



Outsourcing Training

An essential guide for
organisations

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WHY CORPORATE TRAINING PARTNERSHIPS?

- ◆ CTP is a firm which will provide innovative solutions based on recent experience running large training operations for major banks and institutions in addition to providing compliance consultancy services in areas of the regulations impacting Human Resources.
- ◆ To obtain the benefits of a small organization, flexible and responsive to your requirements together with access to a large network of specialist training providers.
- ◆ To achieve national coverage of services through a core panel of trainers who are selected based on meeting a benchmark of 70% pass rates achieved by delegates they have tutored and their observed training technique.
- ◆ CTP provides a range of complementary services which enables the company to contribute to the debate on the influencing factors and environment that lead to successful business outcomes.

1 Outsourcing Training

A valuable business strategy - not a trend!

More and more businesses recognise training outsourcing as a valuable strategy. Business process outsourcing is a rapidly growing business tool to enable performance of non core activities that are important to the value generation of the company.

Like other approaches to streamlining supply chain relationships, training outsourcing provides many financial benefits to both parties:-

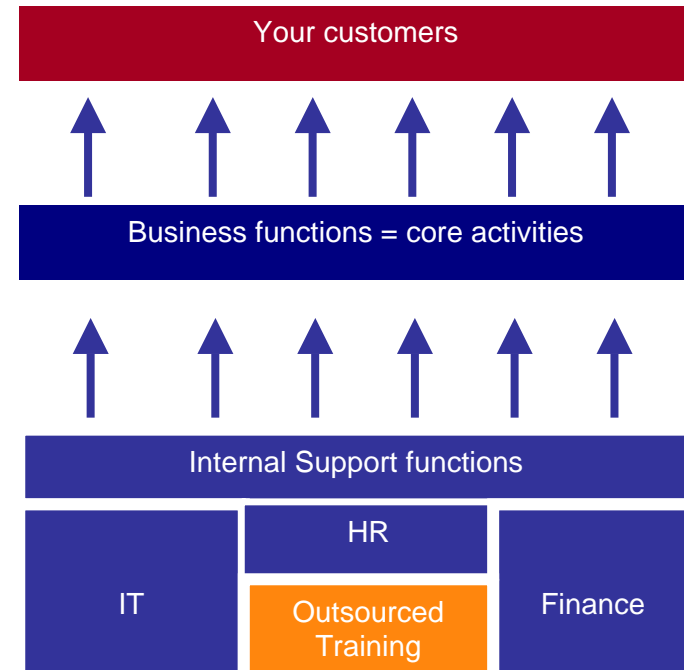
- ◆ it helps management focus on its core business by reducing non-value added distractions;
- ◆ it increases sales to customers outside the current distribution channels;
- ◆ it provides greater scalability of overhead costs.

But training outsourcing relationships must be structured properly. There are many documented failures because fundamental strategies were not followed.

To provide our clients with a framework in which to consider the pro's and con's of such a strategy for their own organisations and to pass on the results of our own experiences we have prepared this guide. the Top 10 Successful Strategies for getting started with outsourcing your training function.

The best possible way to enter into an outsourced arrangement is with an existing supplier who has already satisfied your quality standards.

The model



2 Top-Ten Building Blocks

Organisations normally begin to consider outsourcing training when faced with a number of different triggers: -

- ◆ Loss of key personnel in the training function
- ◆ A fundamental shift in the scope and scale of business
- ◆ Change as a result of external factors such as new regulations
- ◆ Pressure to reduce operating costs to meet market competition
- ◆ Inability to provide the scale and/or specialist needs of staff from within

Having made a decision in principle to investigate the options and seek a business partner the organisation will need a cohesive plan to ensure that: -

- ◆ Risks are understood and properly managed
- ◆ They understand their own requirements
- ◆ The right person is chosen to take the project forward
- ◆ Data is available to set meaningful service levels
- ◆ The right long term partner is selected

This section provides organisations with some invaluable guidelines to follow to progress their outsourcing project.



1. Consult the experts

Executives are always interested in reducing the risk of failure and increasing the probability of success. Outsourcing is not an informal agreement between two companies. It is too risky and complicated to initiate without soliciting advice from those who have experienced similar relationships and those who focus on the industry. There are number of actions to take at the outset.

There are professionals in the training outsourcing industry who specialise in working with companies of all sizes to lead them through the process. They are your insurance policy against mistakes that can cost your company significant time and money.

