# Training Outsourcing

## *The Real Economics*

**Bersin & Associates**

*What Works*™
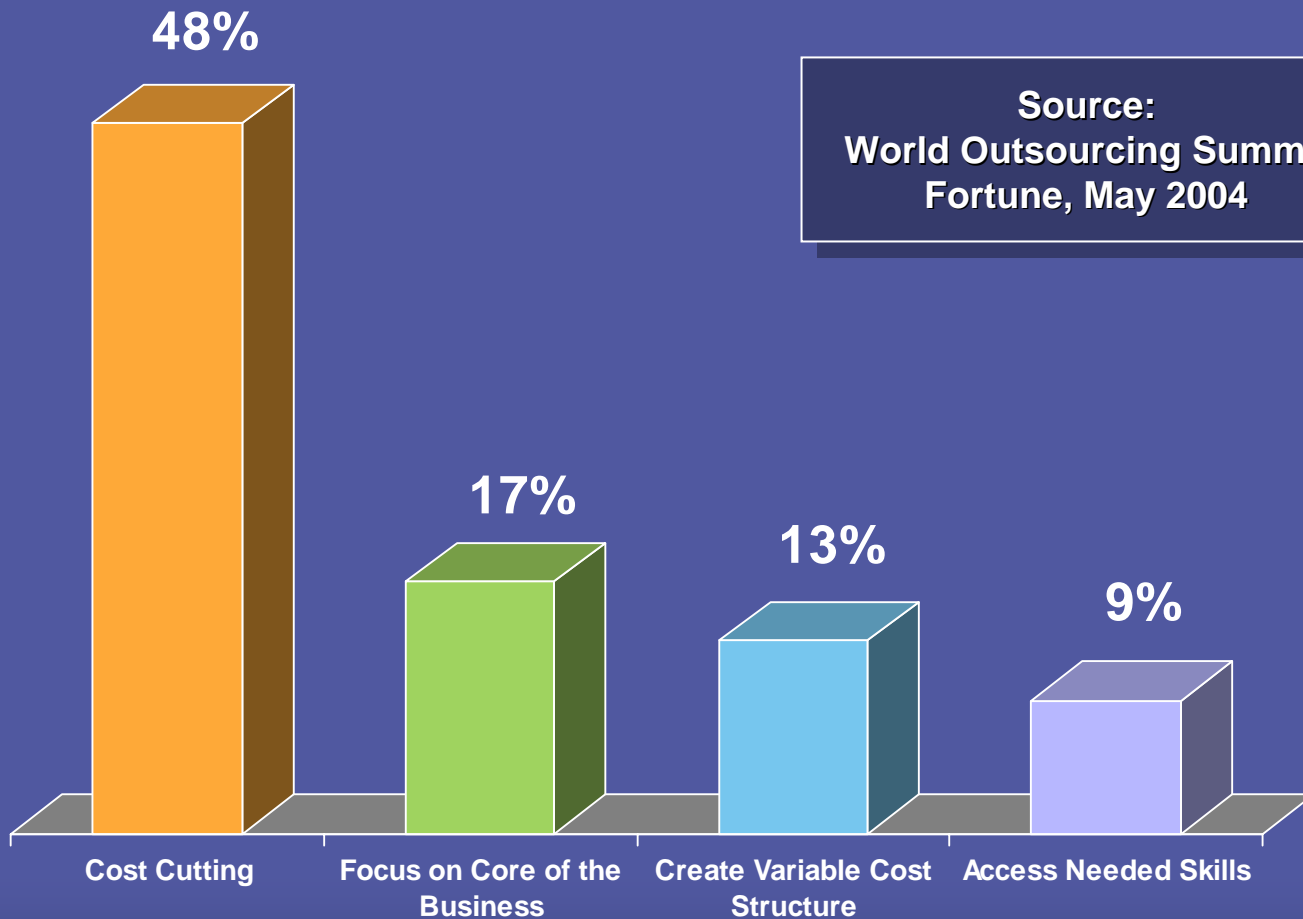**Research and Consulting in E-Learning**

**June, 2004**

# The Outsourcing Wave



- US Companies outsource $4 Billion in goods and services, up 50% from four years ago

- Outsourcing is growing at 15-20% annually

  - *Fortune Magazine, May 2004*

# Why do companies outsource?



**Source:**
**World Outsourcing Summit**
**Fortune, May 2004**

48% — Cost Cutting
17% — Focus on Core of the Business
13% — Create Variable Cost Structure
9% — Access Needed Skills

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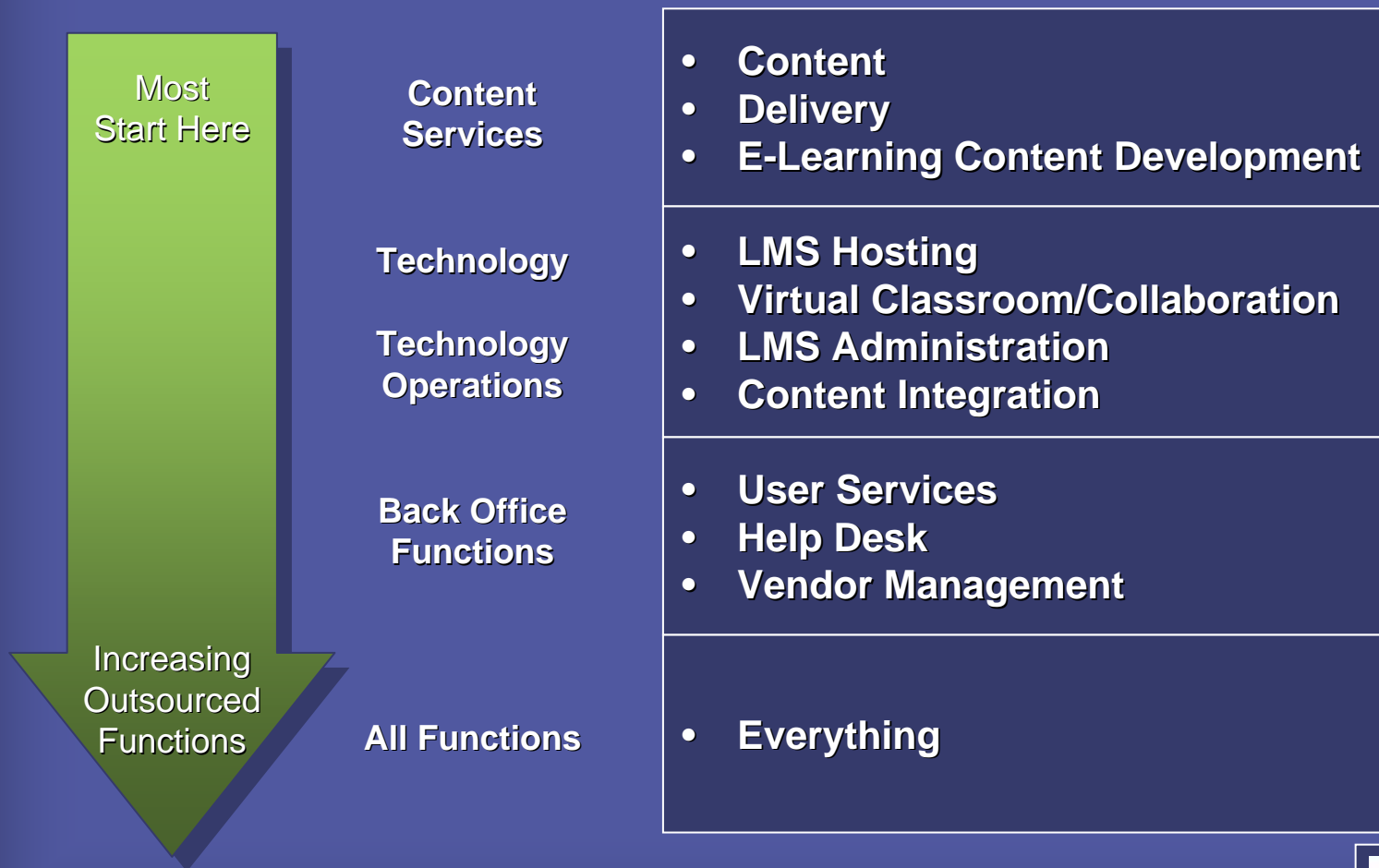
Economics of Training Outsourcing, June 2004

