

Training Outsourcing: *What Works*TM

*The Economics of Outsourcing
Training Technology and Operations*

Bersin & Associates
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Study Overview

The term “outsourcing” is a hot topic in training. In this study we set out to identify specifically what economic benefits we see from outsourcing key training functions.

Outsourcing of training functions is a hot topic these days. Companies like DuPont, Nortel, and GM have committed to major outsourcing approaches. Hundreds of other companies outsource their content development, their LMS systems, and various parts of their training operations. In early 2004 we set out to understand the economics of outsourcing training operations. Why do companies outsource? What functions do they outsource? And most importantly, does outsourcing save money?

This study, co-sponsored by KnowledgePlanet™, looked at a wide range of US training organizations to understand several things:

- What functions are companies outsourcing today? We focused primarily on outsourcing of technology, LMS, back-office administration, and content development.
- What cost savings, if any, are they seeing?
- What impact on staff sizes and allocations does outsourcing have?
- What is the perceived impact on training effectiveness?

This study is the first of a series of research projects we are conducting on the strategies, benefits, and best practices of training outsourcing.

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The Business of Training Outsourcing

General Trend Toward Business Outsourcing

Widespread use of the internet and global telecommunications has enabled a tremendous growth in the outsourcing of business services. A recent study appearing in Fortune Magazine (May, 2004) showed that outsourcing among U.S. companies is up 50% from four years ago and growing 15%-20% annually. Top functions for outsourcing include payroll, HR management, customer service, call centers, technology, and now corporate training.

There are a variety of real business benefits to outsourcing business functions. The most important driver is *cost reduction*. As Figure 1 shows, nearly 48% of outsourcing decisions have the goal of reducing operational costs. The argument made here is that the outsourcing firm performs the same function on a much larger scale and therefore has more efficiencies and experience in a particular function. Outsourcing firms use lower cost labor, they can afford to purchase software technology and leverage it across a larger pool of workers, and they have lower costs because they are further down the “experience curve.”

Training is one of the most multi-disciplinary functions in corporations. Outsourcing of many functions is mandatory to deal with the wide range of training demands.

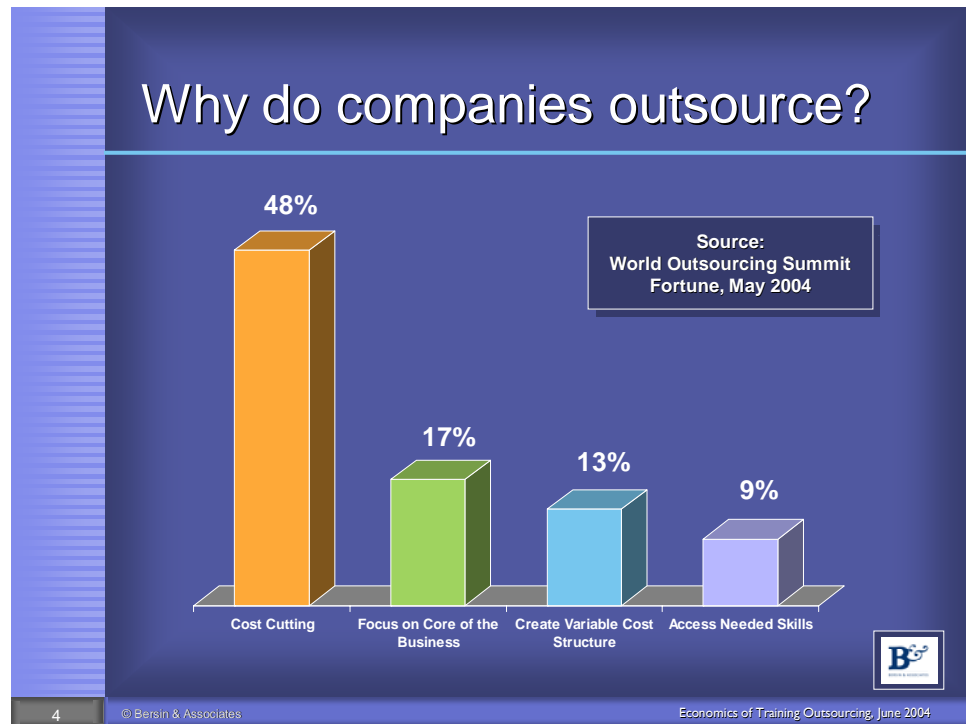


Figure 1: Why do companies outsource operations?

But there are other key reasons to outsource. According to the World Outsourcing Summit survey, 13% view outsourcing as a way to shift costs from fixed to variable: by reducing headcount and eliminating certain ongoing functions the company can grow or shrink and let the outsourcer handle the shifts in resource. In training consider the impact of a major new ERP rollout. A company may need a large influx of technical training for 12-18 months during this rollout period. After the rollout, however, these skills may not be needed again for years. If this function is outsourced, these skills can be “switched out” easily without the need to redeploy these skilled professionals.

The other key benefits to outsourcing revolve around focus. 17% of respondents outsource to further focus on the core of the business. As we describe later in this paper, our research found that many training organizations struggle to stay focused and would like to outsource certain functions to increase their focus and strategic value to the company.

Training has Always had an Outsourcing Element

Corporate Training has always outsourced many functions. Let’s examine why.

Training Requires Specialized Content

Corporate training is a complex and difficult operation. A small group of people is expected to build, deliver, measure, and manage a wide range of training – covering topics from field repair, sales skills, IT technology, new manager training, new hire training, all the way to executive education. This broad and constantly changing set of content forces training managers to constantly look for outside providers for courses, seminars, and events.

Training Requires Specialized Technology

Today, as e-learning becomes bigger and bigger, training organizations are finding themselves filled with complex technology to manage. Our research shows that more than 55% of large enterprises have learning management systems (LMS) and a similar amount have virtual classroom systems. There are dozens of tools and technologies which must be selected, purchased, and managed in order to run a training operation today.

Learning Management Systems themselves are complex enterprise systems which touch every employee, manager, and customer in an organization. Many training professionals do not have the background or skills to deal with the issues of selection, implementation, management, upgrade, and integration of these systems.

Training Requires Specialized Skills

Finally, as technology continues to take a larger and larger role in training, corporate trainers must learn many new skills. E-Learning content development, for example, is a complex and highly multi-disciplinary process. Our research finds that nearly 45% of most training organization consists of instructors. Where will training organizations find the instructional design, web-development, assessment, project management, and integration skills to build more and more e-learning?

Training is Often Viewed as a Cost Center

Let's face it; training managers have a very hard time demonstrating their strategic value to the business. According to ASTD (American Society of Training and Development), US companies spend between 1% and 3% of their payroll on training. Costs per employee range from \$300 to \$1500 or more per year. How many CEO's can really tell what their return-on-investment is from all this invested capital? If training is viewed as a cost center, the goal should be to drive down costs through any means possible.

What Functions do Training Organizations Outsource?

There are a range of functions that training organizations can outsource. They fall into the following categories:

What Functions do Training Organizations Outsource?	
Content	Most companies outsource many training programs which are “off-the-shelf,” including IT training, HR training, sales training, safety training, and many industry-specific topics.
Delivery of Training	Often times a company will need to roll out a large program quickly and needs skilled trainers to deliver existing programs. Frequently these functions are outsourced to seasoned training companies.
E-Learning Content Development	As we discussed above, the complexity of building e-learning content is daunting. Many companies hire small or medium-sized specialized design firms to build their custom e-learning content.
Learning Management Systems and LMS Operations	LMS systems are complex and difficult to manage. Many companies outsource the hosting and operation of such systems to save time and preserve critical technical skills.
Virtual Classroom and other Learning Technologies	Virtual classroom systems (ie. Webex) are often outsourced because they are “on-demand” systems which are used by many users in the organization.
Administrative Services and User Support (Back-office functions)	The administration of programs is time-consuming and complex. Launching a new program, implementing it into the LMS, handling enrollments, scheduling classes, and supporting learners is a time-consuming and very scalable process. More and more companies outsource these functions.
Vendor Management	Identification of content and e-learning vendors can be difficult.

	Once a company finds potential vendors they must be validated and references must be checked. Companies must then develop standard contracts for these vendors and negotiate prices. Outsourcing vendor management is a new wave in training outsourcing.
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Figure 2: What Functions to Training Organizations Outsource?

Does Outsourcing Save Money?

Choosing an external service provider, whether in the U.S. or offshore, to manage training operations offers advantages in efficiency, flexibility, and time to market. It frees up training personnel from working “back office” functions – administrative, paper-intensive activities - to more important “front office” functions – for example, working with business units to develop, launch, and manage excellent training programs.

But does outsourcing *really* pay off in dollars and cents? Firms may turn to outsourcing to improve their bottom lines, but what are the actual results? To answer these questions, Bersin & Associates embarked on an industry-wide study to quantify the total costs associated with running training operations, comparing firms running these operations internally with those outsourcing part or all of their operations.

The Study

To understand the true economics of outsourcing, Bersin & Associates gathered data from 106 companies, approximately half of which are running all training operations internally, and half of which are outsourcing one or more training functions.

