other areas such as elearning content (most notably with Thomson Learning) and online tutoring (e.g., Smarthinking.com for basic skills programs). IBM may very well leverage its outsourcing partnership with Fidelity Employer Services Company (FESCO) to deliver learning to FESCO's HR BPO customers.

IBM wishes to address the people, process, and technology components of its clients' training and development functions. However, the company is flexible and allows for the customer to retain or share any of the identified elements, or fully outsource them to IBM. Its biggest learning BPO client to date is the U.S. Army. eArmyU is a distance learning program designed to provide access to postsecondary certificates and degrees for enlisted soldiers across the globe. For this five-year phased program, IBM designed, implemented, and now manages an integrated system accessible through a Web portal powered by Saba that integrates program management, educational services, and technology support. Ultimately, eArmyU expects to enroll 80,000 soldiers by January 2005. Presently, IBM is managing 2,000 courses and more than 115 degree programs across more than 20 partner colleges and universities. The architecture is built on 14 servers. As part of the program, IBM also manages a team of 17 subcontractors that have worked together to build and maintain the eArmyU portal, incorporating software applications.

IBM's biggest learning BPO client to date is the U.S. Army.

INTELLINEX

Intellinex, an enterprise of Ernst & Young, focuses exclusively on organizational learning. The company addresses the people, process, and technology components of what it refers to as the entire "learning solution life cycle," which comprises three phases:

- ☒ **Assess.** Within the assess phase, Intellinex helps organizations evaluate their business goals and what they need to accomplish and prepare a comprehensive learning solution road map that includes the type of content required and the technology to support their learning processes and goals.
- ☒ **Build.** The road map is then used to build a solution using defined processes to craft the specific content and technology elements needed to fit each company's unique situation.
- ☒ **Operate.** After a solution is launched, Intellinex teams with its customers to operate the solution. Activities include seeing that results are being achieved, providing help desk support, managing ongoing adjustments brought about by changing business conditions, and scaling the solution to accommodate new initiatives and opportunities. Intellinex may also provide ongoing learning administration, content development (subject matter expertise typically provided by the client), delivery management, reporting, curriculum design, change management services, Webcast production, and ecommerce transaction reporting. The company has not used any offshore facilities for BPO engagements.

Intellinex's learning BPO clients include Canon and Ernst & Young. These clients provide strategic direction, while Intellinex manages ongoing processes and systems. Buyers and prospects of the company's BPO offering include senior management in IT, training and development, and sales.

Intellinex's learning BPO clients include Canon and Ernst & Young.

INTREPID LEARNING SOLUTIONS

In January of 2003, Intrepid Learning Solutions was launched with its sole focus on providing outsourced corporate training services. It is a start-up comprising a group of senior executives and advisory board members with varied backgrounds along with LGuide, an independent provider of elearning research and consulting services to corporate training departments.

KNOWLEDGEPLANET

KnowledgePlanet's learning process outsourcing (LPO) offering represents an evolution consistent with the company's learning software and services history. It describes its approach to BPO as being made up of three parts:

- ☒ **Technology** represents the company's software (KnowledgePlanet v6.2), an integrated suite of applications providing learning, performance, and content management capabilities.
- ☒ **Infrastructure** represents KnowledgePlanet's application hosting services.
- ☒ **Process execution** represents the company's Learning Services group, its 23 dedicated "outsourcers."

The BPO group's focus is on training program delivery, administration, and management best practices. KnowledgePlanet's consulting group focuses on strategic issues (e.g., current state/future state assessment, learning program design, and IT integration). The groups collaborate to collectively define, implement, and maintain BPO engagements. Consulting services and systems integration activities are bundled as part of an overall deployment strategy consisting of outsourced technology and infrastructure along with BPO learning services.

After goals have been established for a client during the discovery phase, KnowledgePlanet will take on design, implementation, and administration of ongoing training programs. From a contractual perspective, clearly defined SLAs, derived from program metrics defined during discovery, are measured, monitored, and reported on a monthly basis.