# Poll: What would drive you to outsource some functions?

- *Select One:*
- Reduce Costs
- Improve Business Focus
- Bring in better skills
- Eliminate inefficiencies in our operation
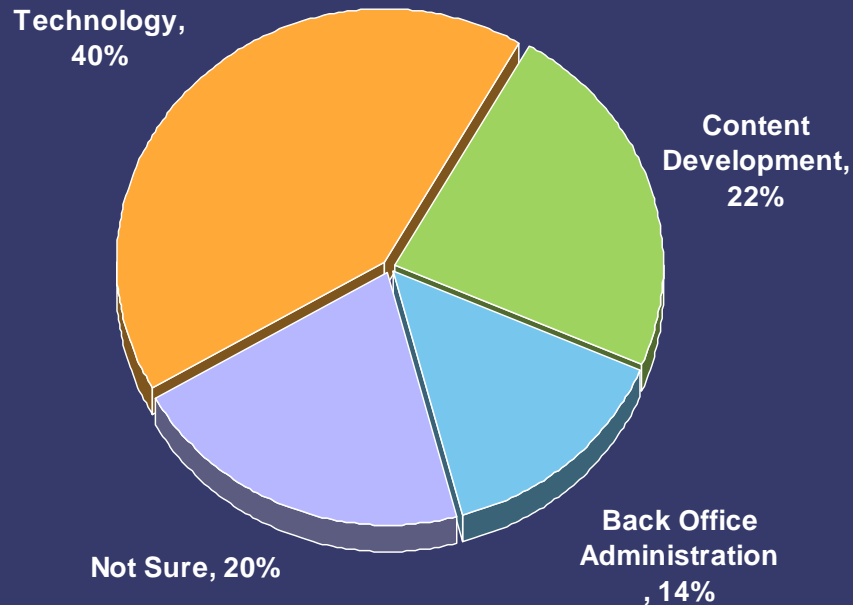- Gain accountability for part of our operation

# Typical Outsourced Training Functions

Most
Start Here

Increasing
Outsourced
Functions

**Content Services**

- **Content**
- **Delivery**
- **E-Learning Content Development**

**Technology**

**Technology Operations**

- **LMS Hosting**
- **Virtual Classroom/Collaboration**
- **LMS Administration**
- **Content Integration**

**Back Office Functions**

- **User Services**
- **Help Desk**
- **Vendor Management**

**All Functions**

- **Everything**

# Why Outsource Training?

## What would you consider outsourcing?



- Technology, 40%
- Content Development, 22%
- Back Office Administration, 14%
- Not Sure, 20%

Study conducted in May 2004, 10,000+ Surveys

- Training viewed as a Cost Center
- Many content areas require outside experts
- Complex and problematic technology
- E-Learning drives demand for technology operational skills

# Strategic Drivers for Outsourcing

- "Technology operations is not strategic to our mission.  We want to focus on *program development and design*."

- "We are so busy with operational issues we hardly have time for *strategy.*"

- "If we outsourced more operations, we would focus on an ongoing program for *measurement and analytics*."

- "I want to spend more time with *line managers and executives*."

# Study:  Does Outsourcing Work?

## Understand "What Works™"
## in Training Outsourcing

- What functions do companies outsource?

- Does outsourcing save money?

- Does outsourcing save staff?

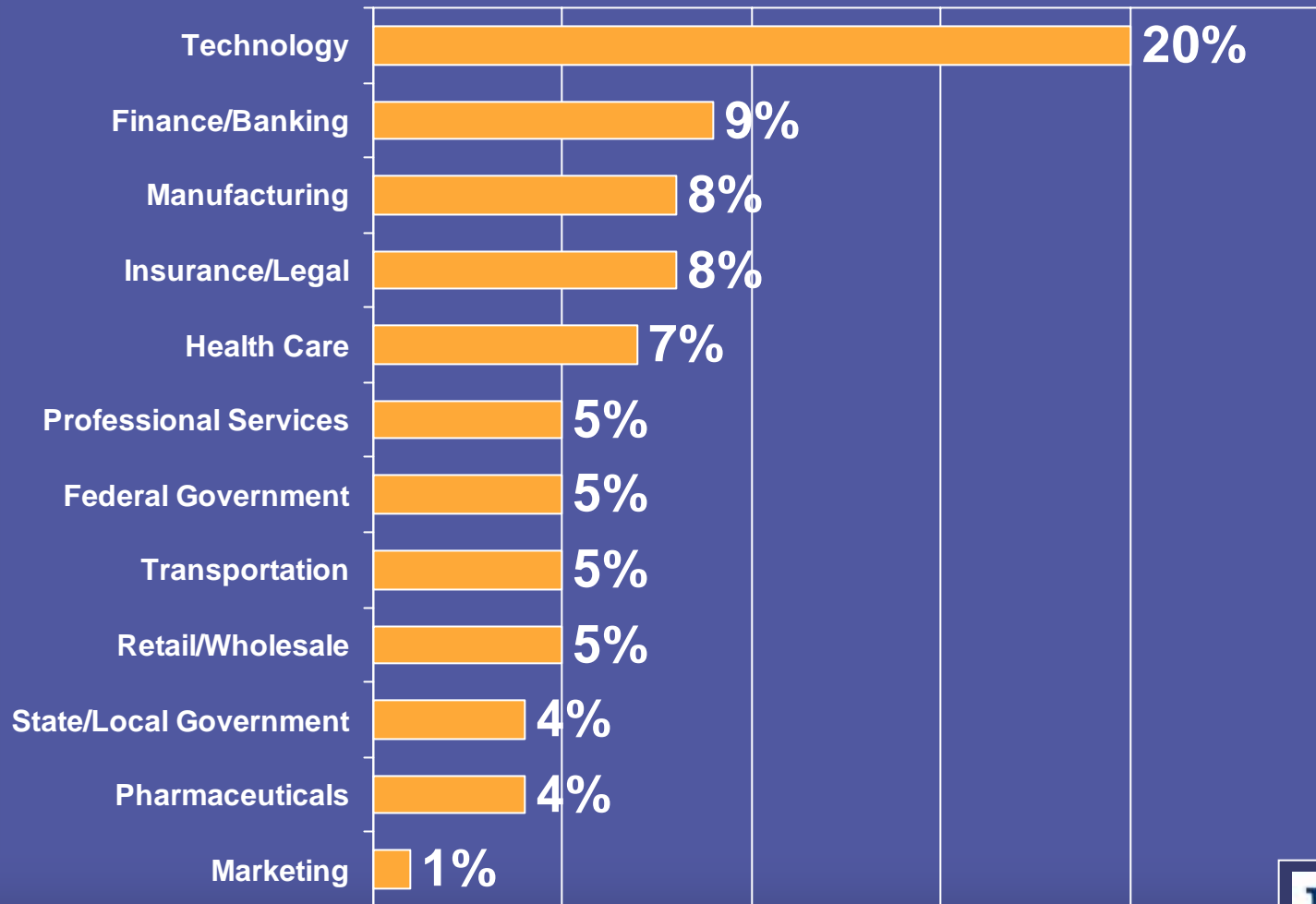- Does outsourcing impact effectiveness?

