



White Paper

Offshoring E-Learning: What Works[®]

Best Practices for Selecting and Managing an Offshore Partnership

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Table of Contents

Introduction	3
The Benefits of Offshoring	3
Offshoring Opportunities	5
Custom Content Development	5
Localization and Translation Services	6
LMS Hosting and Implementation Services	6
Decision Criteria	8
Finding the Right Partner	9
Internal Assessment	10
Vendor Selection	11
Vendor Review Process	14
Signing the Contract	15
Making it Work	17
Establish Project Structure	17
Communication	18
Track Performance and Evaluate Results	19
Think Long Term	19
Start Small	19
Conclusion	20
About Us	21
About This Research	21

Table of Figures

Figure 1: Strategic Benefits of Offshoring	4
Figure 2: Prime Areas for Offshoring	5
Figure 3: Offshoring Examples	6
Figure 4: Steps to a Successful Offshore Partnership	9
Figure 5: Due Diligence Checklist	13
Figure 6: Key Attributes for "Onshore" Project Lead	18

Introduction

There seems to be a stampede of U.S. companies rushing to outsource their operations to offshore partners. As a result, the economies of India and China are booming. What is fueling the trend is the desire to gain access to lower cost, high quality labor. Top business functions for offshoring include customer service, IT and technology services, and now corporate training.

According to an ASTD study, 38% of corporate training budgets go to outside services.¹ Today, just a small percentage of these funds go to overseas suppliers, and we expect this to multiply in the next few years.

The reasons for offshoring learning initiatives are the same as those for other business functions: First and foremost, companies want to take advantage of lower labor costs overseas. In a study by the World Outsourcing Summit, nearly 48% of outsourcing decisions are made to reduce operational costs.² But cost savings is no longer the sole driver of offshoring. Increasingly, firms are recognizing that offshoring provides improved business performance by focusing internal efforts on core competencies and strategic activities. Offshoring also enables learning teams to maintain a lean in-house staff and still meet business demands during peak times.

The Benefits of Offshoring

A \$10K–\$50K content development project in the U.S. would cost 20% to 40% less in India.

As in other business functions, training managers are under pressure to reduce expenses and demonstrate their value to the corporation. Maintaining an internal team of content developers, instructional designers, administrators, and instructors is expensive. More U.S. training departments are looking overseas to provide resources for their training initiatives.

We interviewed one U.S. conglomerate which has been offshoring its e-learning content development to Indian firms (SIFY and Tata Interactive Systems) for the past few years. According to a learning professional at the company, the total savings from offshoring amounted to approximately \$500,000 last year, roughly 40% below what they would have paid to U.S.-based suppliers.

This is consistent with the experience of other firms we interviewed. Based on our research, a \$10,000-\$50,000 content development project in the U.S. may cost anywhere from 20% to 40% less in India.

¹ *Outsourcing: What it Can Do to Your Job*. ASTD. October 2004.

² Fortune Magazine. May 2004.

Of course, cost savings is not the only factor to consider. A vendor's internal skills, processes, and service and support capabilities are all important to a project's success.

And, as one e-learning executive noted, "The real measure of success is whether the courses are meeting their objectives." This organization measured the effectiveness of its learning programs through knowledge assessments and business impact measures, such as reduction in defects and reduction in help desk calls. The company found that the courses developed by its offshore partners were meeting the same standards as its U.S. suppliers in effective transfer of knowledge as well as business impact.

Strategic Value of Offshoring

Training executives experienced with offshoring also point to the strategic benefits. Indeed, one of the key benefits of offshoring (and outsourcing in general) revolves around enabling the firm to focus on its core competencies and strategic issues.

Our research has found that many training teams struggle to stay focused and look to offshoring as a way to increase their strategic value to the company. Typical strategic activities for training managers include aligning training with business priorities, tracking and benchmarking the effectiveness of training programs, and evaluating new training methods and technologies. Offshoring enables managers to spend more time on these issues.

Strategic Benefits of Offshoring	
1.	Focusing on strategic <i>planning</i> with upper management and how learning fits into the organization's strategic plans.
2.	Working with <i>first-line managers</i> to better understand their specific line-of-business training needs.
3.	Developing approaches for <i>measurement and analytics</i> to benchmark and track the effectiveness of training programs.
4.	Evaluating <i>new technologies and approaches</i> that may improve training efficiency and/or effectiveness.