KnowledgePlanet has six learning BPO customers to date; four of the six are worldwide, and five of the six are outsourcing learning exclusive of other HR processes. One was derived through a larger HR/training BPO engagement, with KnowledgePlanet acting as a subcontractor. Sales have come through the company's established customer base of HR and training VPs and directors. The company leverages partnerships in the areas of virtual classroom technology, activities related to classroom-based fulfillment such as document reproduction services, and custom content development.

KnowledgePlanet has six learning BPO customers to date.

KNOWLEDGEPOOL

With its headquarters and nearly two-thirds of its staff located in the United Kingdom, KnowledgePool (KP) takes a spectrum approach to developing its clients talent, from small, standalone projects to large, complex, fully managed learning services. KnowledgePool is a subsidiary of Fujitsu Services (previously ICL, which rebranded in April 2002). KP recognizes the importance of the link between the consulting services of its parent and its learning practice. One of its parent's key divisions, Fujitsu Consulting (Europe) accounts for nearly 50% of KP's revenue by bundling learning services as an add-on to its systems integration and consulting practice. Therefore, IT consultants and KP's learning staff work together.

KnowledgePool's BPO offering is called Managed Learning. The company is hoping this currently small (but fast-growing) part of its business will allow it to bundle consulting and systems integration in learning-led engagements. KP sells Managed Learning at both the VP and C levels. In addition to IT services, learning may be packaged with the company's offerings in other HR activities, including succession planning, performance management, and staffing. The company will focus on several vertical sectors to grow Managed Learning's client base, including healthcare and pharmaceuticals, financial services, and government. KP's past and current

customers in these verticals include GlaxoSmithKline, Pfizer, Lloyds, Barclays, and Merrill Lynch.

To fill out its learning BPO offerings, KP partners with a variety of systems integrators, learning infrastructure firms, and elearning content providers. To date, the firm has announced strategic alliances with Plateau and Click2Learn for infrastructure. For elearning content, the company leverages relationships with MindLeaders and NETg, a division of the Thomson Corp.

FUTURE OUTLOOK

SCENARIOS

Learning outsourcing is still in an emerging state. As the demand for HR BPO services bleeds into the training and development function, customer needs and preferences and the competitive landscape will rapidly evolve. At this time, various flavors of BPO exist in the corporate learning services market. IDC believes that over the next several years learning outsourcing will unfold in one of two ways for large and midsize organizations that choose to offload the ongoing management and execution of training and development services to external parties. IDC predicts that the two scenarios will play out in tandem but that scenario 1 will occur much more frequently (see Table 3). However, occasional soup-to-nuts, scenario 2 opportunities will present themselves to vendors positioned to take advantage of them over the next two to five years.

IDC predicts that the two scenarios will play out in tandem but that scenario 1 will occur much more frequently.