# Study Methodology

- 106 Companies surveyed in detail

- 12 Companies interviewed in detail

- Approximately half the companies interviewed outsourced something:

    - LMS or other learning technologies
    - Training administration
    - Vendor Management

# Respondents: Industry

| Industry | Percentage |
|---|---|
| Technology | 20% |
| Finance/Banking | 9% |
| Manufacturing | 8% |
| Insurance/Legal | 8% |
| Health Care | 7% |
| Professional Services | 5% |
| Federal Government | 5% |
| Transportation | 5% |
| Retail/Wholesale | 5% |
| State/Local Government | 4% |
| Pharmaceuticals | 4% |
| Marketing | 1% |

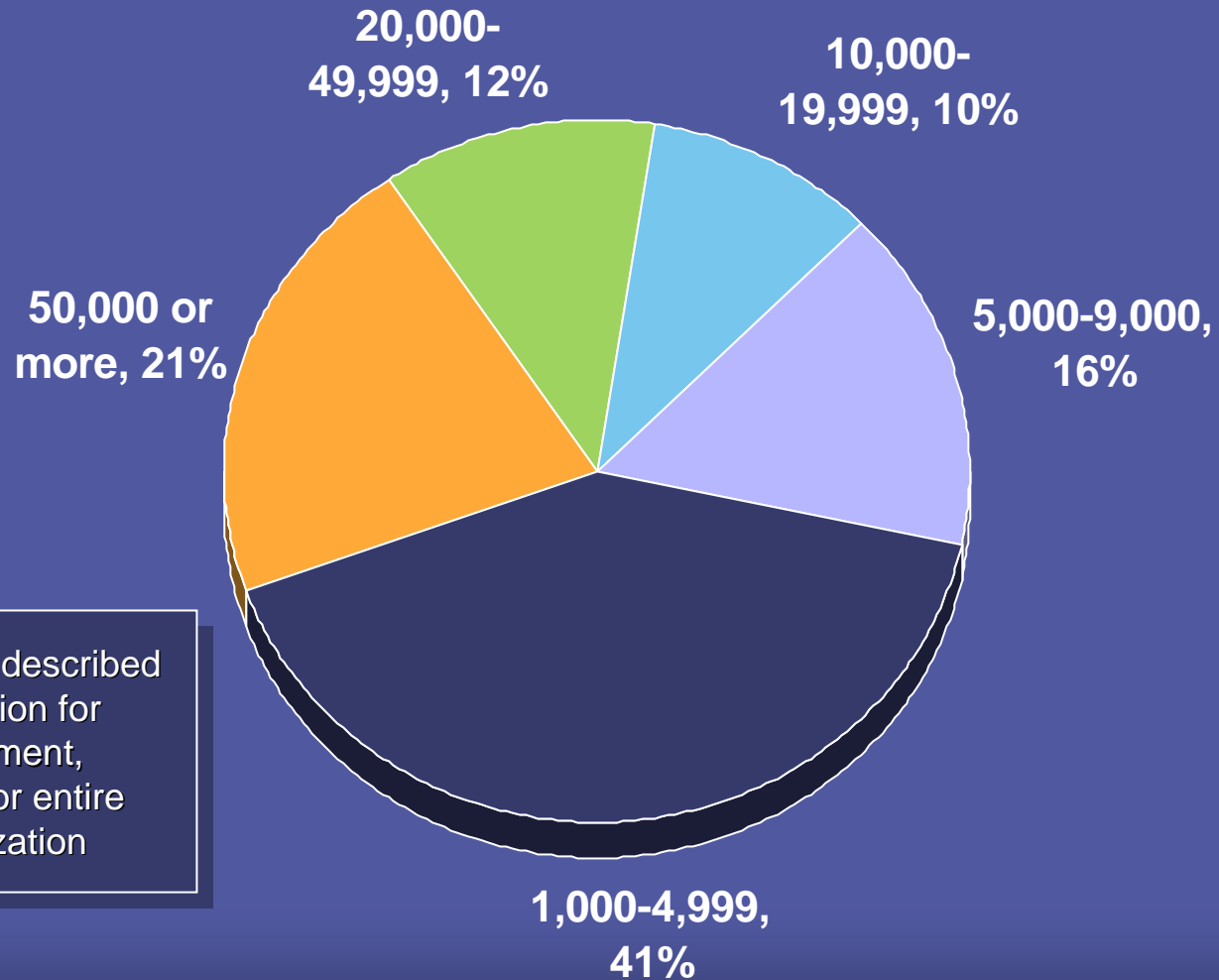Economics of Training Outsourcing, June 2004

# Sample of Companies Included

- 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 Helath Insurance Plan of New York
- GSK SAP Operations
- Sal4es Training (Subset of Sales Dep't)
- 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
- Núcleo de Soluções
- The Great Atlantic&Pacific Tea Co
- Wachovia
- IC Hotels
- Alpharma Inc.,
- Connecticut Light & Power
- CSG Technologies
- Accident Fund Insurance
- David Weekley Homes, Training
- Alliance Atlantis Communications

- Haemonetics
- American Medical Association
- Sistemas CBT
- WHYY, 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
- EduCaterra, Training department
- Macromedia, Customer Training
- Mercuri International
- Microsoft
- Acclamation Systems, Inc
- Copesan Services, Inc.
- SBC, Training Supplier Services
- Convergys, Organization Development
- UnumProvident
- Florida Hospital
- ChevronTexaco/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

- 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
- EverTrust Financial Group
- One Tree Learning, Inc.
- Victoria Johnson Consulting
- Optimon
- Engineering of Netdimension
- Conexant Sales Training
- Underwriters
- Snaptis, 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

- 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
- RACQ, Group Training
- GATX Corporation
- NEW (Nat Electronics Warranty)
- British Columbia Auto Association
- Big Brothers, Big Sisters of America
- IT, Kirkpatrick Stockton
- Disney, Training & Development
- St Jude
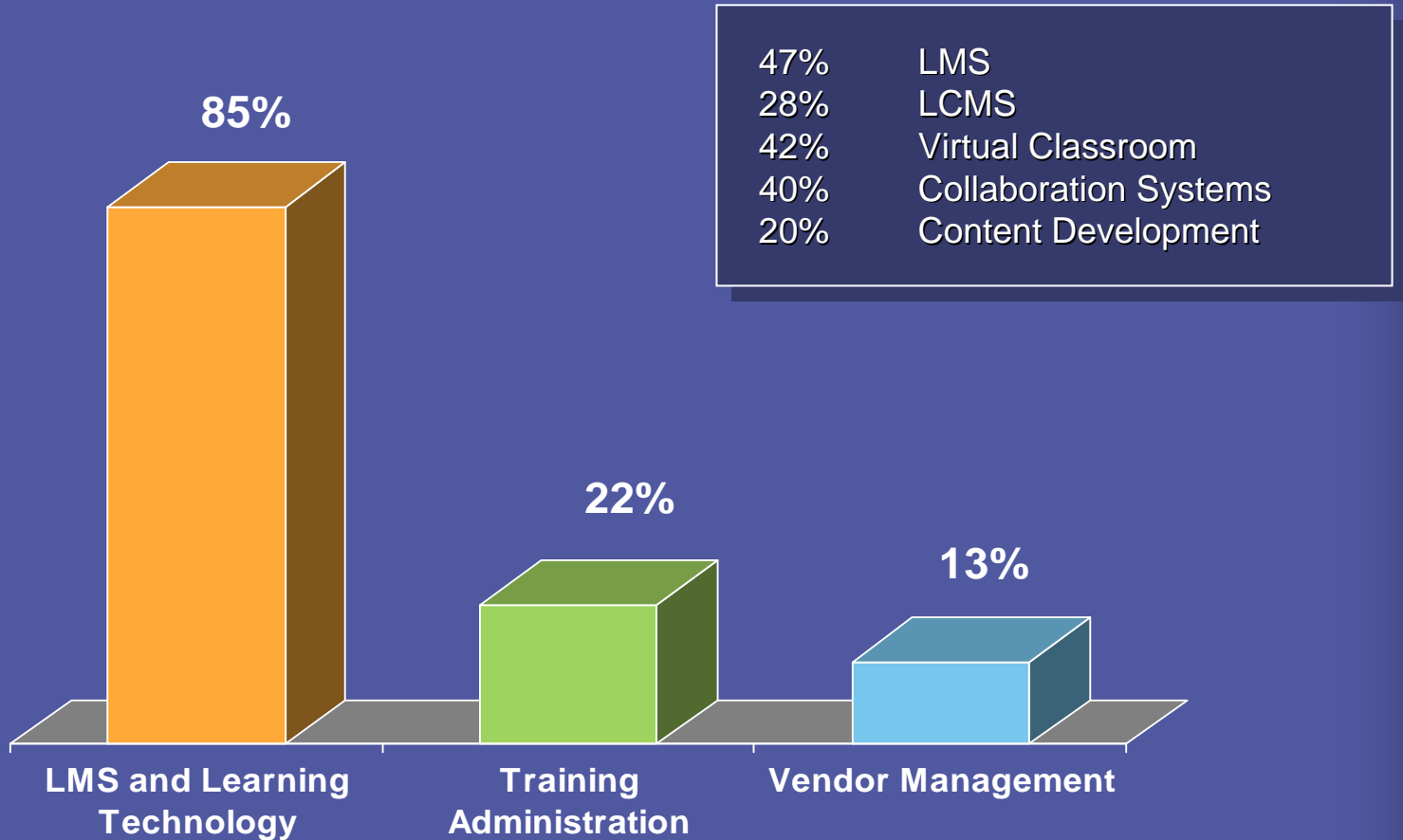- Thrivent Financial for Lutherans
- NCQA, Education