Contact other organisations in your industry who have outsourced their training functions and ask them about their experiences. Go to seminars and presentations on the subject.

Do your research thoroughly and remember that outsourcing any business function is all about risk mitigation.

2. Understand your business drivers

Now that you know about the industry, make sure you understand your own organisation in the context of the training demand. What are the business drivers for your company?

Are you growing with high and regular demand for induction training?
Are you trying to reduce costs because revenues are flat?
Do your customers need a high level of servicing ?
Do you need to reach new market segments and new skills to match
Do you need to improve the efficiency of your internal staff?

These and many more questions will influence your decisions to outsource and more importantly, who you should consider for outsourcing. Not only their ability to deliver volume but can they accommodate the specialisms you need now and may need in the future?

3. Appoint a champion

The process of outsourcing requires strong leadership and attention to detail. The most successful engagements have an appointed, central leader with decision-making authority.

Take care not to fall into the trap of appointing the person most likely to lose personally by a decision to outsource training unless you are certain that they can be dispassionate and objective.

It is essential that the '**Champion**' understands the process, the risks associated with success and failure, the structure of the contracting agreement, and support roles needed to make the relationship work.

4. Develop a plan

All successful projects have clear vision and defined objectives and responsibilities. Speed in transition is essential because the longer the process, the more expensive the engagement. Create a solid project plan, identify responsible parties and, hold team members accountable. Remember that not all participants in the process have the same vested interest. Some may not be motivated to drive the process. This is where a well conceived plan helps keep things moving and on track.

5. Build the team

Cross functional expertise reduces the risks and increases the probability of success. A project team made up of seasoned professionals who understand your business is essential.

As well as your project champion, your team should consist of:-

- ◆ a senior member of your training staff who knows your business as well as the industry;
- ◆ a finance or cost accounting professional who can build a financial model to evaluate the short and long term implications of a deal,
- ◆ a procurement or supply management professional who has experience in negotiations and contract documentation,
- ◆ a human resource professional to deal with the needs of personnel, and legal counsel for final contract review.

6. Commit to a partnership

Outsourcing is different from a supplier/buyer relationship. The terms of the agreement are different. In an outsourcing partnership, you share access to valuable proprietary information. Both parties are mutually responsible for success.

Success is only achieved by partnering with an outsourcing services company. This is no place for an adversarial relationship. Outsourcing is not about how to get as much out of the partner as you can. It is all about forming an agreement where both companies are rewarded from a mutually beneficial relationship.

Corporate cultures and executives who do not fully adhere to this philosophy should not consider outsourcing. Controlling and manipulating strategies have short lives in outsourcing. If both companies are not profitable, then the relationship will not last. And remember, the greatest cost in outsourcing is the cost of changing partners.

7. Value the people

Outsourcing is a services business supplied by people. The highest quality service comes from people who are motivated and who buy into the plan.

Although fixed assets are sometimes a part of an outsourced deal, people are always the major component. Recognise that success in an outsourced business relationship comes from people who trust each other and who are motivated to produce the best results for their customers.

8. Measure outcomes

Knowing the return on your investment is fundamental. Create a partnership that clearly defines the business requirements, articulates service level metrics, rewards parties for successes above standards, and holds parties accountable for failure to meet targets. Subjective measures create ambiguity and puts undue stress on the relationship. Maximize the 'carrots' that make your partner tick and minimize the 'sticks' that penalize poor performance.

9. Understand risks

No one knows the future. As much as we think that something cannot happen, we are inevitably proved wrong and it does happen. When creating the contractual terms of a relationship, make certain that contingencies are in place to deal with occurrences that seem unlikely or impossible.