Figure 1: Strategic Benefits of Offshoring

Offshoring Opportunities

Companies considering offshoring often wonder where to start. Prime areas for consideration include content development, localization and translation services, and learning management system (LMS) hosting and implementation service.

Custom Content Development

E-Learning content development is a complex and multidisciplinary process. Training organizations must find the instructional design, web development, project management, and integration skills to build online courseware. This effort can amount to a sizeable number of staff resources.

Prime Areas for Offshoring	
E-Learning Content Development	The complexity of building e-learning content is daunting. Developing custom e-learning content is probably the biggest area for offshoring today.
Localization and Translation Services	A growing area for offshoring, as more U.S. firms need to localize e-learning content and recognize the potential cost savings in this area.
LMS Hosting and Implementation Services	LMS systems are complex and difficult to manage. More companies are offshoring the hosting and operation of these systems to reduce their "back-office" functions.

Offshoring can help to reduce the number of full-time in-house staff required. Firms may offshore pieces of content development or the whole process.

One of the companies we interviewed initially split its content development efforts by outsourcing the instructional design to a U.S.-based provider, which would then send the storyboards to an India firm to program. This process was not fully effective and led to increased cycle times and miscues.

Figure 2: Prime Areas for Offshoring

Now the company offshores the whole project—from instructional design through programming—to its Indian partners. The company explained that until recently, U.S. companies were far superior in their instructional design capabilities. However, in the last few years, the advancement of skill sets within Indian companies has enabled the company to offshore the whole process.

Offshoring Examples	
United Nations Development Programme	Offshores all technical course development and translations to India.
Hyperion	Offshores much of its content development to India; develops some components such as audio and advanced multimedia in-house.
U.S.-based Conglomerate	Offshores content development to India and translations to Mexico.

Another model is the one used by Hyperion, which maintains ownership of parts of its content development in-house. While the company offshores much of its e-learning content development to India, Hyperion's internal team continues to develop some components, such as audio and advanced multimedia. Hyperion prefers to maintain domain expertise for these functions in-house. This model allows Hyperion to take advantage of the core competencies of both its internal and external teams.

Figure 3: Offshoring Examples

No one model is the perfect fit for every organization. The choice will depend on each organization's internal resources, project requirements, and desire for control over the process.

Localization and Translation Services

As e-learning usage continues to grow in the U.S., training departments in global corporations must find ways to build *and* localize their content. More firms are recognizing the potential cost savings of offshoring the localization of their e-learning content. Many overseas firms are offering translation services for the primary European and Asian languages required by U.S. companies.

Many of the companies we interviewed are turning offshore firms for more of their localization and translation needs. When undertaking such a project, they stressed the importance of understanding the offshore vendor's process for translation and their pricing structure. Some vendors will have the resources to perform the translations in house, while others will need to outsource some or all of the translations. It is also important to investigate their process for ensuring the quality of the translations. This is a relatively new but growing market, and many offshore firms are still experiencing growing pains in this area.

LMS Hosting and Implementation Services

E-Learning technology is becoming increasingly complex to manage. Administering, managing, and supporting e-learning technology requires knowledge of enterprise systems, database technology, AICC and SCORM standards, web development tools, and networking.

LMSs, in particular, are complex enterprise systems that touch every employee, manager, and customer in an organization. Many companies do not have the resources or expertise to effectively implement, manage, and maintain these systems.

From an implementation perspective, offshoring can reduce costs in two ways. First, the provider may have simplified solutions that reduce the number of configuration and customization options for implementation, saving time and money. Second, there is no need for the organization's IT group to become heavily involved, again, saving time and money by leveraging the external provider's existing servers, databases, security, and network infrastructure.

On an ongoing basis, significant benefits and cost savings can be achieved through a hosted solution. In our study, "Training Outsourcing: What Works™"³, we found that firms outsourcing their LMS realized significant savings in operational costs and staffing versus firms running their LMS internally. The ongoing operational costs for organizations outsourcing their LMS were 60% lower, on average, and these organizations maintained 42% fewer in-house technical staff resources.