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# Respondents: Organization Size



20,000-49,999, 12%

10,000-19,999, 10%

50,000 or more, 21%

5,000-9,000, 16%

Companies described Information for Department, Division, or entire Organization

1,000-4,999, 41%

Economics of Training Outsourcing, June 2004

# What are Companies in the study Outsourcing?

| | |
|---|---|
| 47% | LMS |
| 28% | LCMS |
| 42% | Virtual Classroom |
| 40% | Collaboration Systems |
| 20% | Content Development |

**85%**

**22%**

**13%**

LMS and Learning Technology

Training Administration
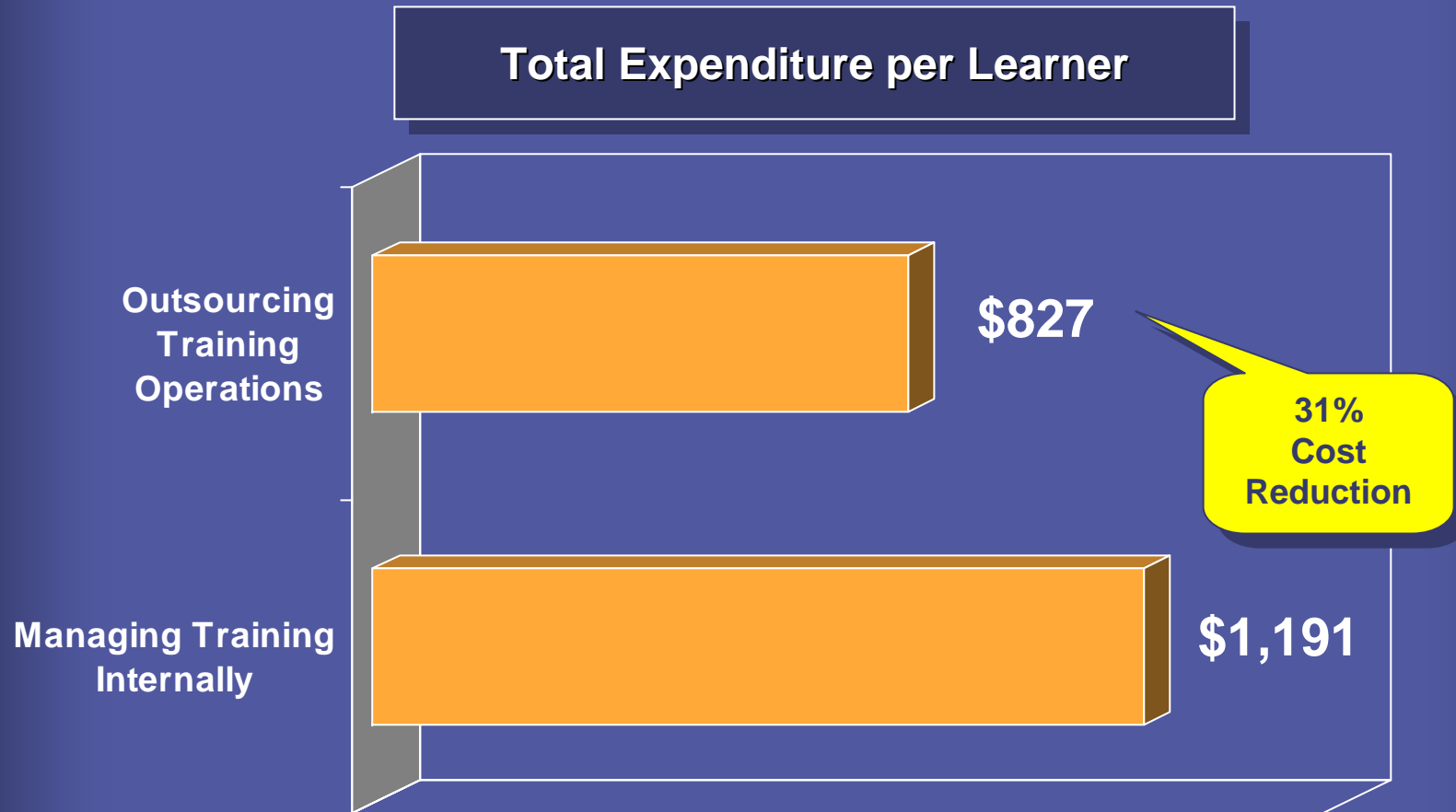
Vendor Management