Our Study Definition of Outsourcing

While there are many forms of outsourcing, our study focuses on the outsourcing of “back office” training operations. We categorize a company as an “outsourcer” if it is using an external service provider to do one or more of the following:

- Host one or more learning technologies (LMS, LCMS, virtual classroom, collaboration, or content development tools);
- Manage training administrative functions (managing enrollments, venues, logistics, supporting learners, integrating classes into the LMS);
- Perform vendor management activities (sourcing, negotiating, and contracting).

Most of the companies categorized as “outsourcers” in our study are outsourcing multiple training functions, but very few are outsourcing the entirety of their back office operations. As Figure 3 shows, the majority of companies are hosting one or more learning technologies, nearly one-quarter are outsourcing training administration, and approximately one in ten are outsourcing vendor management functions.

What Did the Study Companies Outsource?

What are “Outsourcers” Outsourcing	
LMS System Hosting	47%
Hosting other learning technologies (virtual classroom, content management, or collaboration)	70%
Outsourcing training administration	22%

Outsourcing vendor management	13%
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Figure 3: Functions outsourced in our study

Although our study was biased toward companies that outsource some functions, the relative percentages here are significant. This information shows us that in order of priority, outsourcers tend to outsource the following:

1. **Content-Driven Learning Technologies:** hosted learning systems (NETg, Skillsoft, ElementK) and virtual classroom systems (Webex, Centra, Interwise).
2. **Learning Management Systems:** Hosted LMS systems make up between 20-40% of the LMS Market (Read our study *LMS 2004: Facts, Practical Analysis, and Vendor Profiles* for details. (<http://store.bersinassociates.com/lms-2004.html>) Companies that play in this space include KnowledgePlanet, GeoLearning, Intellinex, Edcor, General Physics, and more.
3. **Training Administration:** this is an emerging trend but becoming more common. Most companies outsource the administration of IT training and often executive education to dedicated IT and executive education companies. Often sales training is also outsourced in such a way. Outsourcing of general training administration (help desk, course scheduling, etc.) is a small market but growing. Companies which play in this space include Knowledge Planet, Accenture, Convergys, General Physics, Raytheon, IBM, and Intrepid Learning Solutions.
4. **Vendor Management:** an emerging area – companies letting one vendor decide which vendors to use for their content and program needs. We see this as a small nascent market that is likely to grow slightly as companies realize how difficult it is to stay current on all the content offerings in the marketplace.

Methodology

The study encompassed in-depth telephone interviews coupled with a broad-scale online survey. The study captured detailed data on training expenditures and personnel involved in training activities. Follow-up contact was also conducted with survey participants to clarify information provided.

As demonstrated in

Figure 4 and Figure 5, companies interviewed represent a cross-section of industries and employee sizes. Only companies with more than 1,000 employees are represented in the study.

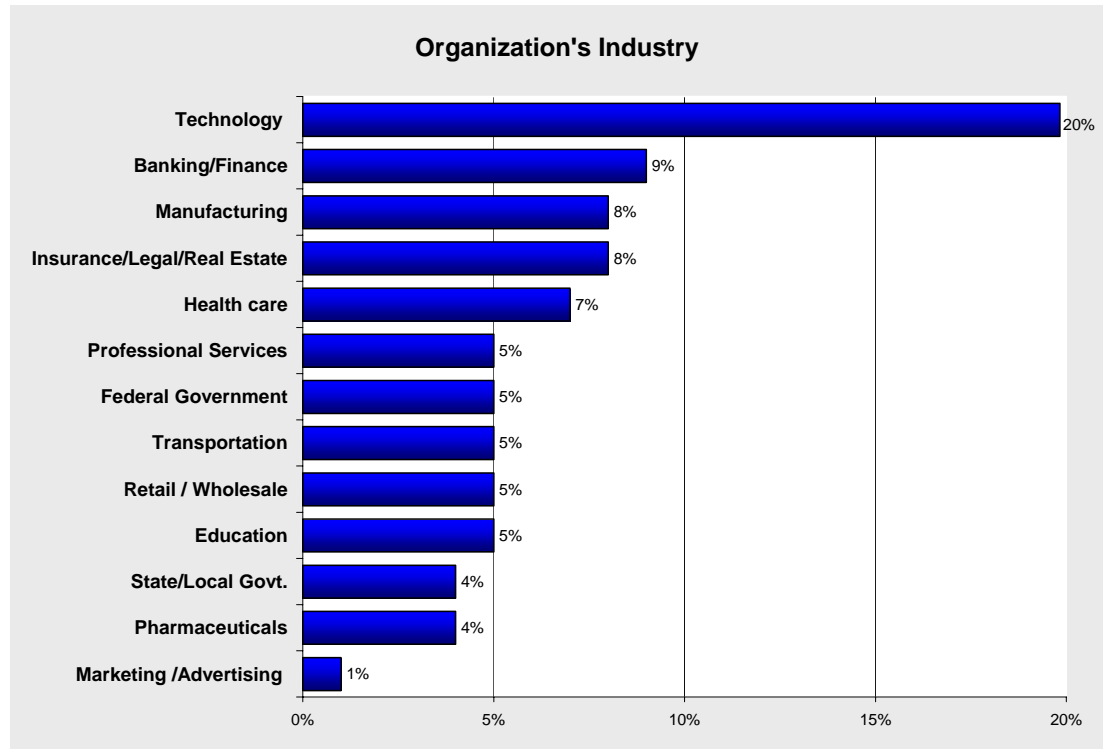


Figure 4: Industry Breakdown of Study Sample

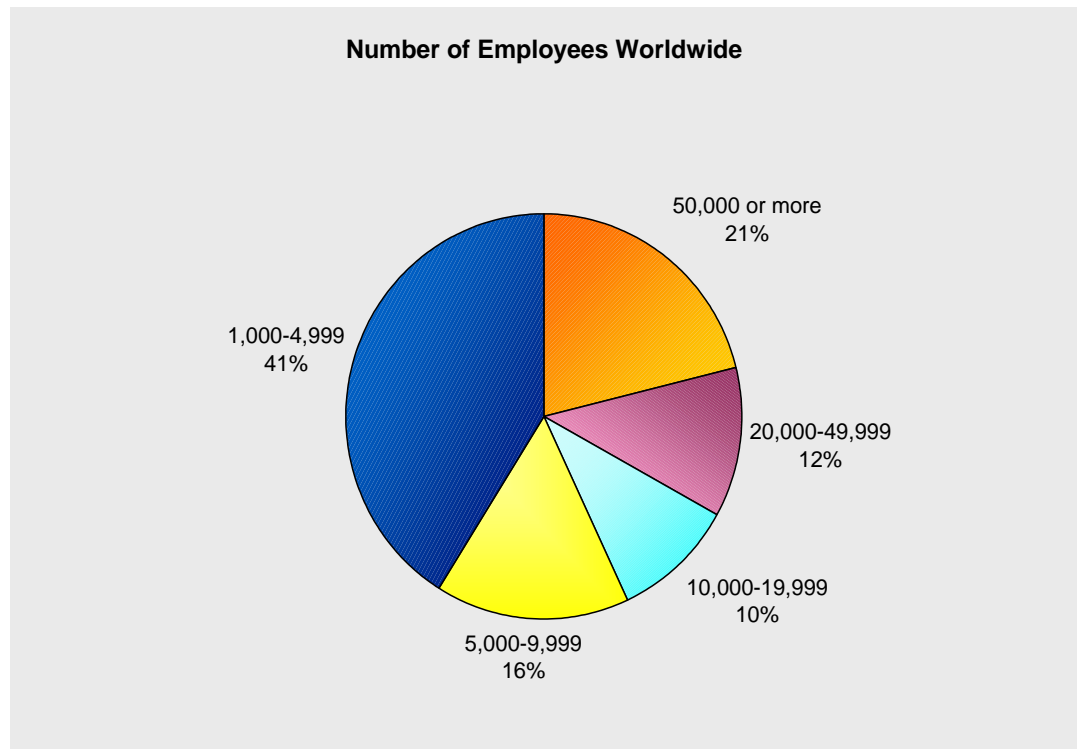


Figure 5: Organization Size of study sample companies

Some of the companies responding to the survey are shown. This represents a broad range of industries and companies.