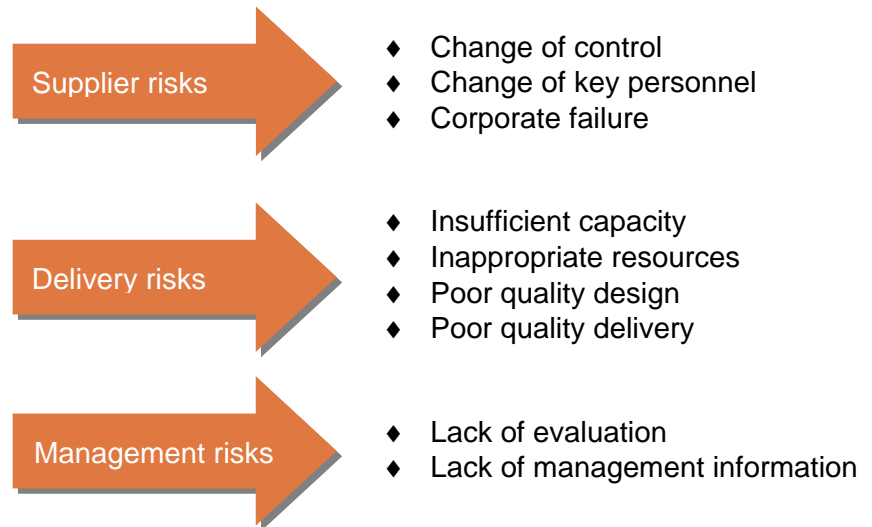
You are planning for a long-term relationship but that relationship will come to an end. Make sure there are exit clauses such as 'termination for cause', 'termination for convenience', and 'repatriation strategies'. Include terms that deal with volumes hitting levels you never imagined – both high and low. Do your best to plan for scenarios that cover all of the probabilities.

10. Mitigate risks

Many experts believe that outsourcing training is all about mitigating risks – for all parties. The company who wishes to outsource training is looking to reduce the risks of the service not meeting its standards or not being available where and when it is needed.

The supplier of services uses pricing strategies to mitigate the risk of service volumes not hitting planned levels. All parties involved are planning for success but using financial models to reduce or hedge their risks.

Typical risks in outsourcing training



3 The Process for Training Outsourcing

The most successful organisations in outsourcing their training function follow some variation of an industry recognised seven (7) step process. These include finding potential partners, gathering and sharing data necessary for structuring a deal, negotiations and documentation of a contract, handing over the assets and resources to the partner and the on-going management of the relationship.

Phase 1	Internal Assessment
Phase 2	Seeking proposals
Phase 3	Due diligence
Phase 4	Contracting
Phase 5	Implementation
Phase 6	Governance
Phase7:	Repatriation

Phase 1 Internal Assessment

Before looking to the external market for possible suppliers, the buying company should undertake an internal assessment regarding what activities should be included in an outsourcing model.

This can be the most difficult step because it may involve consolidating decentralized training functions, identifying the outsourcing leadership team, and developing a detailed project plan.

Phase 2 Seeking proposals

After concluding that outsourcing may be a strategy beneficial to their organisation, executives seeking to outsource training services must identify which outsourcing supply companies have the capabilities that best match their needs.

This stage involves the documentation of the internal process and the creation of at least one of three types of documents used for going to the external market. These are:-

- ◆ Requests for Information (RFI),
- ◆ Requests for Proposals (RFP),
- ◆ Requests for Quotes (RFQ).

Each of these have their own purpose for getting information from the supplying company.

Requests for information

An RFI is the least used document by demand side companies but very important if the familiarity of outsource supply companies is low.

An RFI is created by the demand side company for the purpose of getting service and resource capability information from the supply side companies. The RFI document is not intended to request methodology or pricing information specific to the operation in question. The document is generally 3 to 5 pages and provides an executive summary of the operation to be outsourced and a lists of capabilities information requested.

Requests for proposal

An RFP is the most widely used document in the proposal stage and the most important. It is intended to provide the supply side company with the necessary information needed to submit a comprehensive and definitive approach to outsourcing the learning function.

The higher the quality of the RFP, the higher the quality of proposal received from the supply side company. RFP's include:-

- ◆ an executive summary,
- ◆ a detailed description of the process to be outsourced,
- ◆ volume and value metrics of the past 1-3 years operations,
- ◆ specific process and performance expectations of the outsourcing supply partner,
- ◆ a responsibility matrix defining expected responsibilities of both the demand side company and the supply side company,
- ◆ proposal guidelines to be followed by the proposing companies.

RFP's are usually 15 to 30 pages in length, depending on the complexity of the operation. High level pricing information is generally solicited in the RFP although specific pricing to be used for contracting is generally not valid at this stage.

Requests for quote

An RFQ is usually the last document created for the purpose of getting specific pricing and/or cost information proposed. The quality of this activity and the accuracy and credibility of the quote is dependent on the sophistication and success of the earlier proposal activities.

Normally, an RFQ is not requested until after some level of Due Diligence has been completed. It is not recommended that an RFQ be done without the completion of an RFP.

Phase 3 Due diligence

Due Diligence is the process of sharing and gathering data and intelligence about each others capabilities. It is for both the demand and supply side companies to get to know each other and to evaluate information associated with forming a solid and structured relationship.