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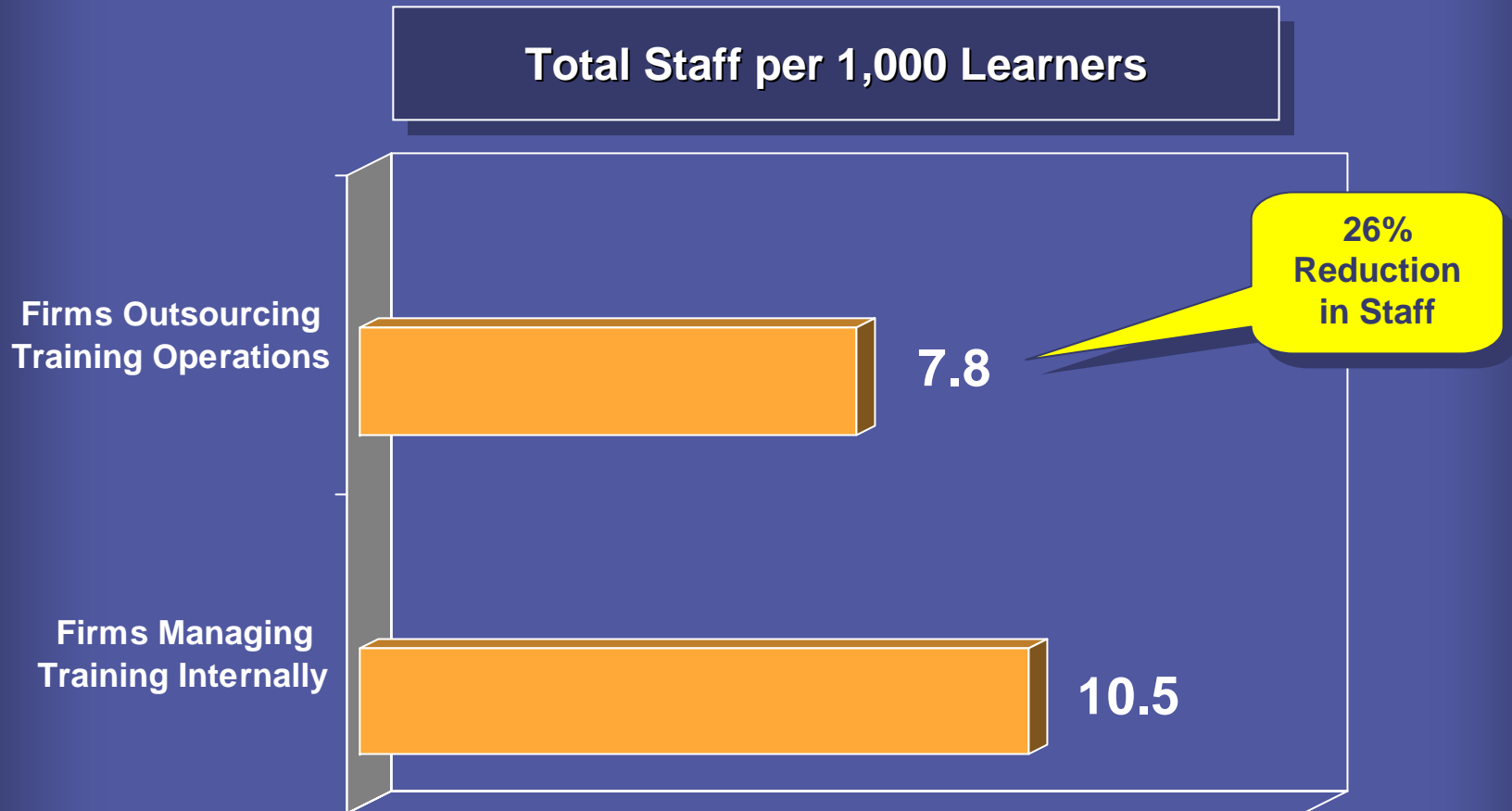
# Poll, answer one

- **<u>What would be your first operation to outsource?</u>**

- LMS hosting

- LMS Operations and Maintenance

- Other Technology

- User Support and Administration

- Delivery

- E-Learning Content Development

- Vendor Management

# Outsourcing Does Reduce Total Cost

Total Expenditure per Learner

- Outsourcing Training Operations: **$827**
- Managing Training Internally: **$1,191**

**31% Cost Reduction**

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# Outsourcing Does Reduce Total Staff

## Total Staff per 1,000 Learners

**Firms Outsourcing Training Operations**

**7.8**

26% Reduction in Staff

**Firms Managing Training Internally**

**10.5**

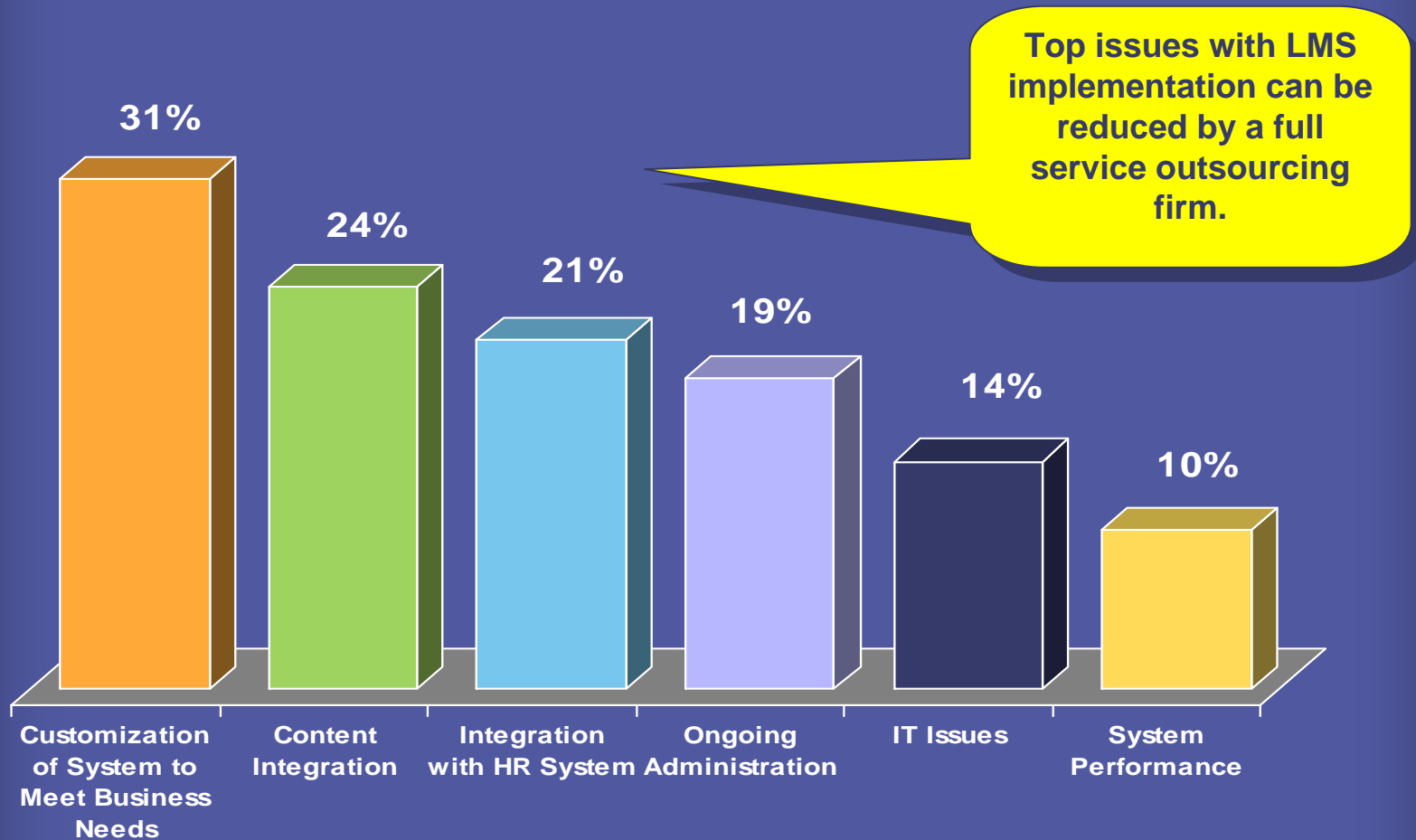Economics of Training Outsourcing, June 2004

# Technology Outsourcing

- **Type 1 Business: View Technology as Core to their business**

    - Typically do *not* outsource training technology (Telecommunications, Financial Services, High Tech Manufacturing)