Sample of Companies Included

<ul style="list-style-type: none"> • Sprint • Mitchell International • TELUS Learning and Development • Help Desk Institute • Curtis Communications • HSBC Mexico • Ryerson Distance Education • BAS/S • IT, GM • Grundfos Management • Compucom program management • State of CA Dept of Forestry and Fire • HIP Health Insurance Plan of New York • GSK SAP Operations • Sa4es Training (Subset of Sales Dept) • Ball State University • State of Washington, Data Security • Howdee, Training • Bechtel, Learning & Development • Global Service Delivery • Dell, americas training • CENTEC • Sabre Holdings • FNF/NGS training • QVC Corp. E-Learning • Novartis, Sales Training • Nucleo de Soluções • The Great Atlantic/Pacific Tea Co • Wachovia • IC Hotels • Alphaarma Inc., • Connecticut Light & Power • CSG Technologies • Accident Fund Insurance • David Weekley Homes, Training • Alliance Atlantis Communications 	<ul style="list-style-type: none"> • Haemonetics • American Medical Association • Sistemas CBT • WHY, Inc. • Wheels, Inc. • gambit systems • Boeing Aerospace, Quality • Storage Tek, Global Learning • CTC • Ford Credit • Documentum, Human Resources • CompuCom Systems, Inc. • Parsons, Corporate Training • The Lubrizol Corporation • Memec • EduCattera, Training department • Macromedia, Customer Training • Mercuri International • Microsoft • Acclamation Systems, Inc • Copesan Services, Inc. • SBC, Training Supplier Services • Convergys, Organization Development • Unum/Provident • Florida Hospital • Chevron/Texaco/Gulf of Mexico BU • CSFB, Online/Open Learning • Lithia Motors, Human Development • Peoplesoft, Tools and Technology • Dell Training & Certification • Convergys, Organization Development • Catholic Health Initiatives • BMW Group Financial Services, LLC • Des Moines Area Community • BECU, Member Services • CTB/McGraw Hill University • Ingenix, Sales Education 	<ul style="list-style-type: none"> • Ingenix, Sales Education • New Horizons, Product Solutions • SchoolDNA Business Unit • BT, Learning Solution • Virginia Tech • Gaspa, Marketing & New Business • eCornell, Sales & Marketing • Redemtech • Learn.com, Inside Sales • Stylus Systems, elearning group • Texell FCU • Balance Learning Limited • Unicare • Hatch Stamping • Cerebral Works • Dazzle Technologies • Imparta • gedas USA • Budo Kai, Ltd. • CyraCom International, Inc • Ever Trust Financial Group • One Tree Learning, Inc. • Victoria Johnson Consulting • Optimon • Engineering of NetDimension • Conexant Sales Training • Underwriters • Snaphis, technology • ISD DTS • Mike White Designweb Operations • Jackson Life Insurance, IT Systems • Sify Limited- MIITS division • IBM • Tecnosistemas • State of Texas • Lockheed Martin • Bear Stearns, Payroll • Genesis Creative Group 	<ul style="list-style-type: none"> • Boston University • Kindred Hospital, Chicago • Dept. of Labor and Industry • Spectrum Health • Erie Insurance • Fujitsu General America - Sales • Siemens VDO Automotive Corp. • Borders Group Inc. • Tokai FLC • Boise Cascade • BBDO Corporate University • US Navy - CNATT Unit North Island • Kaleida Health, IST Training & Education • Seminole County Public Schools • Information Services - Application • Hamilton Health Sciences, Education • Publishing and University • Girl Scouts of the USA • UPS • salesforce.com • Samsung • Univ of Southern Indiana • Development • Great American Insurance • ITServices • RACO, Group Training • GATX Corporation • NEW (Net Electronics Warranty) • British Columbia Auto Association • Big Brothers, Big Sisters of America • IT, Kirkpatrick Stockton • Disney, Training & Development • St Jude • Thrivent Financial for Lutherans • NCOA, Education
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Figure 6: Sample of Companies Included in the Study

Results: Outsourcing Can Have Tremendous Economic Benefits

The results of the study demonstrate that outsourcing certain functions does provide real economic benefits. Firms that outsource spend 31% less in total annual training expenditures per learner than firms that run training internally. In terms of personnel involved to training activities, outsourcing firms have 26% fewer staff per 1000 learners than companies that manage all training internally.

Firms that outsource strategic functions in general spend 31% less per learner and have 26% lower staff per learner.

	In House Training Operations	Outsourcers	% Reduction
Total Spending per Learner	\$1,191 per learner	\$827 per learner	31% reduction
Total Training Headcount per Learner	10.5 Staff per 1,000 learners	7.8 Staff per 1,000 learners	26% reduction

Figure 7: Study Results: Total Cost and Staff Savings

Large Savings in Total Cost per Learner

We asked firms to provide data on overall training expenditures, which encompasses all dollars spent on training activities and personnel, including budgets, headcount, travel and expenses, vendors and consultants, facilities, and overhead charges. Totalling all of these costs shows that firms running training operations internally (“do-it-yourselfers”) spend an average of \$1,191 annually per learner vs. \$827 per learner spent by firms outsourcing training operations (“outsourcers”). Outsourcers save 31% (see Figure 8).

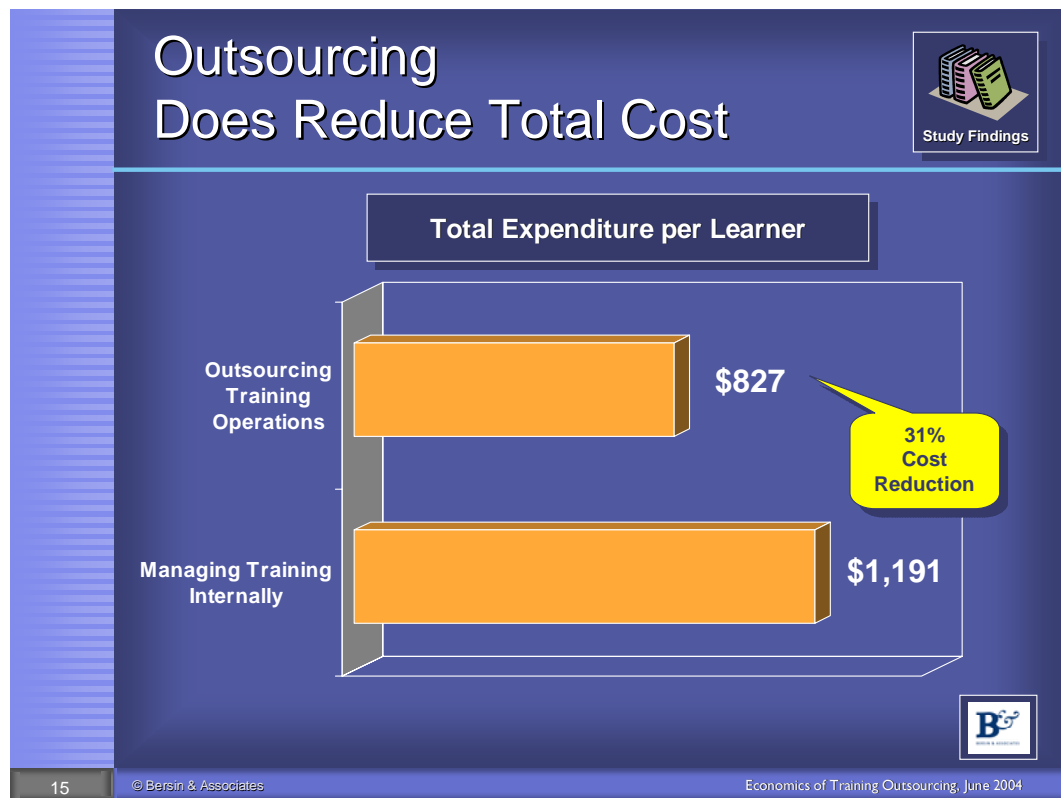


Figure 8: Total Cost Savings for Outsourcers (\$ per learner)

Large Reduction in Total Staff per Learner

As may be expected, organizations that outsource operations do reduce staff sizes. The following chart shows the size of the selected training organization (divisional or corporate training groups) divided by the total number of learners. Again, the outsourcing firms are much more efficient.

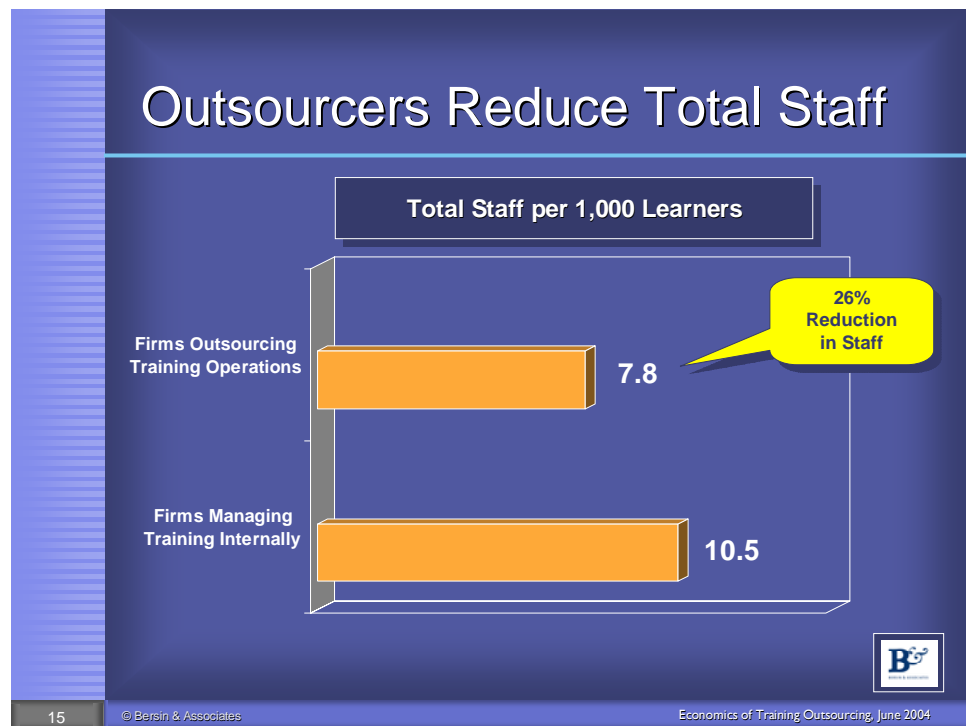


Figure 9: Outsourcing reduces staff size

Technology and LMS Outsourcing

As we describe above, one of the biggest trends in training is to outsource learning technologies and LMS systems. This makes sense. One of the biggest areas of cost savings we found was in outsourcing of LMS and LMS operations. As described above, 47% of the outsourcers in our study were outsourcing LMS systems. These companies saw large savings in three areas:

- 16% Reduction in implementation costs
- 60% Reduction in ongoing operational costs
- 42% Reduction in technical staff headcount as a % of total headcount.

