The Cost of E-Learning (Jul 09)

"How much will it cost?" It's one of the first questions asked by anyone looking to start an online program. The answer, of course, is neither easy nor straightforward.

E-learning is a business activity. It has a value to the business, a start-up cost, and running costs. The costs must be managed if the program is to stay within budget and yield an adequate return on investment.

The question of start-up versus ongoing costs can best be answered if the program scope can be defined for the first two or three years. First-year costs are high, while ongoing costs are typically lower. Return on the time and money invested are typically realized toward the end of the first year. Second-year returns are higher as more courses are offered and the subscriber base expands.

Expenses include the software applications used to create the online presence, establish management functions, create the courses, and enable their delivery. Course creation costs and maintenance are ongoing expenses associated with student support. "It costs money to make money," the saying goes, and that is as true for online programs as for any other business endeavor.

The answers to questions of cost are usually broad and rough at the outset and then become more refined as the project comes into focus. A needs analysis is a starting point, but important (and costly) needs are often not captured until the organization has spent time thinking about the implementation.

Decisions such as the impact of using in-house computer resources versus outsourcing of the IT portion, for example, may not be understood until discussions are well underway. Moreover, IT costs are often underestimated.

What, then, might costs look like?

Size and Budget

A typical first-year budget may be in the $100,000 - $200,000 range for a Fortune 1000 company, while a small business or divisional learning initiative may spend $30,000 – $50,000. Smaller learning initiatives cost less because there are fewer concerns, such as tying it in with CRM software.

Enterprise level implementations require a lot more design and upfront work (money), as there are more players, issues, and integration. The bigger the project, the more it's going to cost.

This discussion focuses on the concerns of this mid-market, which covers learning systems engaging between 1,000 and 5,000 learners.

Mid-Market Costs

The costs of mid-market programs vary significantly, and there are several different costs within, including:

- initial cost of the LMS, LCMS, and authoring software,
- annual software maintenance (typically 15 percent to 20 percent of the purchase price)
- software licenses required to run the applications such as SQL Server, Cold Fusion, Crystal Reports, among others
- "free" systems of the open source genre, such as Moodle.org (costs are different for "free" systems)
- the initial and ongoing cost of training people on three or four different software applications
- integrating, maintaining, and updating the software and servers, and other IT needs
- managing multiple vendor relationships
Here's a recent example of costs from a small company that manufactures products and is a leader in its field. The company decided to move its internal and external customer training courses online, about 30 courses in all. The HR manager in charge had experience as a trainer but no background in designing, creating, and managing an online learning initiative. The manager received advice from various vendors and had decided the following were needed:

1. **A learning management system (LMS): $50,000–$200,000.** A cumbersome, home-grown database application was being used to track training, and the company saw the need to upgrade to a commercial LMS. The perception was fueled by 1) cost projections of bringing the home-grown application up to speed to learning standards conformance (SCORM) and open source standards, 2) the perceived need to import a purchased library of 200 courses, and 3) the need for certain features, such as reporting. The LMS packages being evaluated ranged from $50,000–$200,000.

2. **A learning content management system (LCMS): $50,000–$150,000.** The manager did an online search for "content management" and came up with three candidate packages. The prices for this trio ranged from $50,000–$150,000.

3. **An authoring tool: $1,500 per workstation.** An authoring package that is aggressively marketed and widely used was priced at $1,500 per workstation, and two full-time employees were slated for the authoring positions. Additional costs included initial training, annual upgrades for the software, and sustainment training.

The low-end estimate reached approximately $175,000 for the project. The only "moving target" difficult to quantify is the LMS pricing model, which is rarely a fixed cost. Indeed, the cost often escalates as the number of learners on the system increases or on the whim of the LMS company. This can make the annual cost of having an LMS an open-ended budget item, unless it's tightly managed.

Sticker shock is not unusual. Initial costs from $100,000–$500,000 have caused many "small implementation" managers to say, "Hold on. All we want to do is offer a few courses online. Isn't there a cheaper way to do this?"

Given ongoing concerns about cost constraint, the manager who can post the courses, deliver a report to management on students who took the courses and their subsequent grades, and do so for less money is a hero! Considerations such as standards, quality, and second- and third-year costs often either are not considered or are secondary. This will hurt the initiative further down the road.

**'Get Our Feet Wet' Option**

There are simpler e-learning solutions used every day by both mid-market and major corporations, which include authoring in Word or PowerPoint (already own it), saving the content in HTML/XML format (Word does that), and posting the course on a Web site created by the resident webmaster. This is a workable and inexpensive solution if one needs to deliver three or four courses.

However, managers who choose the cheap way out often do not see the need to add the costs of SCORM as the benefits don't apply. What does SCORM buy if a group is building each course from the ground up? They also may underestimate the amount of time and aggravation it takes to build and launch one of the "free" do-it-yourself, open-source LMS packages.

As seductive as low-cost solutions are to frugal managers, there are issues with going that route. The biggest issue is that e-learning programs inevitably tend to grow in the numbers of courses, complexity of interactivity, evolutionary needs (such as the importation of third-party courses), and "nice to have" needs, such as podcasts, video, blogs, wikis, RSS feeds, standards conformance, linking to a human resources
information system, and more. The growth in the scope of the program brings an increase in the cost of the system. But there is an alternative route.

There are vendor products and even complete services suitable for the mid-market, which give most of what would be on anyone's RFP wish list. They usually have integrated the LMS, LCMS, and authoring tool functions into one product.

Tightly integrated products like these have several advantages. Savings in license fees, "glue" software, and ongoing training drop right down to the bottom line costs of running the initiative. The cost savings of choosing learning software correctly becomes apparent as the implementation matures in years two and three, and ROI becomes an important calculation for budget continuation.

There are costs associated with "getting it right" the first time. The design considerations for the initiative are the most important first steps to take when planning for e-learning. Taking into account all the considerations noted in this article can help to project and control costs and help to ensure success.

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