TABLE 3

FUTURE OUTLOOK FOR LBPO SERVICES: SELECT AND TOTAL SCENARIOS FOR 2003–2004

Segment	Category	Scenario 1: Select	Scenario 2: Total
General	Major characteristics	Limited outsourcing of learning; in most cases, engagements cover back-office and administrative functions; learning BPO contracts mostly a part of an IT outsourcing engagement, an HR outsourcing deal, or provided on standalone basis	Outsourcing of core learning functions or the entire learning organization; on most occasions, learning BPO a standalone contract or a part of larger BPO/BTO contract, most commonly HR BPO
	Learning functions being outsourced	Most commonly, learner and technical help desk, hosting services, maintenance, and integration of learning technologies and elearning content, vendor management, transaction processing, scheduling, learner tracking, and registration; in some cases, program management and content development	Any or all functions outsourced in select scenario; additionally, content development, mentoring and classroom instructional delivery, curriculum planning, certification development, process improvement, project management; in some cases, change management and learning strategy
Competitive	Dominant competitive segments	IS outsourcing firms; specialized learning companies; BPO/processing services firms	Primarily consulting firms and BPO vendors
	Competitive trends	Technology and processing services firms to make significant headway; learning specialists' market share to increase as they play a role in standalone and subcontracted learning BPO deals	Market dominated by large BTO players, consulting firms, and pan-BPO providers; M&A activity to accelerate; learning boutiques and HR outsourcing pure-plays expected to lose share to full-service BPO giants
	Partnerships/alliances	Mostly technology focused partnerships; strong content network a must	Partnering with niche players to fill in service gaps; high visibility of strategic partnerships; strong content network or in-house content development expertise a must
	Other services being outsourced	IS outsourcing, processing services, HR services	Other noncore business functions
	Primary buyers of learning BPO	Chief learning officer, VP of training and HR, CIO or other business unit leader	CFO, CEO, or SVP of a business unit; in some cases, chief learning officer
	Shoring strategy	Mostly onshore; very limited offshore capability; elements of nearshore labor sourcing	Best shoring strategy; a mix of onsite, onshore, nearshore, and offshore sourcing
Vendor	Learning BPO service packaging	Provided on standalone basis or bundled with IT outsourcing or BPO deals	Bundled with other services, such as HR outsourcing, F&A, and procurement BPO; in some cases, bundled with consulting services; increasingly, embedded in large BTO contracts
	Pricing structures	Fixed time/fixed price with a limited gain/reward sharing option; usually, no blended pricing component included	Gain sharing and SLA-based pricing; increasingly, elements of utility-based pricing; blended pricing on a best shore solution

Source: IDC, 2003

SCENARIO 1: SELECT LEARNING BPO

In this scenario, the client's main objective for outsourcing select learning functions is cost reduction. Learning BPO services in most cases will be limited to outsourcing of back-office learning operations, such as learning administration, transaction processing, learner and technical help desk, and hosting services for learning infrastructure and content. This is true of the vast majority of learning BPO relationships that have been established to date. In many cases, learning BPO vendors will also take responsibility for vendor management. Most learning activities will remain in the hands of end users' internal training departments, which will remain in tact for the most part. With regard to the mix of what was referred to earlier as people, process, and technology components, the technology component will dominate these outsourcing deals.

In the select scenario, learning BPO services will be sold primarily as part of IT outsourcing contracts or on a standalone basis. In many cases, learning BPO services will be bundled with HR outsourcing engagements.

In many cases, learning BPO services will be bundled with HR outsourcing engagements.

IMPACT ON MARKET GROWTH AND DEVELOPMENT

The select learning BPO scenario will accelerate growth of the learning BPO market for the reasons discussed in the following section because client concern about losing ownership of the learning function will be eliminated or at least put off as key learning processes remain in-house.

BENEFITS

Client benefits from learning BPO services under the select scenario include, but are not limited to, the following:

- ☒ **More efficient learning management and delivery.** A client that offloads its enterprisewide administrative burden to an outsourcer should be better able to deliver consistently high-quality learning events that are aligned with the needs of the individual learner and the organization.
- ☒ **Access to best-of-breed expertise.** In the select BPO scenario, the client can pick best-of-breed vendors for select learning functions and work with them directly to ensure that they are tapping into a focused expertise and high level of specialization around learning services. Of course, the outsourcer will presumably be able to negotiate more favorable terms for the client than the client would have been able to get on its own.
- ☒ **Flexible engagements.** In the select scenario, the contracts are expected to be shorter and more flexible. This allows the users to adjust their learning strategy or change the scope, scale, or other terms of the outsourcing engagements as needed.
- ☒ **Effective risk management.** This scenario is well suited for risk-averse clients because it employs a mix of multiple vendors and in-house capability.

CHALLENGES

- ☒ **The need for clients to still manage multiple vendor relationships in terms of what they deliver.** In the select scenario, end users would have to rely on numerous learning and technology vendors and integrate their services with in-house processes and capabilities. This will require intensive vendor

management, program management, and technology/process integration efforts. These activities may consume resources that should be focused elsewhere.