In trying to understand why companies outsource LMS and technology we found that companies tend to fall into two camps:

1. Industries that see IT Technology as Core to their Business: Companies in industries that consider IT technology core to their business (ie. technology products, financial services, telecommunications) therefore consider operation of LMS systems and learning technology part of their core competence. They tend to run these systems in-house.

2. Industries that see Technology Purely as an Enabler: These companies view LMS and learning technology as something they should outsource. Industries here include retail, medical manufacturers, pharmaceuticals, service businesses, non-profits, and government.

Some vendors focus exclusively on outsourced models (KnowledgePlanet, GeoLearning, Intellinex, Edcor, and others).

Biggest Issues in LMS Operations

Our research into the LMS market tells us that the biggest challenges companies face in LMS implementation are configuration, content integration, and ERP integration.

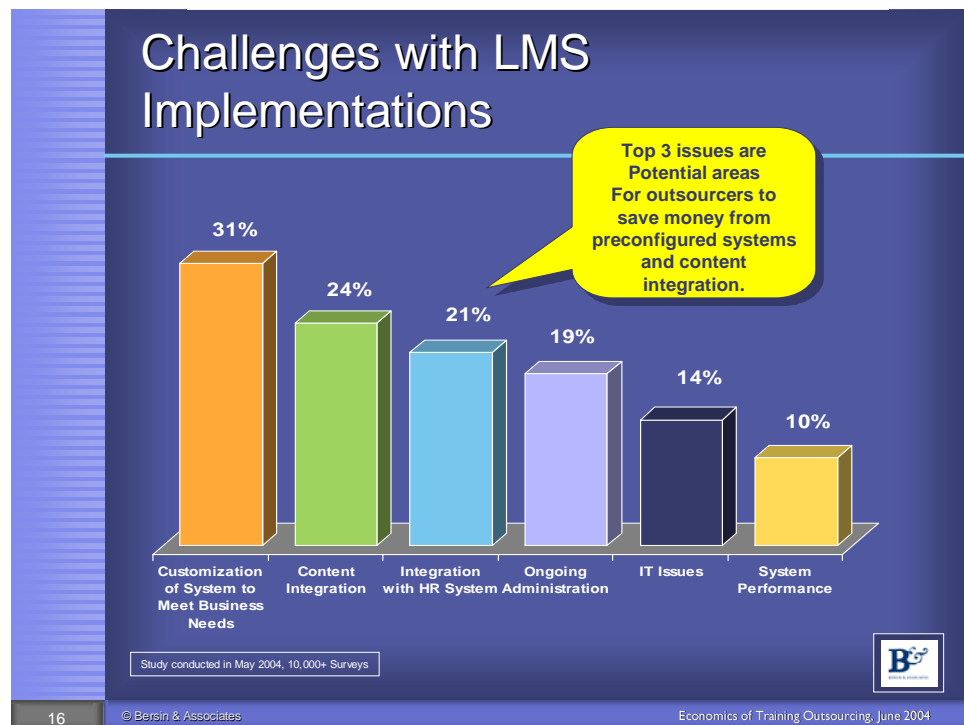


Figure 10: Biggest Challenges in LMS Implementation

Outsourced LMS systems from focused LMS outsourcing companies (KnowledgePlanet, GeoLearning, Intellinex, ElementK, Edcor) can reduce these costs by providing:

- Standard “customizations” which are reusable from company to company;
- Pre-integrated content which can be shared across many customers;
- Packaged modules and interfaces for HR integration.

Note: Companies that “host” traditional LMS systems, by contrast, do not drive costs down like this. If you purchase Saba or Docent, for example, from a Systems Integrator (Accenture, IBM, General Physics) the implementation costs may not go down at all – and in fact could be higher. We cover these companies in detail in our LMS2004 Industry Study (<http://store.bersinassociates.com/lms-2004.html>).

Large Cost Reductions in LMS Implementation

The study found that implementation costs for outsourcers (measured in a cost per 1,000 learners) were 16% lower than costs for companies which implement their own LMS systems.

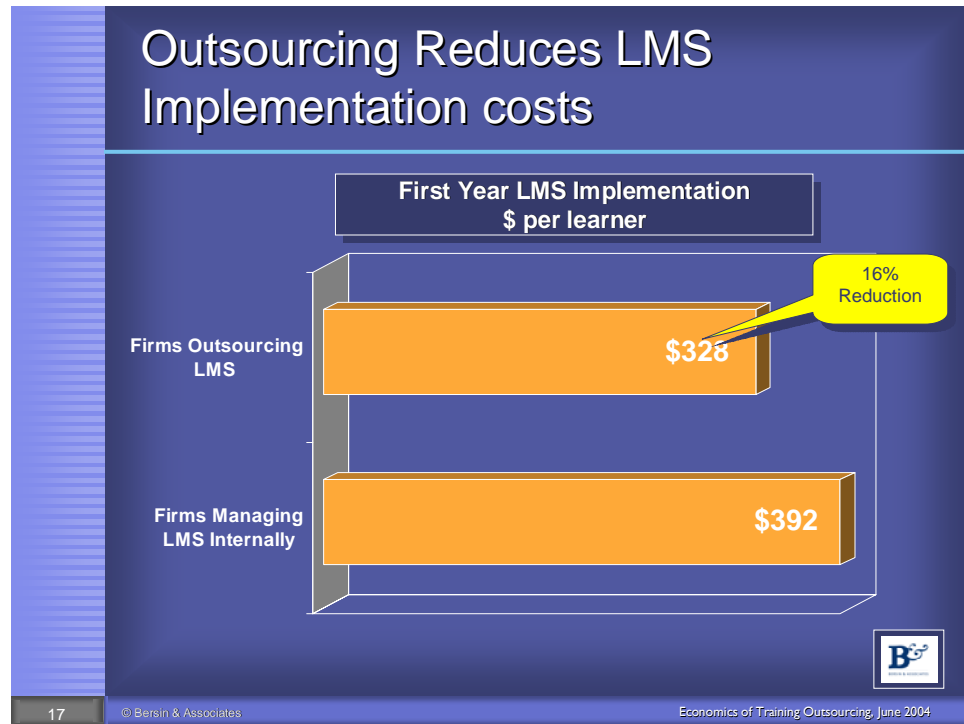


Figure 11: Outsourcing LMS Reduces Implementation Costs

This reduction in implementation costs is due to two factors: First, by choosing an outsourced provider the buyer simplified their purchasing and implementation process. Outsourcing companies have simplified solutions and therefore reduce the number of configuration and customization options for implementation. This saves time and money. Second, outsourced LMS systems do not require heavy involvement from IT. Buyers save significant amounts of time and money by leveraging the outsourcer's existing servers, databases, security, and network infrastructure.

Large Cost Reductions in LMS Operations

The study found that LMS outsourcing results in dramatic cost reductions in LMS operations. As the following figure shows, LMS outsourcers reduced operational costs by nearly 60% on a per-learner basis.

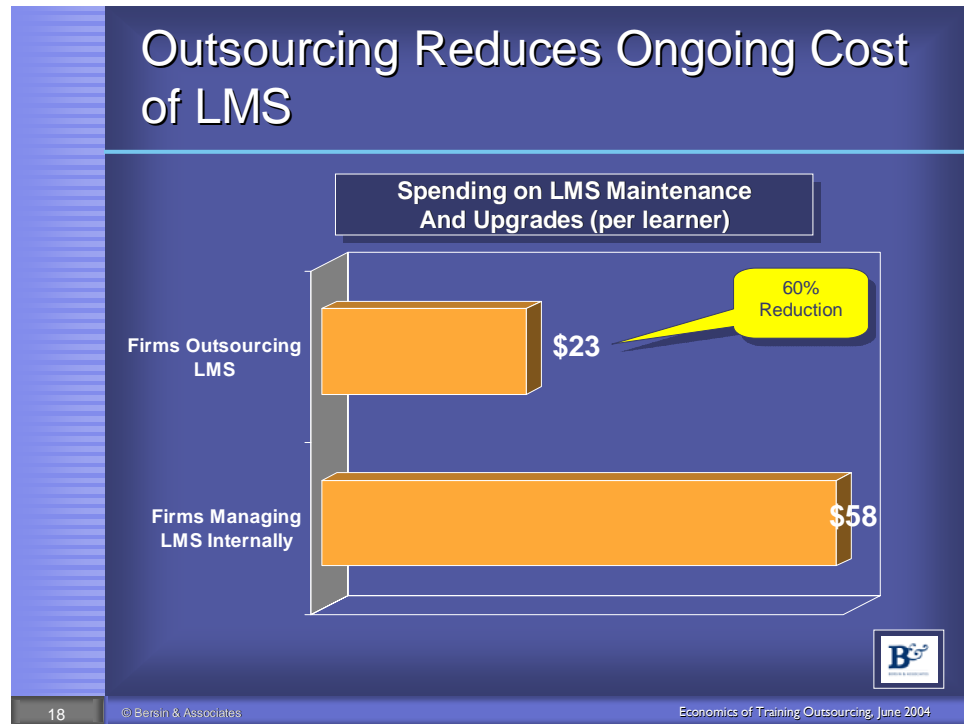


Figure 12: Outsourcing LMS Reduces Operational Costs

This dramatic reduction is due to several factors:

1. The LMS outsourcer manages upgrades, system maintenance, and IT operations across a wide range of customers and hence gets excellent economies of scale;
2. The LMS outsourcer is expert at operation of the LMS – a single operator can manage several LMS systems and manage back-office functions such as catalog management, etc very efficiently because they are experts in the system;
3. The LMS outsourcer typically centralizes LMS operations – where in a customer-installed LMS there may be many administrators using the same LMS, each working part-time for their own business unit. Each of these people has less time to learn the most efficient way to operate the LMS.
4. The LMS outsourcer has the benefit of building custom reports and plugins only once – and then sharing them across many customers. Custom reporting tends to be a big headache for most internally run LMS systems. One of our studies shows that more than 40% of LMS buyers are less than completely satisfied with the reporting solutions in their LMS.