Other benefits of using an offshore provider to host the LMS include the following:

- The offshore provider manages upgrades, system maintenance, and IT operations across a wide range of customers and, hence, achieves excellent economies of scale.
- The offshore provider is an expert at the operation of the LMS. A single operator can manage several LMSs and manage back-office functions, such as catalog management, very efficiently because they are experts in the system.
- System upgrades are typically easier in a hosted solution. Companies running their LMS internally often struggle through long upgrade cycles because of customizations made to the system or their inexperience with the upgrade process.
- Offshoring LMS operations means the company needs to identify, train, and retain fewer technology staff in-house resources. The organization can shift resources to more strategic activities.

Organizations outsourcing their LMS operations save 60% in operational costs and 42% in technical staff resources versus firms running LMS operations internally.

³ Available at <http://store.bersinassociates.com/outs-economics.html>

Decision Criteria

Many companies establish processes for making decisions on what to offshore. You may already have established an *outsourcing* decision model—many of these same criteria apply.

The following types of projects may be good candidates for offshoring:

- Labor-intensive projects that take advantage of cheaper wage rates. For example, if you want to turn existing instructor-led training or manuals into e-learning content, offshoring can work extremely well. Large content development, localization/translation, and LMS projects also fall into this category.
- Projects that do not require intensive interaction or collaboration between developers and subject matter experts. Application training, where the offshore team has ready access to the software and can develop the training without much collaboration, is one example.
- Projects large enough to justify the necessary management attention that offshoring requires. Consider pooling resources with another business unit or division to offer a more sizeable amount of work. Larger projects are more attractive to the offshore partner and may also get you a lower price.
- Projects that are not time critical. At least for the first few projects, your organization will need to spend more time with your offshore partner to work through communication and process issues.
- Non-strategic programs or initiatives (keep strategic programs in house).
- Areas in which the company does not currently have, and does not wish to build, a core competency.

After identifying which projects or initiatives to offshore, you are ready to start the vendor selection process.

Finding the Right Partner

Finding the right partner is obviously an important part of ensuring the success of an offshoring initiative. But just as important is how you set up and manage the project, and then revise your process based on the results.

The following diagram shows the general steps involved in initiating and managing an offshore partnership. The process is circular, indicating that after you complete a project, you then apply the lessons learned to improve the process for the next one. Continual process refinement is part of a successful offshore partnership.