- **Type 2 Business: View Technology as an Enabler to their business:**

    - *Likely* to outsource Training Technology (retail, manufacturing, pharma, non-profits, government)
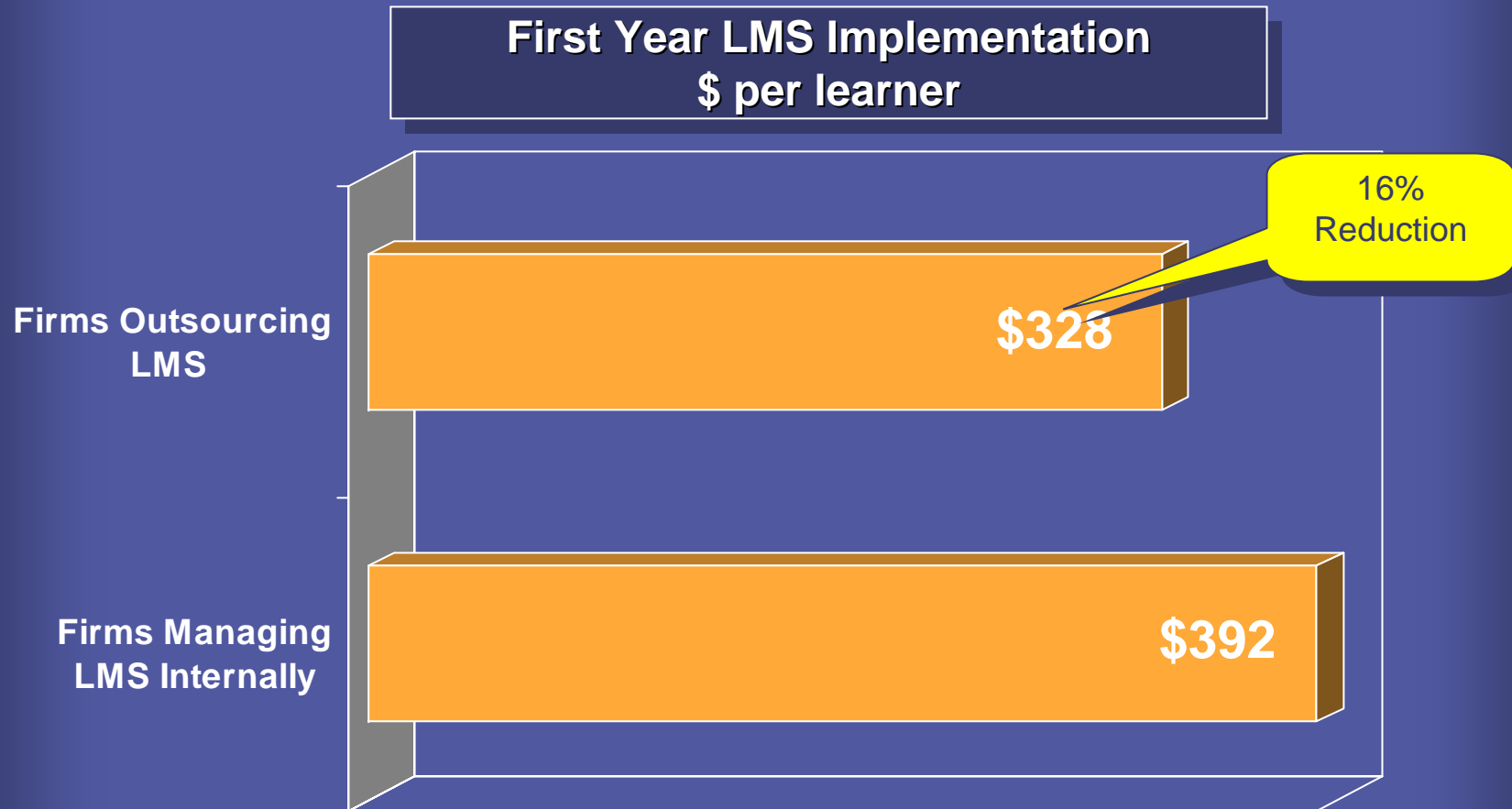
# Challenges with LMS Implementations

**Top issues with LMS implementation can be reduced by a full service outsourcing firm.**

| Challenge | Percentage |
|---|---|
| Customization of System to Meet Business Needs | 31% |
| Content Integration | 24% |
| Integration with HR System | 21% |
| Ongoing Administration | 19% |
| IT Issues | 14% |
| System Performance | 10% |

Study conducted in May 2004, 10,000+ Surveys, © Bersin & Associates

# Outsourcing Reduces LMS Implementation costs

**First Year LMS Implementation
$ per learner**

**Firms Outsourcing LMS**
$328

16% Reduction

**Firms Managing LMS Internally**
$392

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# Outsourcing Reduces Ongoing Cost of LMS

**Spending on LMS Maintenance And Upgrades (per learner)**

**Firms Outsourcing LMS**

$23

**60% Reduction**

**Firms Managing LMS Internally**

$58

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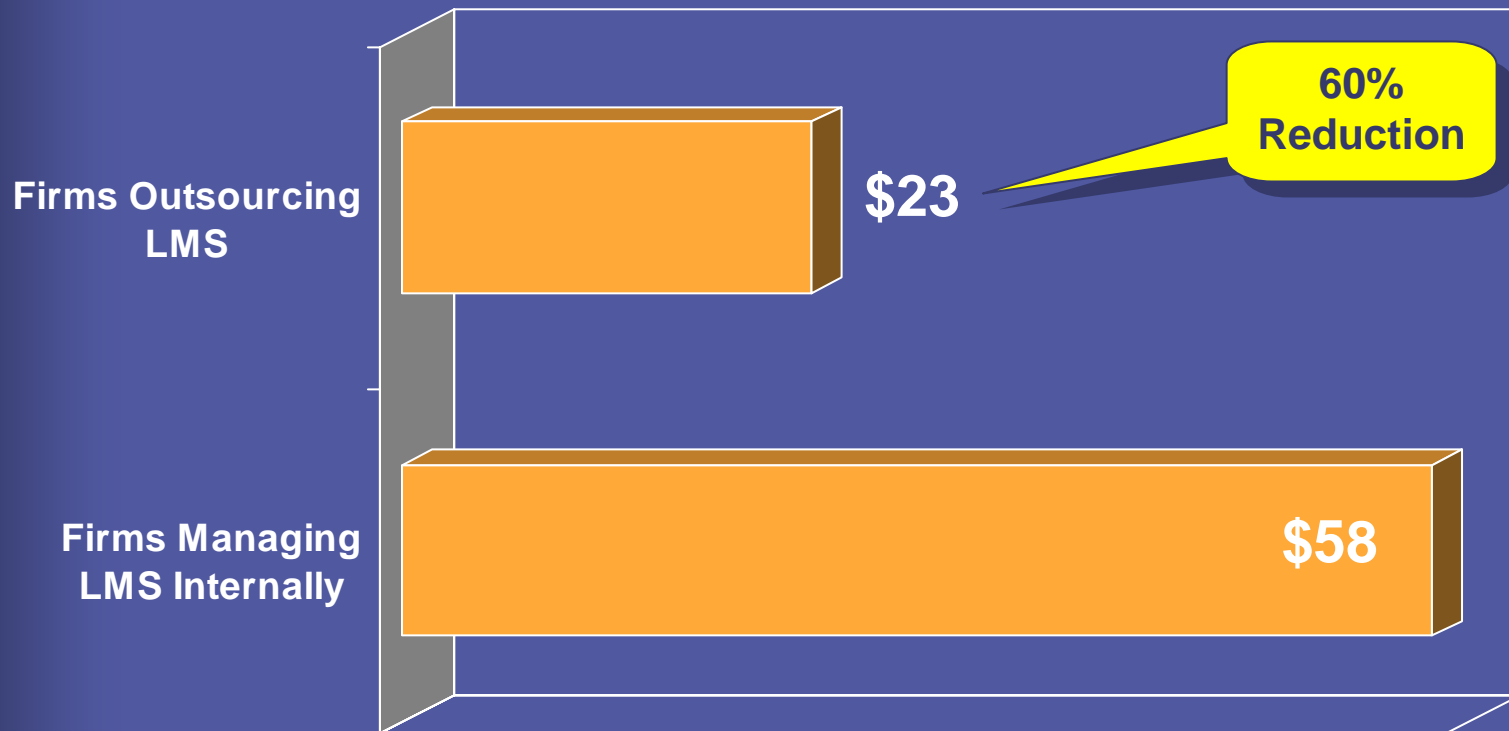
# Outsourcing LMS Reduces need for Key Technology Staff