5. The LMS outsourcer can study version upgrades in detail and put together well thought-out upgrade plans when new functionality is available. LMS teams which run their LMS internally typically postpone upgrades and suffer with old releases as long as possible – then struggle through long upgrade cycles because they have little experience upgrading their LMS.
6. Companies which outsource their LMS typically make fewer modifications to the system, which forces the operating costs to be lower.

Large Reduction in Key Technology Staff

In nearly every training organization technology staffing is low. Training operations are dominated by designers, instructors, managers, and performance consultants. Most companies have a few training technologists but the vast majority are borrowed from IT.

To make matters worse, training technology is dauntingly complex. People who focus in this area must understand enterprise systems, database technology, AICC and SCORM, web development tools, and networking. E-learning is one of the most multi-disciplinary and complex technology “stacks” in corporations. More and more training organizations now realize that they need a dedicated technology group focused solely on training technology – a big expense which by itself delivers no training benefits at all.

Our study found that one of the big benefits of outsourcing an LMS and other learning technologies is the reduction in training staff needed. As the following figure shows, companies that outsource their LMS have dramatically fewer technologists in their staff pool. This benefit goes far beyond costs – it means that the training organization does not need to identify, train, and keep such highly skilled personnel.

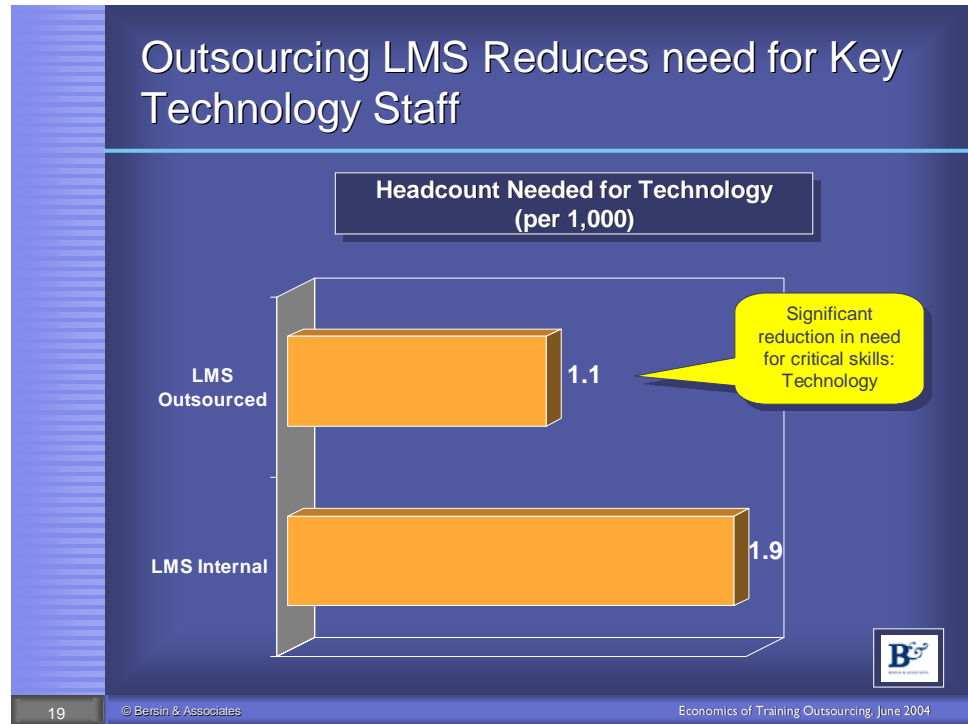


Figure 13: Outsourcing LMS Dramatically Reduces Needs for IT Staff

Reduction in Overall Technology Maintenance

There are many other technologies to outsource other than LMS. In our study more than 70% outsource some technology including virtual classroom, collaboration, chat, and LMS. Most training organizations which embark on e-learning end up with the following technologies:

- Virtual Classroom
- Hosted learning provider (Skillsoft, NETg, ElementK, others)
- Assessment tool (LMS provided or independent)
- Development tools
- Collaboration system(s) – ie. chat, discussion rooms
- Instant messaging (often supplied by IT)
- Portal
- LMS
- Independent reporting and analysis software.

These technology elements demand a broad level of expertise in IT systems.

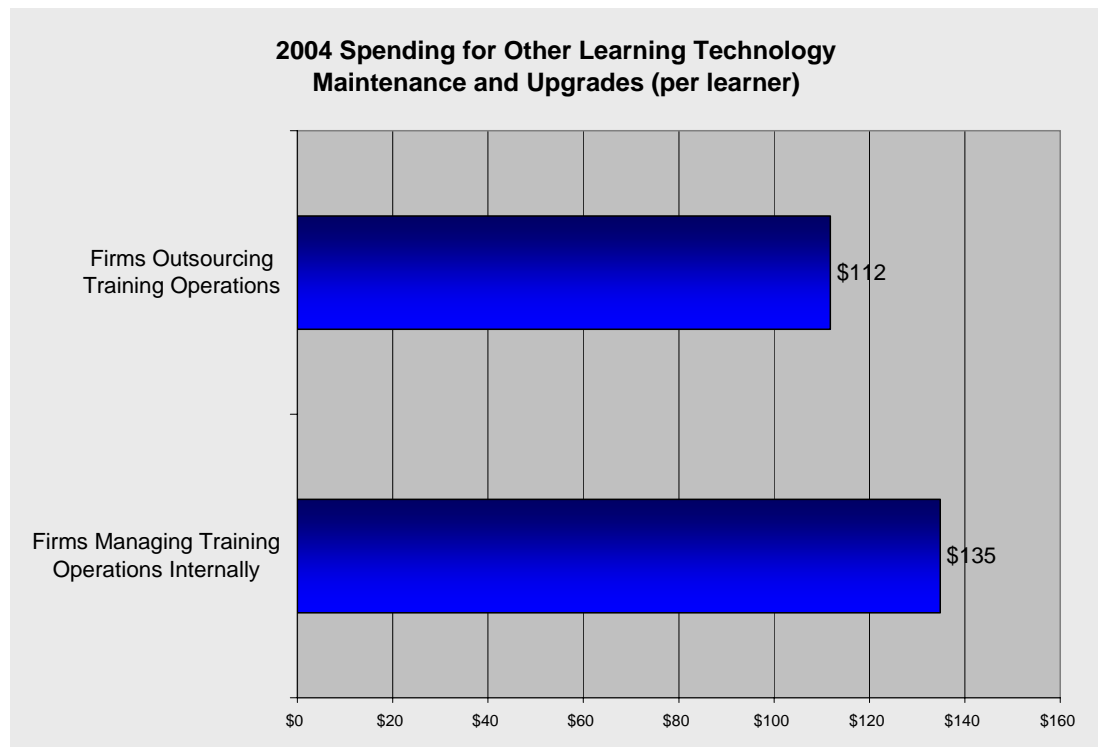


Figure 14: Spending Reduction in Technology Maintenance and Upgrades

When we asked study participants about their overall spending on technology maintenance and operations, they indicate the results shown above. *Companies which outsource technology spend 17% less on technology maintenance and operations.*

Staff allocation by function and by project is one of the most strategic decisions a CLO can make. If outsourcing can make these allocations more effective, impact will be much higher than simply saving operational costs.

Impact on Staffing and Staff Allocation and Strategy

Staff allocation by function and by project is one of the most strategic decisions a CLO can make. If outsourcing can make these allocations more effective, impact will be much higher than simply saving operational costs.

Our “Training Investment Model,” (available in our free research by going to http://www.bernsin.com/contactus/train_invest_model_htm.asp) gives training managers and executives a model to help decide where to spend dollars on programs and staff. Within this model companies can identify which programs are most strategic and allocate limited dollars and resources based on a planning process with line of business managers. A sample TI model is shown below.