- ☒ **Limited financial benefits resulting from this kind of outsourcing activity.** Lower risk may mean lower reward. Due to the limited scope and scale of outsourcing services provided, the magnitude of cost savings may not be as significant as in scenario 2–type engagements. In the select scenario, clients will continue to incur the fixed costs associated with maintaining an internal training function.
- ☒ **Lack of strategic relationships between a client and the outsourcer.** Under the select scenario, the client/vendor relationships are usually based on projects, and there is no longer-term strategic element to them. In most cases, vendors' financial goals are not linked to those of their clients, and gain sharing pricing is not being used in the select LBPO arrangements.

VENDOR LANDSCAPE

In this scenario, the playing field is much more level for vendors of different size. IT outsourcers may take a leadership role; however, specialized learning outsourcers and HR BPO providers should also establish a solid presence in the market.

In this scenario, the playing field is much more level for vendors of different size.

The select learning BPO offering is expected to have a small offshore component, which would primarily be concentrated around processing services for learning transactions. Content development partners are also likely to have significant offshore operations. In this scenario, most services will be provided onshore. In cases where LBPO engagements are bundled with HR outsourcing work, IDC expects to see a nearshore component to the deals.

The select LBPO scenario would have only a slight effect on the vendor landscape. No new vendors are expected to enter the marketplace; however, a large number of the BPO players and learning boutiques will likely expand their services capabilities into the learning BPO.

SCENARIO 2: TOTAL LEARNING BPO

Table 3 indicates that in the total learning BPO scenario, corporate clients will outsource most learning processes depicted earlier in Figure 2, if not their entire training and development functions. In addition to cost savings, the objectives will include business-related goals and metrics such as faster time to market for new products and employee satisfaction. All three components of the BPO engagements — people, process, and technology — are notably involved in the total scenario. The process and people components form a foundation for the transformational nature of the outsourcing service.

In this scenario, vendors may outsource learning on a standalone basis or take on training as part of HR outsourcing engagements business transformational deals. Such deals would drastically change the way learning services are bought, sold, and delivered. Most decision making and much of the client's internal training staff would shift to the outsourcer.

Such deals would drastically change the way learning services are bought, sold, and delivered.

BENEFITS

Major client benefits of total learning BPO engagements include the following:

- ☒ **Significant financial gains from the outsourcing arrangement.** Due to a broad scope and large scale of services being outsourced as well as the offshore

component and long-term nature of engagements, financial gains should be maximized in the total LBPO scenario.

- ☒ **Seamless total solution offering.** In the total learning BPO scenario, one vendor usually takes responsibility for being the single point of client contact. This should free up clients to focus on their core competencies, allowing them to unload tedious activities and gain scale and consistency in all processes and technologies used.
- ☒ **Strong long-term strategic relationships between vendors and clients.** This relationship is based on common goals and financial objectives.

CHALLENGES

Challenges that both customers and vendors would encounter under the total learning BPO scenario include, but are not limited to, the following:

- ☒ **Higher risk associated with heavy reliance on one vendor.** By outsourcing most learning functions to one vendor, the client is exposed to the risk associated with the financial health of that particular vendor. Turbulence in the IT and business services industries, volatile capital markets, and accounting scrutiny have brought such concerns front and center.
- ☒ **Establishing performance metrics.** Many of the criteria involved in such transformational contracts will be vastly different from those involved in relationships that primarily involve the transfer of high-volume, transactional processes.
- ☒ **Need to overcome client concern in regard to loss of function ownership and jobs.** This would require significant change management and redesign efforts, which bear the risk of being costly, lengthy, and unpredictable. Moreover, many business unit heads with significant responsibility over training will summarily object to going through an intermediary outsourcer to work with external content providers.

The contract size and length of total learning BPO engagements will be enormous; however, due to the transformational nature and higher risk of this scenario, the occurrence of such engagements is expected to be minimal over the next few years.

Due to transformational nature and higher risk of this scenario, the occurrence of such engagements is expected to be minimal over the next few years.

