



TenStep Supplemental Paper

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The Wonders and Blunders of Training Outsourcing

Weighing the pros and cons of outsourcing business processes

Outsourcing in training and development has been popular for years. With a projected increase of an astronomical \$20 billion USD in the next few years, learning organizations need answers to questions such as, "What does outsourcing mean to our training department? Is it something that our organization should consider? Can outsourcing increase our business effectiveness?"

An awareness of the latest training outsourcing trends can help answer these questions. These trends bring out the pros and cons of outsourcing to help organizations determine whether outsourcing training is the right thing to do.

Trend: Steady Growth in the Traditional Use of Outsourcing

Some organizations have gained the reputation of possessing expertise in a range of learning topics, procedures and skills. As vendors, these organizations provide their expertise and knowledge in the form of services. Hence, the traditional use of outsourcing refers to the use of these vendor services.

Most training organizations outsource functional tasks such as designing training programs, developing learning content and training materials, and producing manuals and CD-ROMs, as well as managing and conducting education programs.

According to an extensive study by Bersin & Associates, nearly 60 percent of organizations fall into this category of training outsourcing. Moreover, the study suggests that this figure may not show a dramatic increase in the future.

Trend: Rapid Increase in the Outsourcing of Training Technology

In addition to the use of vendor services, the term outsourcing has evolved to include the outsourcing of training technology. Owing to the rapid technological advancements, most organizations have become familiar with Learning Management Systems (LMS), Learning Content Management Systems (LCMS), context integration and e-learning content development software.

Research shows that approximately 47 percent organizations use 'hosted' LMS services and nearly 70 percent use hosted learning technologies such as simulations, content management software or virtual classrooms.

Trend: Slow Growth in the Outsourcing of Business Processes

Outsourcing also refers to business process outsourcing (BPO). The Bersin & Associates study indicates few subscribers to true business process outsourcing. While business functions such as IT and HR lend themselves to the outsourcing of business processes, training functions are still uncomfortable outsourcing classroom management, vendor management, training personnel and help desks. The study indicates that while BPO will grow slowly, it may not affect training activities as predicted by BPO enthusiasts.



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The Question

Why are organizations more willing to outsource learning technologies and not business processes?

The answer lies in the significant economic benefits that organizations enjoy when they outsource learning technology and operations.

- **Reduction in implementation costs.** According to research, organizations implementing their own LMSs spend \$392 USD per learner compared to \$328 USD per learner spent by organizations using hosted LMSs. This \$64 USD savings per learner is possible only because the outsourcing organizations can leverage their vendors' professional expertise and IT investments.
- **Reduction in operational costs.** Technology outsourcers are broadly classified into application service providers and managed service providers. After years in business, these providers are now experts in configuration, implementation, customization and operation of a variety of training technology. As a result, they have developed economies of scale. Additionally, they enjoy the efficiencies of centralized customer bases and more economical up gradation and maintenance costs. An outsourcing organization can benefit from these 'economies and efficiencies' provided they use hosted technology instead of their own. Research shows that organizations managing their own LMS spend twice as much maintaining and upgrading their systems than those who have hosted LMSs. High operational costs subsequently increase learning costs.
- **Minimal technical staff.** Organizations with internally managed learning systems employ dedicated technical staff to operate and manage their LMSs. While these technical hands increase learning costs, they have no training benefits. Organizations managing their own technology require nearly double the technical staff compared to those with hosted LMSs. These organizations manage well even in the absence of large dedicated technical teams.

The Other Question

How and why do these savings take place?

Most technology outsourcers enjoy the economies of scale. Having integrated content once, they share this integrated technology with hundreds of customers. Also, these outsourcers provide 'standard' customized programs and tools, which their customers use. The programs are easy and less time-consuming to implement.

Organizations with internally managed systems may not be in a financial position to invest in the required technical resources. This deficiency of technical resources aside, their IT departments make training a low priority. Moreover, most cannot offer leading technologists the premium salaries they require. These limitations affect an organization's ability to cope with rapidly changing training technology.

Facts and Figures



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Research reveals that nearly a third of training technology providers in the market three years ago have closed shop. With the rapid rate of change affecting even dedicated technologists, organizations with medium and even large training departments find it difficult to remain current. Catching up with technology is not the only daunting and exhausting task.

A Challenge

Training technology is inherently complex. The integration of training with HR and financial processes, virtual classroom tools, e-learning content management, development tools, assessment tools and LMSs are growing more complicated. Only those organizations flushed with technical resources and staff can work around such complex technology.

Organizations are eager to outsource vendor services and training technology because of complex and rapidly changing training technology. These technical resources and training technologists are expensive. Moreover, the absence of economies of scale is prompting organizations to outsource. These reasons, however, have little bearing on the outsourcing of training related business processes.

The Final Question

Why is the market for business process outsourcing still immature?

Unlike the business functions of IT and HR, training and development is a decentralized function. Most organizations cannot give an accurate figure of how much they spend on enterprise wide training. Moreover, the lack of standardization only means that tools and processes vary from department to department, and unit to unit.

According to research, nearly 70 percent of programs in large learning organizations are highly customized and therefore unique to organizations. Naturally, the programs are expensive. Outsourcers, however, manage to reduce costs by making customized repeatable and generic solutions.

These repeatable, generic processes are delivered to a large number of customers, in turn leading to economies and efficiencies of scale. While this may reduce the quality of the processes, organizations get to enjoy the economic benefits of outsourcing.

Outsourcing is not a bed of roses! However, outsourcing does have some benefits, especially financial.