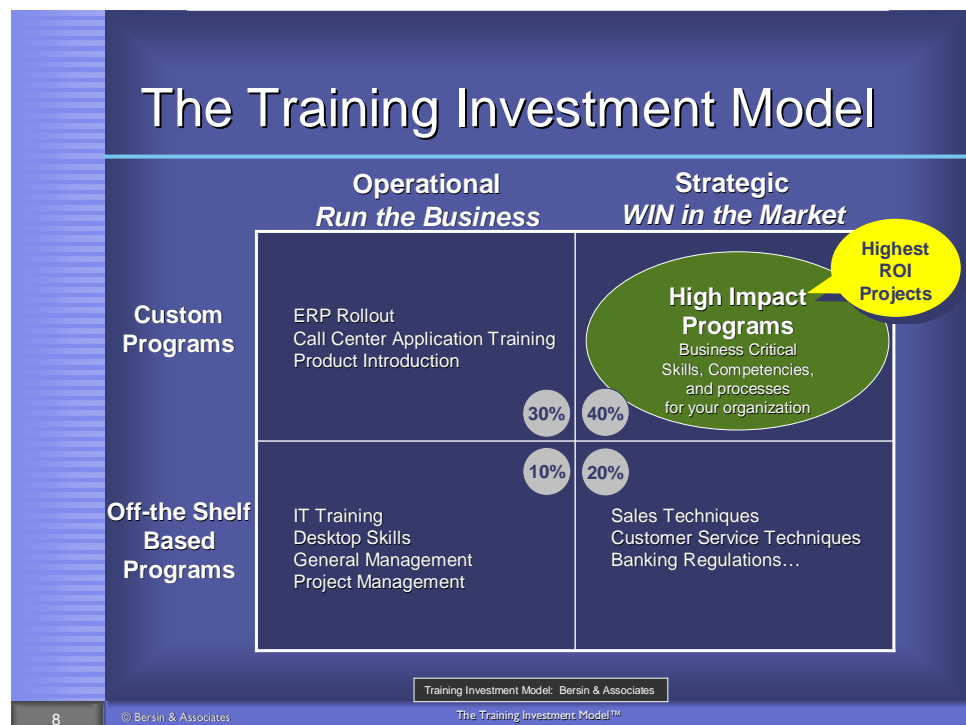


Figure 15: Training Investment Model(TM)

Strategic Values of Outsourcing

When we asked training managers about their priorities, many told us that outsourcing would be important to help them focus on strategic priorities. *By offloading operational responsibilities, training managers can focus on more important high level activities.* Some of the typical strategic issues include:

Strategic Benefits of Outsourcing by Freeing Executive Time	
➤	Outsourcing lets training managers and executives focus more time on strategic <i>planning</i> with line executives and managers.
➤	Spend more time on <i>measurement and analytics</i> to better understand how well we are “benchmarking” and “improving” our training programs.
➤	<i>Planning and budgeting</i> our training team.
➤	Working with <i>first line managers</i> to better understand their specific line training needs.
➤	Evaluating <i>new technologies and approaches</i> which may make us more efficient or effective.
➤	<i>Improving accountability</i> of outsourced function by holding one organization responsible for all metrics and results.

Figure 16: Strategic Values of Outsourcing

Reduction in Administrative Overhead

The study clearly found that companies which outsource functions have much smaller administrative staffs per learner. As the following chart shows, even though 70% of our outsourcers were outsourcing technology functions, they had 30-40% lower staffs (per 1000 learners) for program administration and nearly 25% lower for support.

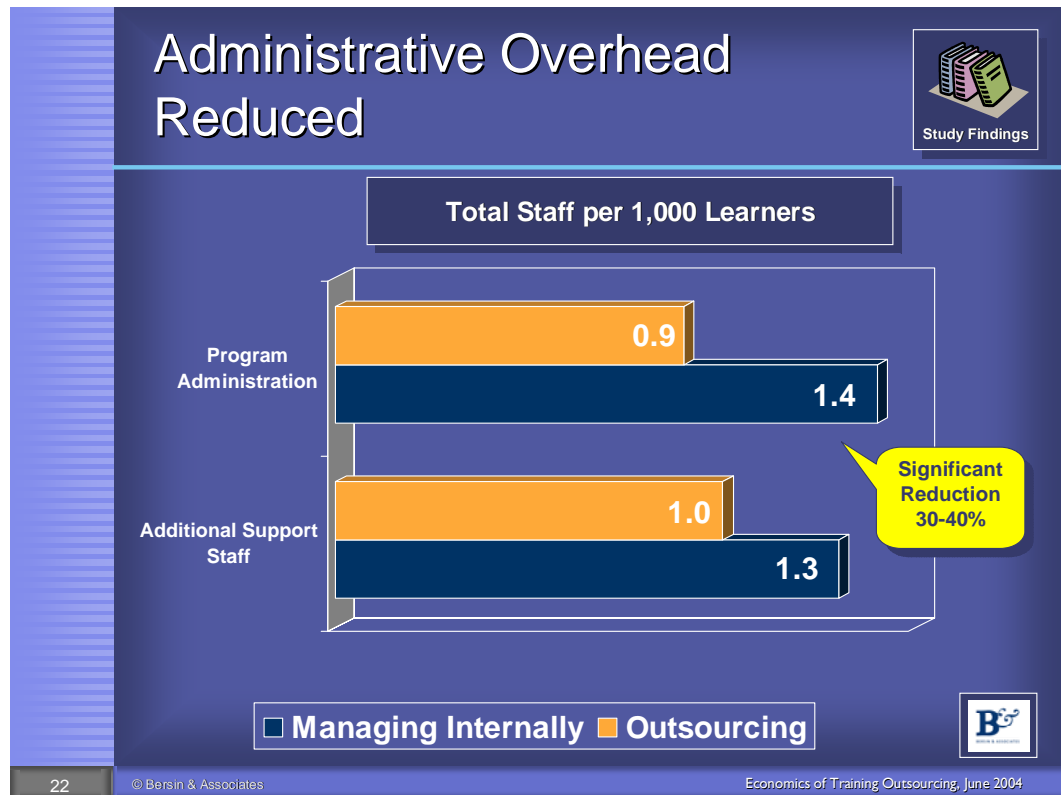


Figure 17: Reductions in Administrative Staff

The reason for this goes beyond just reducing staff for technology. Outsourcers tend to run a “tighter ship.” By going through the outsourcing process they have been able to offload program administration to their vendor and often outsource help desks as well. Many of the LMS outsourcing companies, for example, offer registration and desk support as part of their services. These are functions that are perfect for outsourcing: they are highly efficient when centralized and can be efficiently managed offsite.

Impact on Headcount Allocation

We know from this research that training organizations which outsource technology or other functions will reduce headcount. In the case of technology functions, the headcount reductions can be very significant. When such reductions occur, the training organization has the opportunity to *reallocate resources to more strategic functions. What reallocation occurs?*

Our research found some very interesting results. The following figure shows the headcount allocation by job function for firms that did outsource their LMS technology and those that did not.

The Economics of Training Outsourcing

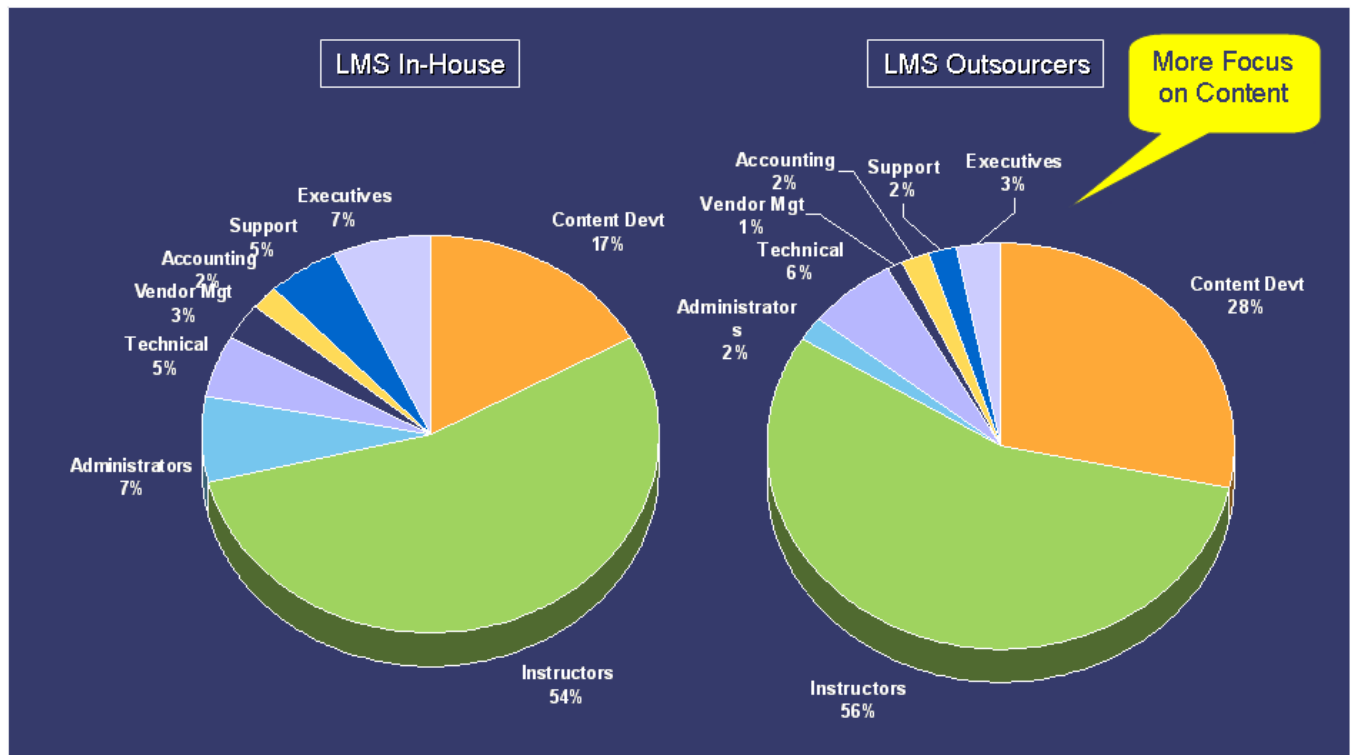


Figure 18: Headcount Allocation Changes from Technology Outsourcing

As this data shows, training organizations which outsource their technology still have technical staffs – but greatly reduce the amount of administration and other support functions. The biggest change, however, is that the LMS outsourcers tend to focus more heavily on content development.