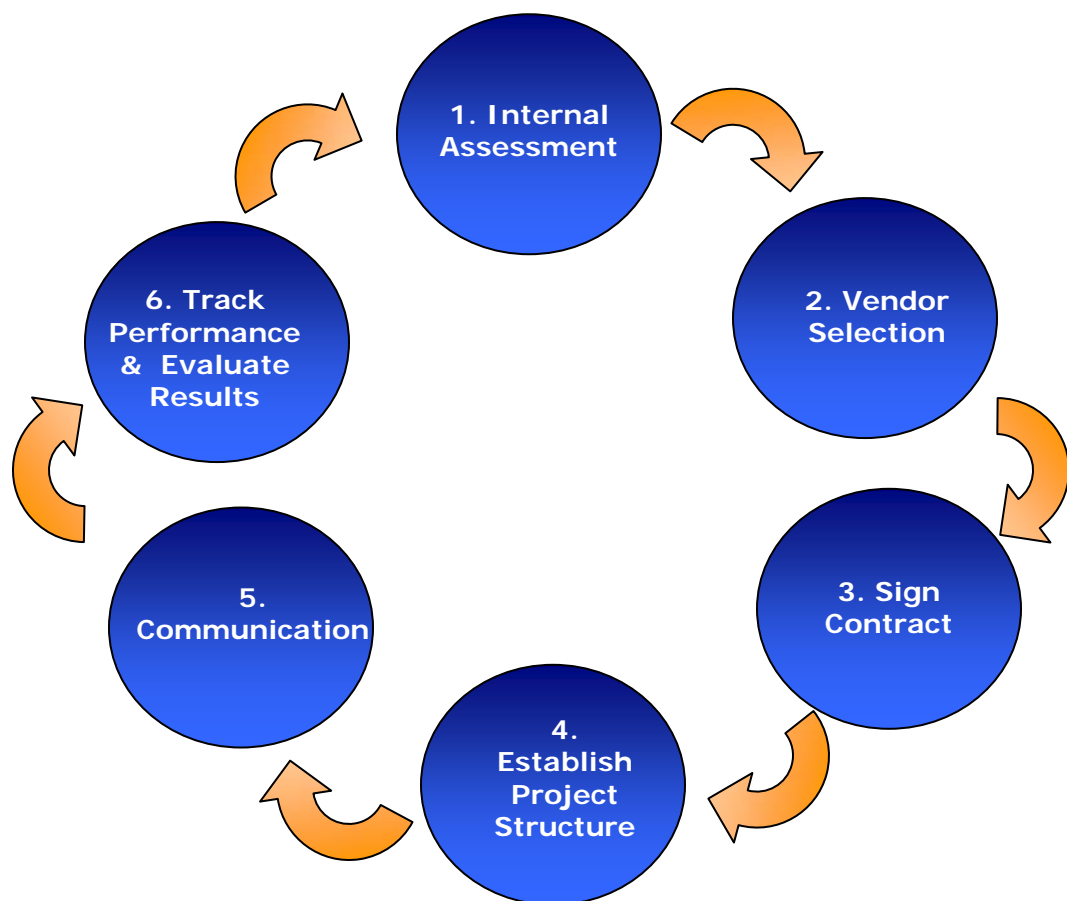


Figure 4: Steps to a Successful Offshore Partnership

Internal Assessment

Some additional internal homework is required at the start of the process. Issues that must be addressed include the following:

You must identify what resources are required in house, and commit these resources to the project's success. Roles should be clearly defined and understood up front.

- *What parts of the project (if any) should we keep in house?* Keeping some activities in-house adds to the complexity of managing the project and requires a greater degree of communication between the internal team and offshore partner. The decision will depend on your internal resources, your team or organization's core competencies, and your desire for control.
- *What resources are required in house?* This should include a project lead to facilitate communication with the offshore partner and subject matter experts. It may also include instructional designers, developers, and technical personnel. Whatever resources are necessary, they should be made available and committed to the project's success. Roles should be clearly defined and understood up front.
- *What are the project goals?* These must be clear to both the company and offshore partner to ensure expectations are set correctly and everyone is working toward common goals.
- *How will we measure the success of the project?* Again, success measures should be clearly identified and accepted by all parties involved.
- *Are we committed to a long-term partnership with an offshore company?* The first project will likely have many hiccups, so prepare to invest in the relationship and make it work for the long term. If you are thinking of this as a one-off project, you will likely be disappointed with the results. For these unique projects, it is probably better to hire a U.S. vendor and pay the premium.

Vendor Selection

There are many factors to consider when evaluating an offshore partner. The top characteristics are:

- Financial Stability
- Talent
- Process-driven
- Scalability
- Service and Support

Financial Stability

As in the U.S., there are a myriad of learning service providers abroad, and new ones are popping up every day. Some will be out of business in a few years (or less). If you are looking at offshoring as a long-term partnership (and you should be), you will want to choose a solid company with a high potential for longevity. Look at the company's financial records for the last three years to determine profitability and cash on hand. If the company is private, you can ask to see these records under a nondisclosure agreement (NDA).

In India, there are a few "high profile" suppliers such as SIFY, Tata Interactive, and NIIT. While by no means a guarantee, these companies already have significant customer bases and are a safer bet than some of the newer entrants. While you might get a better price from a smaller company, you should make sure you are comfortable with its long-term potential.

Talent

Many offshore companies claim to be experts in e-learning content development or technology. You must interview them in depth to assess their skills and training methods.

From a content development perspective, find out whether they use sound instructional principles. According to one training professional we interviewed, Indian companies have taken a while to build up their skill sets in the area of instructional design. In just the last few years, many have gotten up to par with U.S. companies—but not every company has developed the internal skills necessary to build an effective online course.

To assess the staff's knowledge of basic learning and instructional design principles, ask the offshore firm to send you a typical course to evaluate. Does it have objectives? Is it engaging, not just through fancy graphics, but through instructional methods? How is the user interface?

Then, interview the company's staff about topics such as Bloom's Taxonomy and knowledge of adult learning theories.

