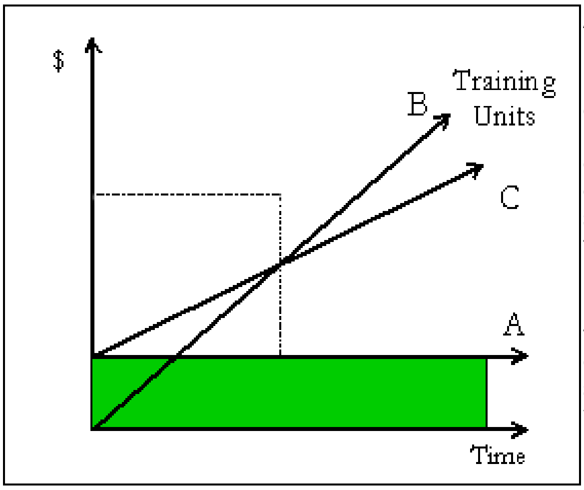
Pricing Strategies

There are three fundamental pricing strategies traditionally used to structure a training outsourcing deal. Each strategy incorporates the element of risk. Your tolerance for risk and your willingness to reward for success should drive your decision on which strategy is best for your organization. Risk is an important element because you must understand that the buy side company is always interested in reducing the costs of training and the supply side company is always interested in increasing the amount of revenue and profits from the outsourced training services. These objectives fundamentally are in conflict.

The following is a short overview of each of the pricing strategies. Each are much more complex than can be described in this document so we advise you to speak to an outsourcing expert who can help optimize a pricing strategy for your business.



Pricing is a "Risk Mitigation" Strategy

A. Fixed Pricing

Fixed pricing provides the least amount of financial risk to the buy side company but has a high risk of failure. It guarantees a fixed amount of compensation to be paid to the supply side company during each time period for the same set of services.

Fees do not change based on the frequency or volume of activities delivered. If there is high variability in services, the risks are increased that your services will not be performed at a level required when your volumes increase above baseline levels. Fixed pricing provides high margin potential for the supply side company when volumes go below baseline levels.

This model is most widely used when only training operations or administration services are included in the deal. This model is not recommended when more complex and variable processes like content development and delivery are involved in the deal.

B. Variable Pricing

Variable pricing involves fees being paid based on a 'fee per unit of delivery' (FPU) basis or some form of incentive pay for performance. An FPU strategy is usually employed when the costs of services are priced on a fee per student day of training, or a fee per registration, or a cost per session delivery. This model is very common and often preferred by the buy side company. It provides extremely high risk for the supply side company if the volume of training services needed drops below the fixed costs to deliver the outsourced services. In other words, risks get higher for the supply side company as volumes decrease.

While the buy side company saves money during reduced volumes of training services, the strategy has an inherent conflict of interest between the buy and supply side partners. The conflict occurs when the buy side company needs to reduce the amount of training for a period of time. The supplier is primarily interested in increasing the amount of training delivered because more volume means more revenue and profits. Thus, the risks are ultimately higher for both parties in a variable pricing strategy.

To mitigate these risks, some companies have selected to implement a 'gainsharing' financial strategy. Gainsharing occurs when the supply company successfully works to save money for the buyer and is rewarded by receiving a portion of the savings as a bonus. A supply company may implement a change to a business process which reduces the internal costs to the buyer, then a percentage of that savings would be paid to the supplier for their efforts.

This strategy is often used independently of a fixed, variable FPU, or blended pricing model for services but is included in this discussion because it is a variable approach to compensation. It is growing in popularity because it shares the risks and rewards but companies struggle with implementation because of the ambiguity of who actually created the savings.

C. Blended Pricing

A blended pricing model has become much more accepted over the past couple of years as companies are learning how to manage risks more efficiently and recognize that partners must share the risks to be successful. A blended pricing structure involves a fixed fee for a baseline set of services and also a variable fee based on the frequency of delivery of a set of activities.

An example of a blended pricing model might include a fixed monthly fee to support the training operations team - designed to cover fixed costs - and a supplemental, variable fee based on the number of student training days delivered during the month. An important aspect of a blended strategy is that overhead expenses of operations are not included in the fixed fees. This is different from variable pricing where overhead is included in the rate per student day.

The greatest advantage of blended pricing is that it is a shared risk model and, in the long term, the most risk neutral between the two parties.