This tells us that one of the biggest bottlenecks in training is the ability for the organization to build more training programs. When resources are freed up from administration and other technical functions, companies tend to increase the percentage of resources devoted to content development.

The message here is that by offloading administrative and technology functions training managers can focus on building more high value programs... and utilize the existing instructors to deploy them to more learners.

Impact on Training Effectiveness

Outsourcing saves money, reduces overhead, and can increase focus on strategic issues. But does it impact training effectiveness? In many ways this is the \$64,000 question.

This study did not attempt to analyze program impact or ROI in detail. However we did score training organizations in effectiveness by asking them to self-score themselves with the following question: *In general, do you think your training delivers training which is “extremely effective,” “effective,” “moderately effective,” or “not very effective?”* The results are shown below.

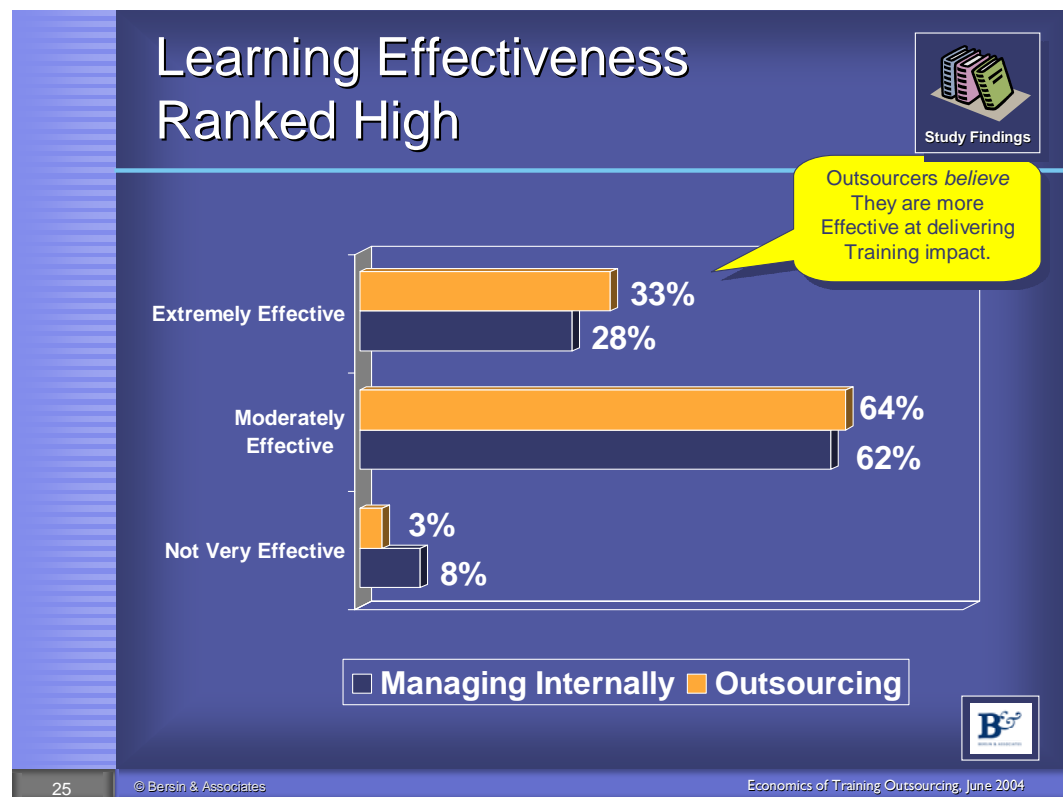


Figure 19: What impact does outsourcing have on self-ranked effectiveness?

The Economics of Training Outsourcing

These results are striking.

- Companies which outsource are more likely to report themselves as “extremely effective” than those which are not outsourcing (18% higher). *This indicates to us that those companies that embark on outsourced operations do in fact focus more heavily on training programs and business impacts – and therefore feel “closer to the business.”*
- Companies that outsource are far less likely to report themselves as “not very effective,” (1 out of 12 non-outsourcers vs. 1 out of 33 outsourcers). *This indicates to us that organizations which do not outsource tend to suffer from some amount of frustration with administrative and technical operations that prevent themselves from enough laser focus on driving business value.*

Remember that these numbers are self-reported. It may be true that learners and business managers see a different picture. Our opinion, however, is that this data is very meaningful: it is telling us that outsourcing provides two important values:

1. **Outsourcing frees up resources and time to focus on business strategy and the training programs themselves.** By reducing time spent on internal technology and operations, training managers can spend time in the lines of business making sure they are improving company performance.
2. **Outsourcing improves accountability.** Vendors which run operations on behalf of their training clients can be held accountable. They are easy to monitor, measure, and manage. Training executives can hold them accountable for uptime, service levels, satisfaction levels, and cost-effectiveness. When run internally, such functions are often hard to measure – hence companies find them easy to criticize.

“By outsourcing our LMS and LMS services we know that whenever a client has a problem we can immediately go to one source to get the problem fixed. We have service-level commitments which I measure monthly.”

– Training Manager

Conclusion: Training Outsourcing Makes Economic Sense

The outsourcing wave is real. The widespread use of internet and telephony technology makes it easier than ever to outsource operational business functions to improve efficiency and focus. Study after study shows that, despite many political issues about “offshoring,” outsourcing will continue to grow.

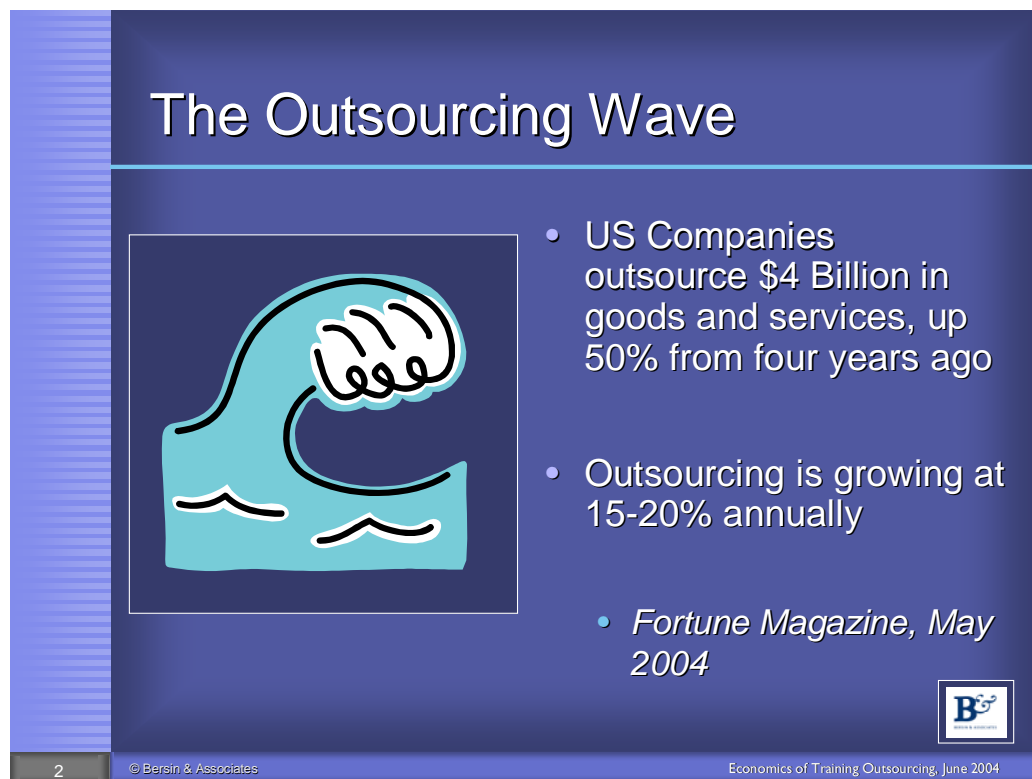


Figure 20: Outsourcing is Real

The Economics of Training Outsourcing

For training organizations, outsourcing has always been a way of life. As the following chart shows, training organizations start with outsourcing of content, delivery, and content development. Over time they move toward technology, technology operations, user services (the “back office”), and more.