Another area to explore is how the offshore company trains its employees. Some companies will have a staff person, who has the appropriate degree or training (many times from a U.S. university), whose job is (at least in part) to train others. But what if this expert leaves the company? With the Indian tech sector being white hot these days, retaining top talent is a challenge for nearly every firm. It is important to understand how employees are trained and kept up to date.

Questions for the offshore firm include the following:

- For the key personnel: What degrees do they have and from what universities?
- What is the organization's retention/turnover rate?
- How are employees trained (initially) and how are they kept up to date on new tools and methodologies?
- How technically savvy is the organization? What technologies do they use? For content development, for example, do they use HTML, Flash, simulations?
- How knowledgeable are they about AICC and SCORM? If they claim their content is AICC and SCORM compliant, ask them to show you a course and explain WHY it is AICC/SCORM compliant.
- How knowledgeable are they about your LMS? Do they use it as a testing platform?

Finally, consider whether it is important that the vendor has experience in your organization's industry. Knowing the problems your customers face and the terminology they use can prove to be extremely valuable in creating effective learning courses.

If a vendor is working with your competitors, however, this can also raise some concerns. In this case, find out how the vendor deals with intellectual property and privacy issues.

Process-driven

Providing high-quality services remotely requires well-developed project management skills and processes. Look for companies with the tools, methodologies, and management expertise for providing services to clients across geographies.

Ask for metrics, such as the percentage of courses delivered on time. If they have an 80% on-time completion rate, find out what happened in the other 20% of projects that were delivered late. Ask the firm to show you their last 15 projects with the projected and actual delivery dates.

Due Diligence Checklist
✓ Staff bios, skills, and training methods
✓ Retention/turnover rates
✓ Industries served; expertise in your industry
✓ Financial records for last 3 years
✓ How is IP protected? Does supplier have standard NDAs?
✓ Technologies used; integration with your systems
✓ Project management, monitoring, and QA processes
✓ On-time, on-budget metrics
✓ Number of customers, size of projects, number of staff per project
✓ Client references
✓ Communication skills
✓ Cultural fit (including fit with the way your team/organization does business)
✓ Geographic reach: Do they have local office near you?

Understand how the firm's processes are built to ensure quality *every* time. The processes must be repeatable so that every project has the same high level of quality.

The firm should also have project monitoring capabilities so you know at all times whether your project is on schedule. Ideally, these capabilities should be online, so you can look at your project status any time of the day, without waiting for your offshore project manager to respond to you.

Scalability

If you are planning to offshore a significant number of projects or operations, scalability will be a key factor.

Find out how many resources the firm has on staff and how they manage their workload. If your project demands vary over time, will they be able to (and be satisfied with) 1 or 2 projects this quarter, and 20 the next?

You will also need to estimate how fast your organization's workload is growing and assess whether the offshore partner has the capacity to scale with your business.

Figure 5: Due Diligence Checklist

Service and Support

Service and support are typically not among the main factors considered when selecting a vendor. However, these are often the key drivers of satisfaction with an e-learning product or project.⁴ A vendor's level of service may be tied to its available resources or its number of customers. Many e-learning professionals who have selected smaller vendors have told us they receive an extremely high level of service and personal attention.

Service may also be a value that some vendors, regardless of size, internalize more than others. For example, the United Nations Development Programme group (UNDP) has found outstanding service from many of its offshore suppliers. A Technical Specialist at the UNDP's Learning Resources commented that their partners in Asia will "bend over backwards" to get things done and have managed to turn around requests in a day that would have taken other firms a week to complete.

Many of the large offshore companies maintain U.S. offices to provide better service and support to clients at a local level. This convenience helps facilitate communications and enables quick face-to-face meetings. An "onshore" project model (described in the *Making it Work* section) can also be used effectively to improve communications and the level of service.

Vendor Review Process

After narrowing down your vendor list to a few candidates, conduct a formal vendor review, including all key stakeholders in your organization. It is best to meet with vendors in person, either at your office or theirs. Some training executives stress the importance of visiting the partner at their overseas headquarters or where the work will be performed. Many times, the final decision of whether to work with someone comes down to "likeability"—do you trust and want to work with these people? The best way to assess this is to meet them in person and look at first-hand how they do business.

