

TRAINING OUTSOURCING FINDS ITS IDENTITY

- The Top 20 Training Process Outsourcers Revealed
- The Future of the Chief Learning Officer
- The Top 10 Turning Points in Training Outsourcing
- Featuring 6 World-Class Training Outsourcing Firms



FINDING TRAINING OUTSOURCING'S IDENTITY

Outsource training? Are you insane?

Actually, no. Training outsourcing is a burgeoning market. Its watershed moment came in 1986 when General Physics inked its landmark training outsourcing relationship with General Motors. Regardless of its mega-deals, training outsourcing has taken the long road to its own identity. With the increase in training business process outsourcing (BPO) deals since 1998, training now has a distinctive place in BPO alongside other human resources (HR), finance and accounting (F&A); and information technology (IT) business process functions. Moreover, corporate training's focus now extends beyond employee learning to customer education. This increase in training's scope has resulted in a steep boost in demand for outsourced training services of several flavors.

The Numbers Behind the Story

The data on training's value is starting to pour in. And here is the bottom line. The growth in training outsourcing is all based on two facts: Training boosts organizational productivity, and outside training providers increase an organization's ability to train more people faster and more cost-effectively than in-house staff.

According to a 2004 report by Accenture, high-performance organizations, representing approximately 10 percent of the organizations surveyed, exceeded their peers in productivity (as measured by sales per employee) by 27 percent more than their competitors', revenue growth by 40 percent, and net income growth by 50 percent.

The American Society for Training and Development (ASTD) reported that training spending per employee in U.S. corporations was \$826 per employee in 2002, an increase from \$734 the year prior.

The Exceleeration Group estimates that corporate training expenditures of all types, in-house and outsourced, was nearly \$120 billion in 2004. Of this, 42 percent was targeted for employee learning, 52 percent for customer training, and 6 percent for training supply chain interests. The ASTD, in 2003, estimated that 28 percent of all training expenditures go to outside vendors. That indicates that the training outsourcing market exceeds \$30 billion.

Consolidation Equation

Like many BPO segments, the training market has seen the start of a significant wave of consolidations. In March 2004, the biggest of the mergers happened when Cincinnati-based Convergys picked up San Francisco-based DigitalThink for \$2.40 per share, or \$120 million, a 30 percent premium to DigitalThink's share price.

At the time, Thomas J. Starr, senior principal of learning services for Convergys Employee Care, said DigitalThink's capabilities would create synergies for the company by "beefing up" its capabilities in learning while improving its competitive position in HR outsourcing.

The Convergys acquisition also set the stage for back-to-back Thomson Learning deals in August 2004. In the first of the two deals, Thomson Learning added Capstar, a unit of Educational Testing Service. Capstar develops competency assessment, learning and measurement, and test-

ing solutions for private and public sector markets. The second deal, two weeks later in August 2004, featured Thomson acquiring KnowledgeNet, an e-learning provider, which Thomson merged with its own NETg unit. The two buys, while positioning Thomson Learning as a market share leader, contrasted with Convergys' stated goal for its training outsourcing acquisition: to position Convergys to better compete for large-scale HRO contracts. The differing M&A philosophies of Thomson and Convergys reflect the training outsourcing market's conflicts about its own identity. Is training outsourcing a market of its own, or does it comprise a subset of the HRO market?

Follow the Money: Customers Come First

On Wall Street, the trend is your friend. In training outsourcing, the overwhelming trend is toward investing in customer training. In 2004, TrainingOutsourcing.com writer Paul Harris documented software provider Intuit's "eureka" moment, which caused it to invest heavily in customer training.

"Sales of the company's QuickBooks software were suddenly spurting," Harris wrote, "and a new analysis revealed why: Professional accountants were referring the product to their corporate customers after taking an e-learning course that made them certified users."

"We discovered that accountants who received their ProAdvisor Certification were referring QuickBooks to their small business customers at four times the rate of those who simply use the software," says Rich Walker, Intuit's director of accountant and advisor relations. "It is a causal relationship."

"Launched two years ago, Intuit's new customer training initiative is out-tasked to Cincinnati-based Convergys Corporation, a business process outsourcing firm that recently acquired e-learning content provider DigitalThink. Convergys Learning Solutions helped create the courseware and now manages the training via its scalable Web-based platform, the L5 Learning Delivery System. It supplements Intuit's classroom training program begun seven years ago with Dallas, Texas-based Real World Training." Intuit, as Harris showed, illustrates the fastest-growing trend in learning—the outsourcing of customer training initiatives.