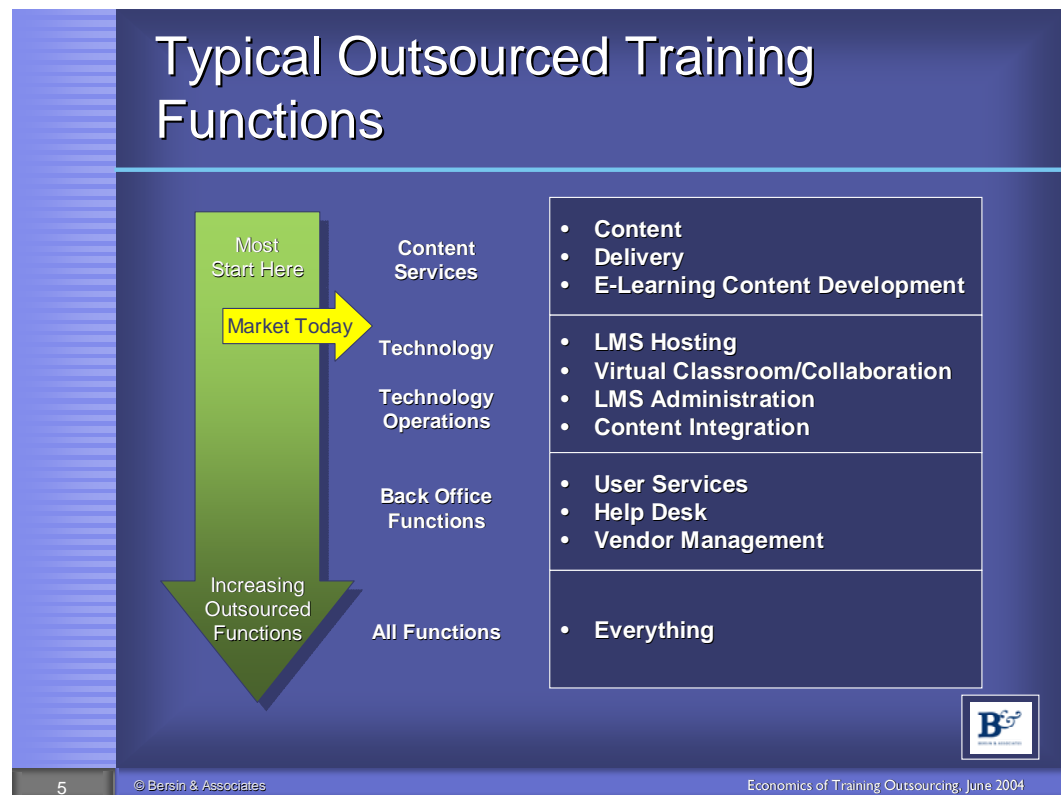


Figure 21: Levels of Training Outsourcing

Our study shows that most companies are well past outsourcing of content services and are focusing on the outsourcing of key technology operations and services. 70% of our “outsourcers” are outsourcing some kind of technology (LMS, virtual classroom, and related support and help-desk for these technologies).

Some companies (those that see technology as core to their business – telecommunications, technology products, financial services) tend to keep these technologies in-house; others (those that see technology as an enabler to their business – healthcare, government, non-profit, manufacturing) will readily outsource technology and take advantage of these savings.

Does outsourcing save money? Most definitely yes. Our study shows dramatic savings in acquisition, operations, and ongoing staff costs. Moreover there are strategic benefits as well. These include:

- Reallocation of resources to focus more heavily on content development and program management;
- Enabling training executives to spend more time with line of business executives;

The Economics of Training Outsourcing

- Empowering training managers; to work more closely with line managers and field operations
- Freeing up resources to focus on measurement, evaluation, and operational excellence in training programs themselves.

Barriers to Outsourcing

In our interviews with training managers and executives we found several barriers that still prevent companies from outsourcing key functions:

Newness of the Approach

Many training managers are still unaware of the excellent options available to outsource many training functions. Vendors are building their services and capabilities. Vendors like Accenture, Convergys, GeoLearning, General Physics, IBM, Intrepid, KnowledgePlanet, Raytheon, TEDS, and more are refining their offerings and are often unknown to many training managers. As a followup to this study, we plan to publish a study of the market which will further describe the capabilities and offerings of these vendors.

A wide range of vendors are increasing their focus on all levels of training functions. Because of the newness and growth of this business area, you should ask for references and make sure they have experience handling the operations you need.

Decentralized Decision-Making

Global enterprises may be so decentralized that outsourcing is not a viable option. Outsourcing is often easier in firms where a central training group controls most of the resources and decision-making power. If training operations are widely dispersed within an organization, outsourcing makes the most economic sense when multiple groups can take advantage of it. Getting these other groups to agree on an outsourced solution can sometimes be a challenge.

Customization Needs

When hosting technologies, the external service provider takes on the burden of upgrading and maintaining the systems. However, one of the critical issues arising in many enterprise implementations is the need to customize the workflow, data elements, and user interface to fit into a company's specific operational needs. Particularly in large enterprises, it is imperative that the system integrate tightly with HR, financial, and IT systems. In many cases the system's integration capability drives the entire LMS decision.

A hosted solution may not be able to offer the same amount of unique customization or integration as managing the systems internally. Remember, though, that as the system becomes more customized it becomes harder to upgrade. Training managers need to determine the requirements and projected costs for customization and integration, and then determine whether outsourcing makes sense.

Recommendations: Getting Started

Outsourcing of training functions and technology is an important option to evaluate. Even large companies like Cisco outsource functions like LMS operations and content management to save time and money.

The simple steps to get started include:

Assess your Resources

One of the most difficult steps in getting started is to examine how all of your training resources are being used and look for potential areas for outsourcing. Outsourcing makes sense for services or functions that are not core to supporting and driving the business. Look particularly at the number of training staff devoted to administrative functions – would they be better utilized in other capacities? Look also at the staff devoted to technology development and support, which can consume large numbers of resources in maintaining and upgrading learning technologies. Is this a function you need in-house, or would it be more cost effective to host these technologies? In some cases, a tiered approach works best, where firms outsource level 1 learner support but maintain in-house staff for level 2 support.

It is important to evaluate your ability to centralize training functions to take advantage of outsourcing.

Often the outsourcing decision process also creates momentum toward centralization of shared functions.

An important area to examine is the number of staff involved in vendor management and contracts. If your company is served by a large number of vendors, you will likely benefit by offloading the selection and management of these vendors and contracts to an external service provider. Do-it-yourself firms had an average of 1.6 staff headcount involved in reviewing, negotiating, and managing vendor contracts, over twice that of firms outsourcing their vendor management functions.

Outsourcing vendor management can result in significant savings. Most training organizations buy very inefficiently – purchasing similar courses and services over and over from many different companies. By outsourcing this function you will consolidate these requirements. In addition, outsourcers have greater negotiating power and can obtain more favorable rates than a single company can alone.

Examine Your Learning Business Processes

Next, you need to examine your learning business processes. How does assignment, enrollment, approval, support, scoring, and certification take place? How and where is it recorded? Documenting these processes will point out inconsistencies and inefficiencies. You will find that outsourcers understand these processes well and know best-practices.

One company we spoke with is currently undertaking a full audit of its HR processes. Their goal is to determine how and where to enable outsourcing of some of their training functions to save money. This time-consuming activity will help this organization understand where the big payoffs in outsourcing can be applied.

Try to Centralize Shared Resources

Third, consider how centralized or decentralized your training operations are within your organization. How distributed are training personnel, budgets, and decision-making? In our study, companies reported that over 50% of their training resources, on average, were located outside of the centralized training group.

The business case for outsourcing should include cost savings as well as the opportunity to increase accountability and focus. Outsourcing can improve Training's relationships with line executives and managers and improve the responsiveness of the operation.

While it may be harder to outsource training operations in very decentralized organizations, outsourcing may actually benefit these organizations the most. Outsourcing makes sense for functions that require greater consistency across the organization. Duplication of training personnel and lack of consistency in how functions are performed lead to inefficiencies, and outsourcing may help to align training processes across the organization.

Prepare a Business Case

Finally, if you've found areas where outsourcing makes sense for your organization, you'll need to cost-justify this decision. You will need to carefully examine all of the training expenditures and personnel in your organization. This can be difficult, as most firms have only a vague idea of what is actually being spent on training. A thorough audit is needed, which can be quite time consuming in large, decentralized organizations. When one global company performed such an audit, they were surprised to find that business unit managers were using their corporate credit cards to charge more than \$1 million for training classes. Travel expenses for learners are also difficult to track and quantify.

You will need to look at the staff time and money spent by other functions outside of 'official' training groups. For example, are there people in the IT group helping to maintain or upgrade learning technologies? Are people in the legal, purchasing, and accounting groups spending time reviewing and managing vendor contracts? In most organizations, over 50% of training expenditures occur outside of the centralized training group. So this necessitates a thorough investigation of other groups in terms of the money they are spending and the people who may be partially or fully involved in training-related activities.

Bottom Line

We see outsourcing of training technology and operations as a major trend. Vendors and buyers alike should look at opportunities to focus on core competencies and take advantages of the potential economic benefits. As with all our publications, we look forward to your feedback and specific examples. In a future report we will look at case studies, market trends, and specific vendor offerings.

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