One company we interviewed conducts an extensive vendor review process annually to select its offshore partners. This process could be used as a model for other companies. Here is how it works:

- The company first conducts in-depth interviews with several offshore vendors and evaluates a sample course submitted by each.

⁴ See our study, *LMS Satisfaction 2005*, by Bersin & Associates, available at <http://www.bersin.com>.

- The team then invites two or three of the vendors to an auction where they will bid on a block of development time. The team asks vendors to bid on a smaller number of hours than they expect to complete, and then builds in discounts for overage.
- The vendors submit bids for course development in a three-tier structure, according to educational objectives. The higher the tier, the more complex the interactions and simulations, and thus the higher the cost. Pricing is based on the finished course hour, not the development time. This way, the company can more closely monitor its budget.
- At the end of the auction, the team ranks the vendors, awarding the highest ranked company a guaranteed number of hours with discounts for additional work.

At the end of the vendor review process, you may decide select one vendor (“sole source”) or multiple vendors. Investing in multiple partnerships is advantageous when the workload is too much for one vendor or when vendors have different strengths or core competencies. One company we interviewed works with three vendors, one in India, one in Canada and the third in the U.S. The company likes to get fresh perspectives and finds a higher degree of creativity in its course development by working with multiple partners.

These are the advantages of selecting multiple vendors. But be wary of trying to maintain too many relationships simultaneously. The economies of scale and time needed to transfer knowledge can be maximized with one, or at most a few, partnerships.

Signing the Contract

As with any business relationship, contractual details must be carefully crafted to protect the interests of both client and supplier. Here are some considerations when drafting the vendor contract:

- Clearly define metrics for success and failure for both the company and offshore vendor. Establish checkpoints throughout the project, and define escalation processes if the project goes off track.
- Develop a performance-based incentive structure, including metrics for acceptability. Incentives may be based on the project schedule, with penalties if the project falls behind due to vendor errors, or quality metrics. Alternatively, a bonus structure may be put in place for early delivery or exceptional quality.
- If possible, establish fixed pricing by the project or course hour (for the finished course), rather than pricing by the hour. This will help you to better predict costs.

- Address intellectual property and privacy issues. These are not uniformly understood and adhered to around the world, and should be clearly spelled out and understood.
- For the worst case scenario, define exit clauses that address responsibility for documents, transfer of knowledge, and intellectual property rights.

Making it Work

Once the vendor is selected and the contract is signed, there are many factors that determine a successful relationship. Here are some suggestions from training executives experienced with offshoring.

Establish Project Structure

Appoint a project lead from your team to work with the offshore team. This person can provide links to business units and serve as a troubleshooter, ensuring that the offshore partner makes steady progress and works efficiently. The project lead can facilitate project execution by easing communication and arranging for company-specific documents or requests.

If multiple divisions are using the offshore partner, a central management team should be set up to manage the relationship as a whole; otherwise, an excess of contact points will give rise to misunderstandings and missed deadlines. Internal groups may be asking for similar resources from the offshore partner, which can be streamlined through a central governance structure.

An “Onshore” Project Lead

One model that has been widely successful is that of an “onshore” project lead—a member of the offshore team sent to the client’s site. This project lead may remain “onshore” at the client’s location for the initial kick-off phase or throughout the entire project. Some companies have enough offshoring activity to warrant a full-time resource from the offshore partner to remain at their location.

Having an onshore resource can help substantially, resulting in fewer project delays and miscues. This model can help diminish cultural and communication issues. It also enables a faster learning curve for the offshore team to understand the organization’s needs and business issues.

Key Attributes for "Onshore" Project Lead	
Leadership	Ability to lead and motivate the offshore team remotely
Assertiveness	Comfortable pushing back on the offshore team <i>and</i> on the client
Skill Set	Firm grasp of instructional design principles or technology (depending on the project) plus project management skills
Domain Expertise	Knows the client's business and understands the challenges and terminology of customers/learners

Figure 6: Key Attributes for "Onshore" Project Lead

The skills and characteristics of the onshore project lead will determine how effective that person is in his/her role. One of the most critical attributes is that he/she be well-respected by the offshore team. One learning professional emphasized, "We need to constantly reinforce the message to the offshore team that this *is* the person in charge." Leadership and assertiveness are, therefore, important attributes for the onshore project manager.