THE TOP 20 TRAINING PROCESS OUTSOURCERS REVEALED

Training outsourcing's growth has ridden three big waves. First, corporations are using training to boost productivity. Second, the big training players are getting bigger through consolidation. And third, training customers has been shown to be a powerful client-acquisition tool. These three waves have created a clear list of the Top 20 training outsourcing providers.

TOP 20 COMPANIES IN THE TRAINING OUTSOURCING INDUSTRY

COMPANY	HEADQUARTERS	CONTACT
Accenture Learning	New York City, NY	Mark Klinge, mark.d.klinge@accenture.com
Affiliated Computer Services, Inc. (ACS)	Dallas, TX	Mark Cunningham, Mark.Cunningham@acs-inc.com
AchieveGlobal	Tampa, FL	Joel Smith, joel.smith@achievegloabl.com
Capstar*	Princeton, NJ	Ellen M. Steinlauf, esteinlauf@capstarlearning.com
Convergys	Cincinnati, OH	Tom Starr, thomas.j.starr@convergys.com
Exult*	Irvine, CA	Bruce Ferguson, bruce.ferguson@exult.net
GeoLearning	West Des Moines, IA	Will Hipwell, willh@geolearning.com
Global Knowledge	Cary, NC	Frank Fedorovich, frank.fedorovich@globalknowledge.com
General Physics (GP)	Elkridge, MD	Dan Miller, dmiller@genphysics.com
IBM Learning Solutions	Armonk, NY	Natasha Roukos, natr@us.ibm.com
Innovatia	Saint John, New Brunswick, CAN	Linda O'Brien, linda.obrien@innovatia.net
Intellinex	Cleveland, OH	Lyn Maize, lyn.maize@intellinex.com
Intrepid Learning Solutions	Seattle, WA	Brad Johnson, bjohnson@intrepidls.com
Knowledge Planet	Mechanicsburg, PA	Julie Woods, jwoods@knowledgeplanet.com
Learning Tree International	Reston, VA	David Nissly, david_nissly@learningtree.com
New Horizons Computer Learning Centers	Anaheim, CA	Paul Kerins, paul.kerins@newhorizons.com
NiIT, Ltd.	New Delhi, IND (World Headquarters); Atlanta, GA, USA	Linda D'Angelo, ldangelo@niit.com
Productivity Point International (PPI)	Morrisville, NC	Mike McIntyre, mmcintyre@propoint.com
Raytheon Professional Services	Dallas, TX	Jeff Lucas, jslucas@raytheon.com
RWD Technologies	Baltimore, MD	Gary Walker, GWalker@RWD.com

Source: TrainingOutsourcing.com. *Note: At the time this list was developed, the Thomson/Capstar and Hewitt/Exult acquisitions had not occurred.

The E-Learning Explosion

Organizations in a variety of fields are turning to e-learning to train their wholesale customers, dealers, and channel partners, often bidding adieu to classroom training. For example, automobile manufacturers rely heavily on learning outsourcing firms to train their dealer networks and other business customers. Certain industries are among the heaviest users of e-learning, for example:

Healthcare. Medical products and pharmaceutical companies are aggressively employing e-learning technologies to train physicians and other healthcare workers. eTrinsic, a Louisville, Colorado, developer of simulation-enabled content and proficiency measurement technology, says its product is used by clients such as Eli Lilly, Bristol-Myers Squibb, Welch Allyn, and Merck to train end-users, including non-professionals in home care settings.

Professional Associations. Business and professional associations are out-tasking the development and delivery of e-learning courses to their members to meet certification and continuing education goals. Doing so both attracts and retains members, and generates revenues. The American Psychological Association generated \$4 million in only four months with a \$300 course on the Health Insurance Portability and Accountability Act (HIPAA).

Agriculture. Worldwide agribusiness company Syngenta employs e-learning to reach farmers and other remote customers with training on

applications to promote healthier crops. Syngenta outsources the activity to Productivity Point International (PPI) in Research Triangle Park, North Carolina.

To be sure, customer training is not a new endeavor. "Customer training has always been near to the hearts of product managers," claims Frank Fedorovich, vice president of commercial sales for IT training company Global Knowledge. "But as the economy has squeezed costs out of organizations, many companies no longer have resources in-house to produce it," he says. Clients typically seek selective out-tasking relationships rather than the complete outsourcing of all product training, but such contracts can ultimately lead to the outsourcing of entire product lines, says Fedorovich.

Customer training differs dramatically from workforce training in that it is typically a product support activity launched by the sales and marketing department, not from within HR. Marketing executives are not as concerned with an individual's competency as they are in bottom-line results—increasing customer satisfaction and retention.