**Headcount Needed for Technology (per 1,000)**

- LMS Outsourced: 1.1
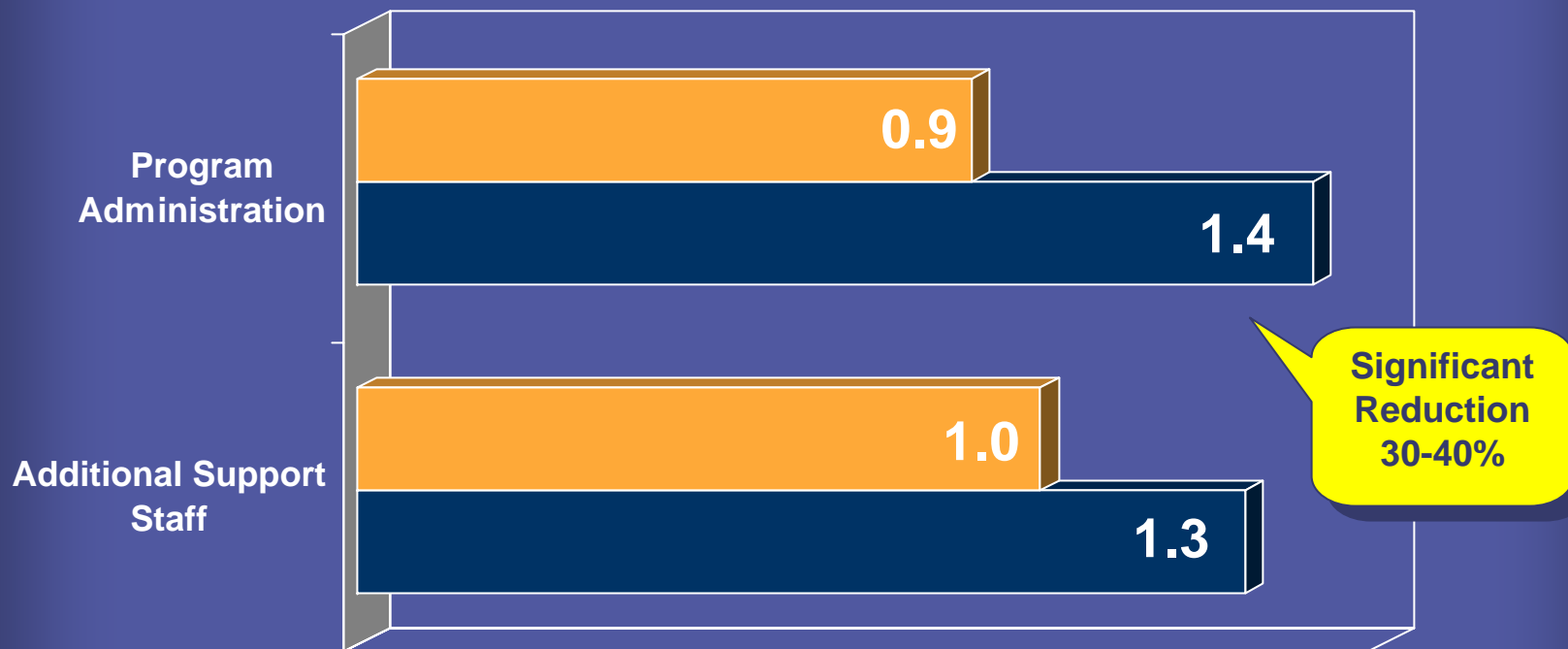- LMS Internal: 1.9
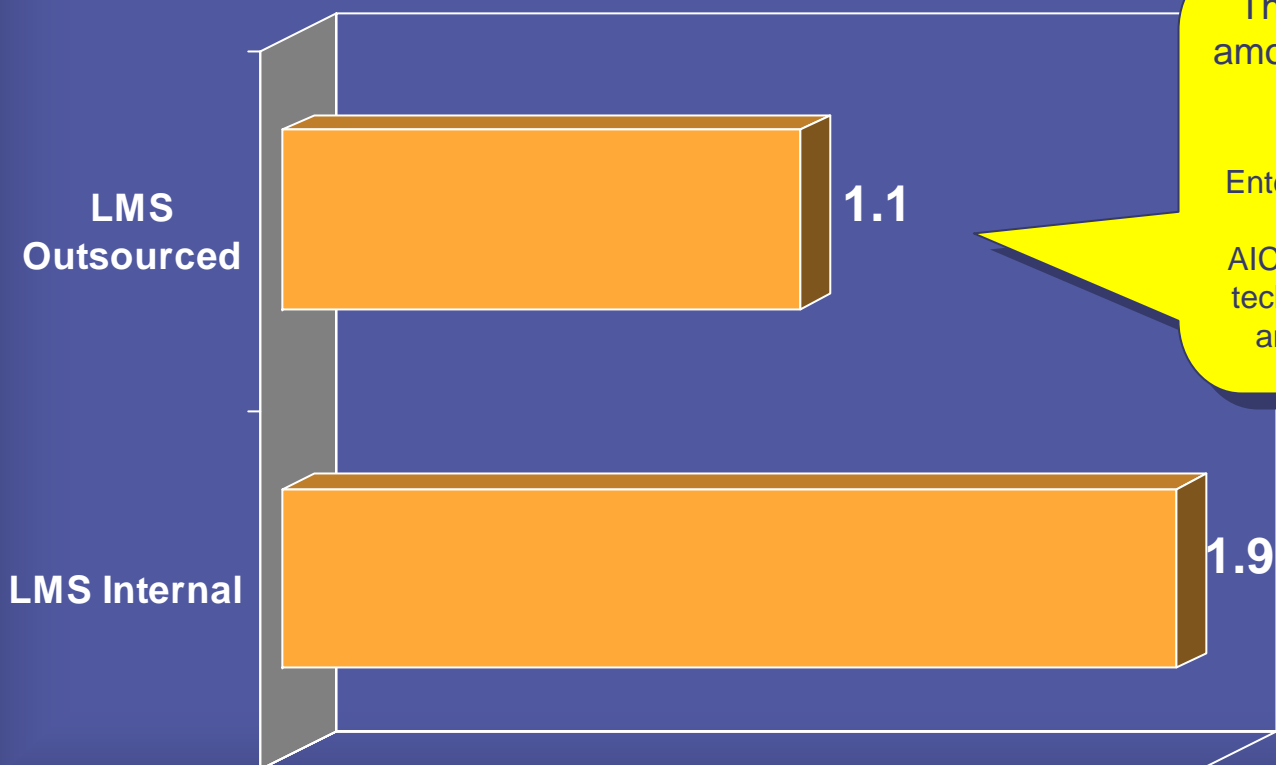
These skills are among the hardest to find:

Enterprise Systems, Database, AICC/SCORM, web technologies, tools, and networking.