The necessary skill set will depend upon the project. For a content development project, the person should have solid training in instructional design principles.

Project management skills are also useful, although these may be more easily taught than some of the other skills or attributes such as leadership.

Finally, experience in your organization's industry can make project lead more effective in understanding the issues faced by your business and your customers.

Communication

Lack of communication derails many projects. Training executives or sponsors must stay heavily involved, especially on the first several projects. Do not be tempted to just dump the project "over the wall" and expect it to be delivered to your satisfaction. The training executive or sponsor should continually check in with the project lead to maintain the flow of communication.

To facilitate project management, set up a portal or central repository containing project timelines, storyboards, and other documents. With the significant time difference between the U.S. and Asia, it is important to provide all team members with round-the-clock access to information and resources.

Contrary to many assumptions, some training professionals say that the time difference works to their advantage, allowing more work to get done. The U.S. team can review materials and communicate their needs to the offshore team, who work on the issues during their normal business hours. So work is getting done around the clock, with less time delay.

Track Performance and Evaluate Results

The project lead should track the schedule closely and monitor its progress against the goals. Many offshore providers have monitoring systems that provide access to the project's status at any time of the day. Good project managers will look for problem spots and try to head them off before they become a crisis.

Insist on regular reviews with the onshore and offshore project teams. Most teams hold a weekly status meeting to review progress and metrics. These meetings should be attended by the project manager or lead, the training executive or sponsor, and key individuals at the client and offshore sites (via conference call). At the beginning of the project, these meetings may be needed 2-3 times per week. Afterwards, weekly or bi-weekly meetings may suffice.

If the schedule slips or a goal is missed, the project lead should ascertain the cause. This determination will be critical if the contract contains penalty or incentive clauses. Look for potential remedies to feed into your lessons learned for the next project.

Think Long Term

Sundar Nagarathnam of Hyperion warns, "Expect some glitches with your first offshore projects." Your initial attempts at offshoring are unlikely to meet your highest expectations. It takes a while to develop a relationship and a consistent process.

Offshoring is not the best option for ad hoc or one-off projects. The time and energy you will spend initially with an offshore firm will far outweigh any cost advantages. Therefore, think about offshoring as a partnership for the long term.

Start Small

One last piece of advice: For your first offshoring project, it is best to start with a relatively small project or a pilot. Use this project to figure out the right processes and staffing, then make the necessary changes and build on your successes. Remember that the process is iterative, wherein you will continually feed your lessons learned back into the process to improve it over time.

After a few successful programs, you can entrust larger, more critical projects to the offshore partner.

Conclusion

The widespread use of the Internet and telephony technology makes it relatively easy to communicate across continents. These trends are helping more organizations to offshore business functions to improve their efficiency and focus. Outsourcing is nothing new for training organizations. Most training groups have been outsourcing content, delivery, and content development for years and, more recently, have moved toward outsourcing technology operations and support functions.

The outsourcing of training functions and technology is a major trend in the market and, despite many political issues, we believe offshoring will grow accordingly. Organizations should look at the opportunities to focus on their core competencies and take advantage of offshoring's economic benefits.

Managing an offshore project can prove to be tricky, however. Without discipline for managing these projects, a company can squander the costs it had hoped to gain. Communications and governance structure are critical aspects to the success of the project. To address these issues, overseas firms may be willing to dedicate an onshore project lead to the client's site, either during the initial phases of the project or full-time. Many overseas firms are also establishing U.S. offices to provide greater service and support to their clients.

On the other side, more U.S. companies are establishing offices overseas to take advantage of lower-cost, high-quality labor. If you feel more comfortable working with a U.S. firm, this could be a viable option. But, you are unlikely to realize the full cost advantages of using a purely offshore supplier because you will still be paying some of the overhead costs of the U.S. company.

When working with an offshore supplier, the relationship works best when the buyer commits a sizeable chunk of its projects or operations to a long-term partnership. Offshoring one-off or ad hoc projects will not likely meet your expectations, and it would be better to outsource these projects to a local supplier. The benefits of offshoring will be fully realized through an iterative process and committed partnership between the organization and offshore supplier.

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