Customer education activities normally support indirect revenue generation, such as reducing failure costs and risks in use of a product, or generating sales of core products. Among the most popular and effective customer training models are those created by Cisco and Microsoft. While retaining ownership of its intellectual property, Cisco has created a network of authorized education partners (such as Global Knowledge) that offer training on its products. ▶

THE EVENTS THAT SHAPED AN INDUSTRY: THE TOP 10 EVENTS IN 2004

In selecting the Top 10, The Exceleation Group looked at the dynamics of new training services, changing corporate structures, mergers and acquisitions, initial outsourcing engagements, and the extension of important relationships.

1. Introduction of TrainingOutsourcing.com

The training outsourcing industry's leading portal of objective information has been instrumental in facilitating several partnerships between corporations and training services providers. Launched on February 15, 2004, more than 180,000 people have visited the site in its first 10 months. Visitors from 20 countries represent corporate buy-side executives, training professionals and supplier representatives.

2. Convergys' Acquisition of DigitalThink

On March 25, 2004, Convergys' President of Employee Care Services, Karen Bowman, completed the acquisition of long-respected content developer DigitalThink for approximately \$120 million. The deal made Convergys one of the leading companies in the training outsourcing industry and strengthened its ability to contend for several significant HR/training outsourcing deals.

3. Raytheon's Extension Relationship with Major Automobile Manufacturer

One of Raytheon Professional Services' (RPS) clients (name withheld) in the United States since 1998, extended its comprehensive learning-outsourcing contract with the learning services provider through 2008. The geographic scope included Canada and Mexico, covering 90,000 professionals in 8,000 locations. The contract extension is valued at more than \$100 million.

4. GeoLearning: Multi-Agency Government Adoption of "Managed Learning Services"

GeoLearning's Founder and CEO, Frank Russell, has built an organization that leverages technology, especially with government agencies. While no single GeoLearning "Big Deal" qualified as a "Top 10 Event in 2004," the company's collective achievements make it a top 10 pick. GeoLearning gathered several large contracts including: U.S. Office of Personnel Management (OPM), New Jersey Department of Law & Public Safety, U.S. Department of Health & Human Services, U.S. Department of Interior, and Washington State Department of Personnel.

5. GP's Introduction of TOPS Services

In 2004, General Physics (GP) launched a new service called TOPS (Training Outsourcing Processing Services) to address how corporations manage tuition reimbursement and university- and college-based education. GP has

landed TOPS deals with Ford Motor Company, United Technologies, and the Workforce Development Center of the State of Ohio.

6. Accenture Awarded Outsourcing Deal with GE Consumer Finance

This 2004 deal shapes how the financial industry looks at training outsourcing. Tom Kraack, a Partner with Accenture Learning Services' practice, has become the industry's leading business development professional.

7. Intrepid Expands Deal with Boeing

Intrepid is proving that a relative newcomer can make great waves in the outsourcing business. Focused exclusively on training outsourcing, Intrepid initially landed the Boeing deal in 2003. Through creativity and innovative services, Intrepid reached a landmark agreement to expand its services to several additional Boeing business units in safety, health, environment awareness, and the Integrated Defense Systems business.

8. ASTD's Training Outsourcing Conference

ASTD held its first conference focused on training outsourcing in Chicago on October 6 and 7, 2004, drawing 100 participants. It helped to define buyer and supplier practices in sourcing, managing, contracting, and pricing.

9. Thomson's Acquisition of Capstar and Knowledge Net

The acquisitions of Capstar and KnowledgeNet put Thomson in a leadership position to manage training in a comprehensive manner including e-learning, e-MBA, e-mentoring, Web-based assessments, and certification services. Thomson traditionally has marketed its outsourcing business through product and media based services, yet these acquisitions gave them a stronger position in process-based outsourcing.

10. The Exceleation Group Holds Training Outsourcing Executive Summit

The Exceleation Group organized the first meeting of leaders of training outsourcing companies on December 6 and 7, 2004. Twenty-two companies attended the two-day summit. Topics discussed included M&A, buyers' perspectives, standards, metrics, research, and the evolution of the HR Outsourcing industry.

TRAINING OUTSOURCING ON THE RISE

TrainingOutsourcing.com's emergence in February 2004 and its Summit event in December 2004 have served to galvanize a critical mass of buyers and providers into the de facto industry trade group. Doug Harward, CEO and managing partner of The Exceleration Group, the management company behind TrainingOutsourcing.com, said, "Being able to get the executives of the leading training outsourcing companies together demonstrates their commitment to customer service and improving the quality of our business. From this and future events, I'm sure we will see some new and exciting developments occurring during this next year. Don't be surprised if in 2005 we hear about the largest outsourcing deal to ever occur—or maybe a new company emerging as a leader in the industry."