# Administrative Overhead Reduced
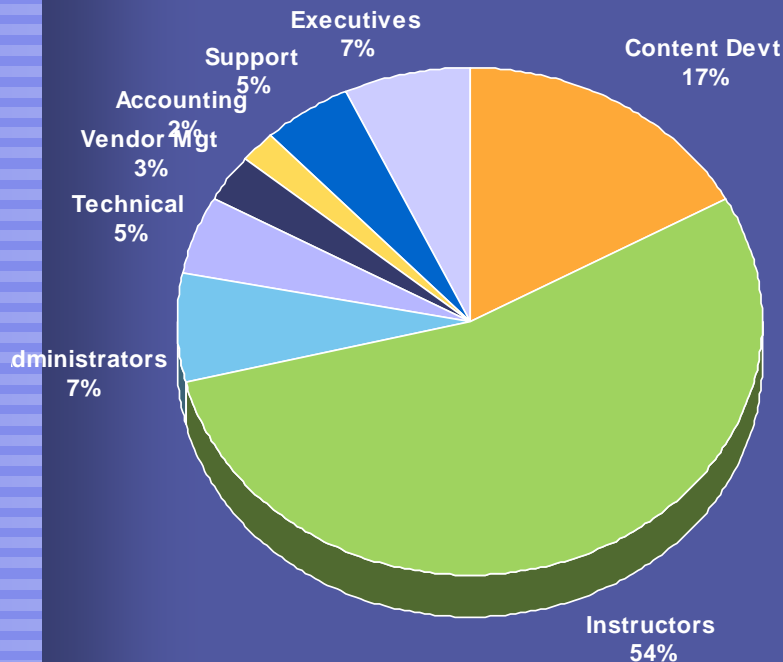
**Total Staff per 1,000 Learners**
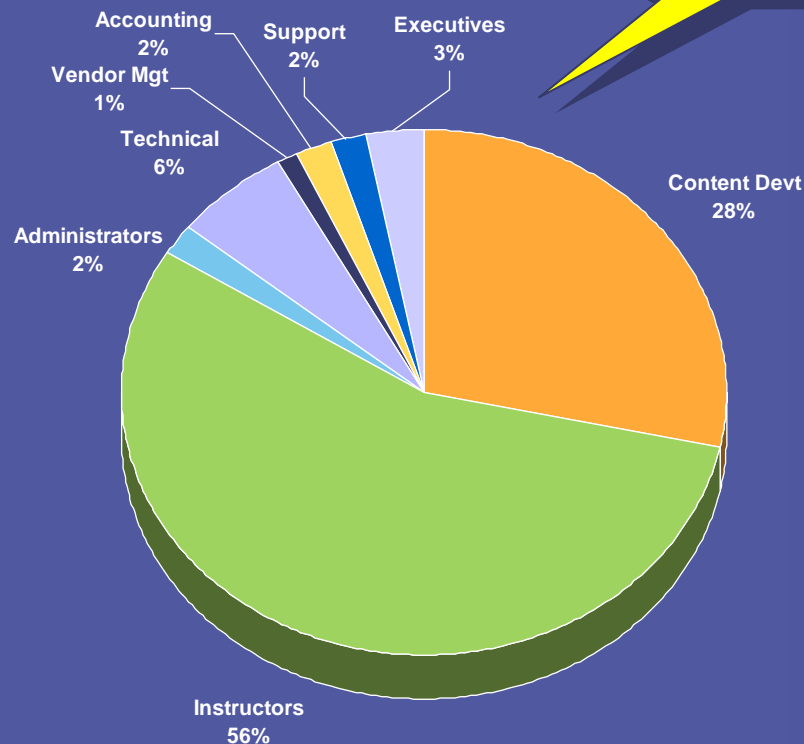
Program Administration
- Outsourcing: 0.9
- Managing Internally: 1.4

Additional Support Staff
- Outsourcing: 1.0
- Managing Internally: 1.3

**Significant Reduction 30-40%**

☐ **Managing Internally** ☐ **Outsourcing**

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# Headcount Allocation Changes

## LMS In-House

- Content Devt 17%
- Executives 7%
- Support 5%
- Accounting 2%
- Vendor Mgt 3%
- Technical 5%
- Administrators 7%
- Instructors 54%

## LMS Outsourcers

- Accounting 2%
- Vendor Mgt 1%
- Technical 6%
- Support 2%
- Executives 3%
- Content Devt 28%
- Administrators 2%
- Instructors 56%

**More Focus on Content**

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# Learning Effectiveness is High

Outsourcers *believe*
They are more
Effective at delivering
Training impact.

**Extremely Effective** — 33% / 28%

**Moderately Effective** — 64% / 62%

**Not Very Effective** — 3% / 8%

☐ **Managing Internally** ☐ **Outsourcing**

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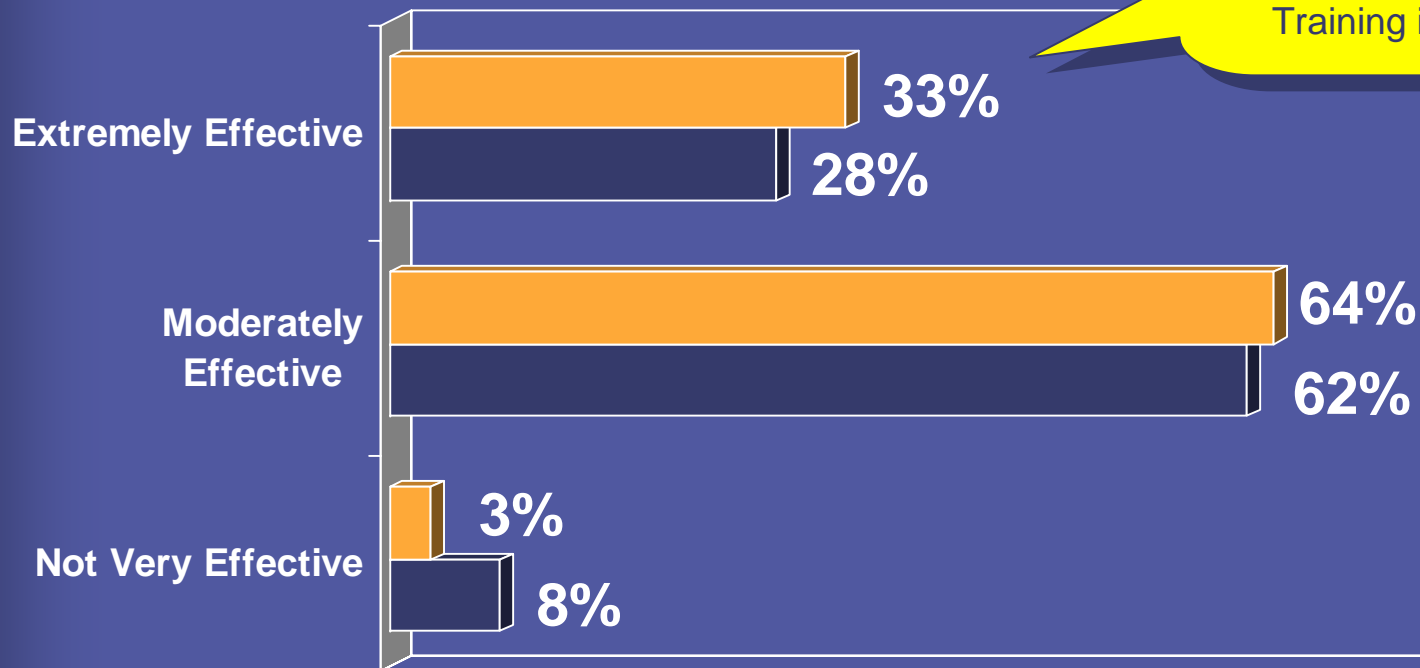
# Strategic Benefits

- "We could spend more time on measurement, reporting, and analysis of our programs."
  - --- Verizon

- "We could go out and spend more time working with first line managers to make sure we are having direct impact."
  - --- Verizon

- "Running our LMS is a major administrative task.  We strongly believe we can outsource this work and save money without any decrease in effectiveness."
  - --- Major Bank in the midwest

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# Strategic Benefits

- "We would like to outsource our technology integration – and if we did, I would spend much more time with our executives making sure we are focusing on the strategic issues in the business."

  - --- SBC

- "We want to get out from under the administrative tasks so we can partner more strategically with business units to develop training plans and programs."

  - --- Chevron Texaco

# Issues Companies Face

- "We do not believe we will save money because our internal technology is so complex and proprietary."

- "We are very decentralized and cannot get enough capital and focus to drive outsourcing."

- "We have an *internal outsourcing model* which enables us to outsource to IT and HR."

- "We do not understand the process of finding and hiring a firm to provide us outsourcing services."

# Bottom Line

- Outsourcing key functions can save significant dollars and headcount

- Certain companies will find outsourcing of technology operations very strategic

- Study available at http://www.bersin.com

- More Research at: http://www.elearningresearch.com

**Training Outsourcing: What Works™**

The Economics of Outsourcing Training Functions

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