VENDOR LANDSCAPE

This scenario would have more significant implications to the competitive landscape in comparison with the select scenario. In the unlikely event that this scenario dominates, it would provide large consultancies and IT services firms with a strong competitive advantage and weaken learning BPO specialists' position in the marketplace. There would be merger and acquisition activity among vendors as large BPO and BTO players look to fill the gaps in their service offerings. The vendors that would likely dominate are EDS, IBM Global Services, and Accenture.

ESSENTIAL GUIDANCE

ACTIONS TO CONSIDER

Vendors that wish to change the way their clients create, deliver, and manage learning should consider the following actions:

- ☒ **Monitor the market.** The jury is still out as to what the demand is for learning outsourcing. For the short term, vendors should focus on offering business process support, as opposed to execution, to build up trust and a proof-of-outsourcing concept with their clients.
- ☒ **Build fully integrated total solutions.** Presence of the following array functional expertise is needed in-house or through partnership, depending on the vendor's approach: business consulting, IT consulting, business function expertise, project management, systems integration, outsourcing, training, processing services, and application management services.
- ☒ **Provide cost savings/ROI justifications.** In the current economic and competitive environment, vendors will be hard pressed to sign a large deal without them.
- ☒ **Partner with clients as much as possible.** Partnerships should entail common financial goals, risk- and gain-sharing arrangements, joint go-to-market or business expansion strategies, coinvestments in new initiatives, or all of these.
- ☒ **Develop higher-value strategic service offerings.** This is an important capability for vendors aiming to provide a comprehensive learning BPO offering and transformational outsourcing service. In addition, this is an important competitive differentiator that helps counteract commoditization and price erosion.
- ☒ **Strengthen capabilities along the HR value chain.** Learning is only part of employee management and should be integrated with other areas of HR that are increasingly being outsourced.
- ☒ **Gain access to content.** A sound network of classroom and technology-based training providers is important to any learning outsourcer.
- ☒ **Build up learning utilities.** It is apparent that customers buy into the BSP model for learning administration and content delivery. These BSP capabilities are a must for learning outsourcers.

LEARN MORE

RELATED RESEARCH

- ☒ *Future of Live eLearning: IDC's 2003 Web Conferencing Survey* (IDC #29140, April 2003)
- ☒ *Worldwide and U.S. IT Education and Training Services Forecast and Analysis, 2003–2007* (IDC #28983, March 2003)
- ☒ *Worldwide and U.S. HR Management Services Forecast, 2003–2007* (IDC #28963, March 2003)
- ☒ *Begin Act II: Worldwide and U.S. Corporate eLearning Forecast, 2002–2006* (IDC #28679, January 2003)
- ☒ *Placing Bets on Learning as a BPO Opportunity: Mellon HR Solutions Acquires FranklinCovey's Training Process Outsourcing Unit* (IDC #28570, December 2002)

- ☒ *The Evolution of HR Outsourcing Services: The Impact of New Entrants and Changing Alliances on Building a Successful Competitive Strategy* (IDC #28414, December 2002)
- ☒ *LMS Vendors: These Could Soon Be Your Customers (Part 2 in a 2-Part Series)* (IDC #27949, September 2002)
- ☒ *LMS Vendors: These Are Your Customers (Part 1 in a 2-Part Series)* (IDC #27839, September 2002)
- ☒ *HR BPO: Making Sense of the Market Opportunity and the Changing Competition* (IDC #28044, September 2002)

COPYRIGHT NOTICE

This IDC research document was published as part of an IDC continuous intelligence service, providing written research, analyst interactions, telebriefings, and conferences. Visit www.idc.com to learn more about IDC subscription and consulting services. To view a list of IDC offices worldwide, visit www.idc.com/offices. Please contact the IDC Hotline at 800.343.4952, ext. 7988 (or +1.508.988.7988) or sales@idc.com for information on applying the price of this document toward the purchase of an IDC service or for information on additional copies or Web rights.

Copyright 2003 IDC. Reproduction is forbidden unless authorized. All rights reserved.

Published Under Services: Consulting Services; Corporate Learning and Performance