Harward said the Cary, North Carolina-based consulting firm looks forward to holding another Outsourcing Executive Summit later in 2005. He says its objective would be "to provide ongoing development opportunities for training outsourcing companies such as presentations on the legal aspects of outsourcing, financial management requirements of managing outsourced business deals, and more."

2004 Summit Highlights

Dr. Jim Hanlin, COO of TrainingOutsourcing.com, unveiled a new survey revealing that 79 percent of responding suppliers believe that development of standards (metrics, terms, best practices) for the training outsourcing industry would help boost adoption rates by corporations.

Kaliym Islam, director of instructional technologies for customer education at the Depository Trust and Clearing Corp, representing Chief Learning Officers, highlighted the value of incorporating Six Sigma in the training outsourcing arena.



TrainingOutsourcing's 2004 Summit in Raleigh, NC, convened the country's training outsourcing leaders.

Merger and acquisition consultant Tom Barocci, president of Boston-based TAB Associates, said the training outsourcing industry's potential has caught the attention of investment bankers and others. He predicted that the industry will be the object of much consolidation during the next two years.

"There's a lot of investment money out there looking for something to do. You all are in the same position that companies in the IT industry were years ago," he told the training outsourcing executives.

John Malitoris, Managing Director of Duke Corporate Education, identified opportunities for training outsourcing suppliers to target and better serve buyers.

Jay Whitehead, publisher of *HRO Today* Magazine said training has become an important piece of the fast-growing HRO marketplace, and that HRO firms have missed out on contracts because they could not provide comprehensive training services. "That's why Convergys bought DigitalThink," said Whitehead, who suggested that more acquisitions can be expected.

TrainingOutsourcing.com's leadership role will continue in 2005 with a

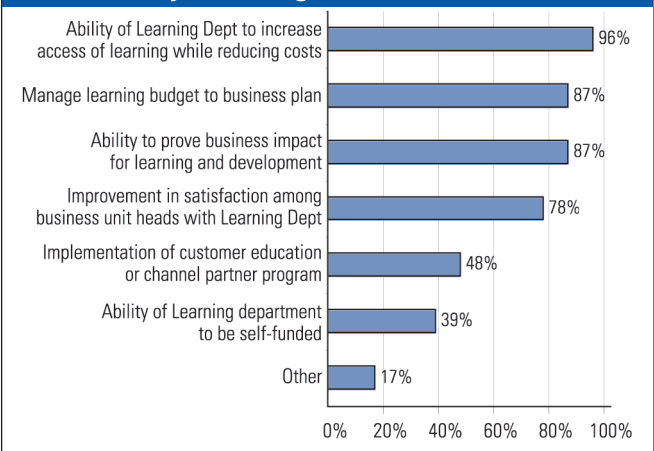
major presence at the HRO World Conference April 12-13, 2005 at the New York Hilton. At the conference, TrainingOutsourcing.com has organized the first-ever training outsourcing-specific conference track featuring panels and case studies with industry innovators, as well as the TrainingOutsourcing Pavilion on the trade show floor, featuring the emerging industry's leading providers.

The CLO Factor

The 1995-1998 emergence of the Chief Learning Officer, or CLO, function in major North American and European companies was best highlighted in former DuPont Chief Learning Officer Ed Trolley's best-selling book *Running Training Like A Business*. The new role of the CLO has caused an uptick in training initiatives and a higher-profile role for training outsourcing as an emerging industry. While a 2004 training feature by *HRO Today* magazine reported that fewer than 20 percent of *Fortune* 500 companies had hired an executive with such a title, its appearance in nearly 100 of the biggest companies has given the training function, and the outsourcing of training processes, a boost. *Chief Learning Officer* magazine appeared on the scene in late 2002 to feature the market trend.

To shine more light on the role of the CLO, the 2004 Accenture Learning Survey of 285 enterprise learning organizations found that CLOs are being measured more and more according to how they run their learning "business unit." CLOs are focusing more on capabilities such as managing learning budget to plan, and increasing efficiency and effectiveness by focusing on the business impacts of learning.

How Is Your Role as CLO or Head of Learning Measured by Your Organization?



Training Outsourcing's Call To Action

Training outsourcing's rise to prominence is probably best summarized by Doug Harward's admonition at the end of the December 2004 Summit. "Training outsourcing," Harward said, "has arisen from the increased complexity and specialization required of the training function. These new requirements have outstripped the capacity of in-house staffs. More and more, I am hearing corporate training and line management executives say, 'training is a job for an outsourced professional, children don't try this at home.'"