In large and complex outsourcing engagements, the due diligence activity becomes as much of a legal activity associated with the tracking and disclosure of specific reports, documents, databases, etc. Some companies may have the need to create a due diligence library where all confidential documents are checked in and out depending on the level of sensitivity of the information. In smaller engagements, this process is less formal

Phase 4 Contracting

The contracting stage involves the negotiations of specific terms of the agreement and the documentation of those terms into a formal document. This stage of the process is often the most strategic and most demanding of both parties. It is often the most lengthy depending on the sophistication, scope, and scale of the agreement.

There are two forms of contracts in most corporate agreements. The first is a Master Services Agreement (MSA) and is the highest order document. It defines terms generic to each functional area of the agreement. The second is a Service Level Agreement (SLA) which defines specific deliverables and service level requirements. Depending on the complexity of the pricing, a pricing schedule is included in the SLA.

Phase 5 Implementation

After the contract is signed, the two partnering companies must begin the process of transitioning resources and responsibilities from the buyer company to the supplier company.

Depending on the terms of the agreement, the transition stage varies widely but most always includes communications to employees and clients of training.

Complexities include whether employees are being transferred from one company to another, if assets are being purchased, if vendor agreements are being assigned, etc.

Phase 6 Governance

The ongoing activity of managing the business and governing the relationship is the longest stage of the outsourcing relationship. The term of contracts vary. Many are recurring agreements from as short as 1 year to as many as 5 or more years.

Governance includes activities associated with performance measurement and grievance. Many companies establish governance teams or 'councils' to set and communicate strategy and measure partner performance.

Phase7: Repatriation

Because no relationship is forever, the last stage of any outsourcing partnership involves the repatriation or transfer of responsibilities. It is recommended that an outsourcing contract define an exit strategy so many of these conditions are identified prior to engagement. Sometimes repatriation comes due to non-performance or changes in business conditions not foreseen in the contracting stage

4 Pricing For Training Outsourcing

There are three fundamental pricing strategies traditionally used to structure a training outsourcing deal. Each strategy incorporates an element of risk.

Your tolerance for risk and your willingness to reward for success should drive your decision on which strategy is best for your organisation. Risk is an important element because you must understand that the buy side company is always interested in reducing the costs of training and the supply side company is always interested in increasing the amount of revenue and profits from the outsourced training services. These objectives are fundamentally in conflict.

The following is a short overview of the three fundamental pricing strategies.

4.1 Fixed Pricing

Fixed pricing provides the least amount of financial risk to the buy side company but has a high risk of failure. It guarantees a fixed amount of compensation to be paid to the supply side company during each time period for the same set of services.

Fees do not change based on the frequency or volume of activities delivered. If there is high variability in services, the risks are increased that your services will not be performed at a level required when your volumes increase above baseline levels. Fixed pricing provides high margin potential for the supply side company when volumes go below baseline levels.

This model is most widely used when only training operations or administration services are included in the deal. This model is not recommended when more complex and variable processes like content development and delivery are included in the agreement.

4.2 Variable pricing

Variable pricing involves fees being paid based on a 'fee per unit of delivery' basis. This strategy is usually employed when the costs of services are priced on a fee per student day of training, or a fee per registration, or a cost per session delivery. This model is very common and often preferred by the buy side company. It provides extremely high risk for the supply side company if the volumes of training services drop below the company's fixed costs to deliver the outsourced services. In other words, risks are high for the supply side company as volumes decrease.

While the buy side company may be saving money during reduced volumes of training services, the strategy has an inherent conflict of interest. The conflict occurs when your business needs to reduce the amount of training for a period of time but your supplier is primarily interested in increasing the amount of training delivered because more volume means more revenue and profits for the supplier. Thus, the risks are ultimately high for both parties.

4.3 Blended Pricing

A blended pricing model has become much more accepted over the past couple of years as companies are learning how to manage risks more efficiently and recognize that partners must share the risks to be successful. A blended pricing structure involves a fixed fee for a baseline set of services plus a variable fee based on the frequency of delivery of a set of activities.

An example of a blended pricing model might include a fixed monthly fee to support the training operations team - designed to cover fixed costs - and a supplemental, variable fee based on the number of training days delivered during the month. The greatest advantage of blended pricing is that it is a shared risk model and, over a long term relationship, the most risk neutral for the two parties.