



## Training-provider business models

**Pursuing low-cost instructor-led technical training can be a smart business practice, but in special cases it's a false economy. Here's how to recognise when it makes sense to buy low-cost and when to pay for premium service.**

*Greg Coombs*

*Director, ULearn Training; currently acting as finance advisor to the CTO of Saudi Telecom Company*

**Over the past few years**, I have been meeting with people in the mobile industry who have an interest in purchasing technical training. In the UK in particular, it seems that some people lack awareness of the business models that lie behind 'good' training and this has created difficulties in appreciating the merits of different parts of the ULearn portfolio. In this paper, I try to explain the rationale behind least-cost and high-value training provision and indicate when each is the best choice.

### **The high-value business model – geared to maximizing the business value of employees work**

The high-value business model (such as that of ULearn Hands On Technology Training) is not geared toward being the lowest-cost supplier, but nevertheless strives to be price competitive amongst players in the upper quartile of companies that serve the mobile industry.

Experience has shown that low-cost offerings for technical training involving **systems knowledge** represent increasingly poor value for customers as the training becomes ever cheaper. One challenge facing training managers is being sure about the parts of the training market in which low-cost offerings represent the best choice. After all, cheaper training is superficially a good thing. The challenge is distinguishing between opportunities for low-cost training

which make good business sense and those which represent a false economy.

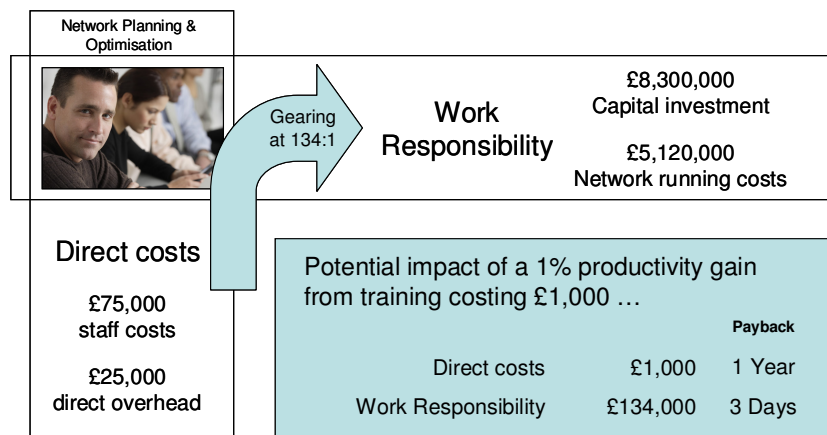
In the upper quartile of training providers the spread in prices for similar-titled courses is unlikely to be large in a competitive market. This said, the potential spread in return on training investments *can* be large. This difference is the heart of competition strategy for a company like ULearn and has governed the way it has chosen its investments and development work over the past decade. Heavy investments being made by ULearn to ensure the quality of its courses and the capability of its instructors aim at yielding the best value-for-money for its customers through superior training productivity and high returns on the training investments that they make.

### **Why is training in systems knowledge unsuited to a least-cost business model?**

To answer this question we need first to briefly remind ourselves of the business value that companies can get from investing in training. Basically it falls into two areas: (1) labour productivity, and (2) work effectiveness. Simply put, labour productivity means higher output per worker; work effectiveness means a higher business value from worker output. Let's look at this in the particular example of network planning staff working for a mobile operator.

The figures for labour costs in the graphic shown below are approximate and all remaining figures are derived from the latest report and accounts of a major mobile operator. Whatever the accuracy of the figures, the message is clear: unlike many forms of training where the main business issue is labour productivity, in the case of technical training for mobile operators the

graphic is purely illustrative, but indicates that where training is aimed at labour productivity, then a gain of one percent is needed for training costs of around £1,000 to be recovered within a year. Where work effectiveness is the goal, productivity gains can be a very small fraction of 1% to achieve a similar payback. Now, tracking returns on training investment is a



Labour productivity is a small issue compared to work effectiveness

big issue is the impact that training has on the network in terms of capital investment and running costs. Although network planning staff cannot affect the unit costs of network technology, their work directly impacts the volumes of network equipment and associated support facilities, and greatly impacts the cost-structure of the largest capital asset that the mobile business owns.

Actual figures will vary from one operator to another and the results are dependent on a few key parameters such as staffing levels, but the main result is not in doubt. What this shows is that the staff cost of the employee being trained is small compared to the potential business impact that training can have. Now, this does not apply to *all* forms of training that such employees could take – a course for enhancing word processing skills, for example, might improve labour productivity but is not expected to increase the value of their work. The figure for productivity gain used in the

notoriously tricky thing to do – and is especially tricky with knowledge workers needing enhanced systems training – but because of the exceptionally high gearing between staff costs, the fraction of these costs representing training and the value of work being done, we can conclude two things:

- *The quality of systems knowledge training is far more important than its direct costs*, so it is always sound business practice to avoid the least-cost providers and buy from training companies which invest heavily in course development, advanced training methods and instructor competence.
- Difficulties in tracking returns on investment are a secondary issue for systems knowledge training because even small insights or improvements in engineering skill can yield very high returns. In an uncertain environment, it

is a better business risk to over-invest in these kinds of knowledge training for the few workers that need it rather than risk the consequences of poor knowledge; training budgets should reflect this.

To appreciate the financial impact of the levels of investment being made by a high-value provider, ULearn has estimated that about 20% of the attributable costs for delivering high-value courses are associated with the recovery of course development and instructor development costs. Conceptually, ULearn could shed such costs in favour of a least-cost provider model, but experience has shown that the far higher levels of training productivity that result from their investments provides superior value for their customers and makes the 20% recovery of investment costs a very worthwhile price to pay.

### **Distinguishing systems knowledge from product training**

Yet another factor comes into play when choosing between least-cost providers and companies who invest heavily in the quality of courses and their delivery. This is whether or not training has been largely commoditised through standardisation of course content and accreditation of delivery. Good examples here are the multitude of training courses that support the products of Cisco, Microsoft, Oracle and Sun (although we could equally use examples from telecoms product suppliers such as Nokia and NSN).

In this case it is the product suppliers that stand behind the development of training courses and govern the quality of their delivery rather than the training providers themselves. Training providers simply need to deploy instructors that are accredited by these product suppliers and deliver the standardised content. This means that training providers only need to invest in instructor competence, although many also avoid this through the low-cost approach of sourcing instructors from a register of freelance people who operate as trainers

part-time – the result of this practice often being an inconsistent quality of delivery.

This commoditisation is only possible because there is a single manufacturer behind the standardisation effort who has a vested interest in good quality product training. *Standardised product training is a good example of where customers should be looking for low-cost providers* who nevertheless operate in such a way as to ensure the quality of instructor competence.

In the case of systems knowledge from technical standards bodies like 3GPP there is no industry-wide body that standardises the training for understanding these systems. To the extent that standardised content and methods *are* developed, these are proprietary to particular training providers – such as the hands-on training from ULearn – and customers must use their judgement to decide which providers have the best offerings for them.

### **Summary**

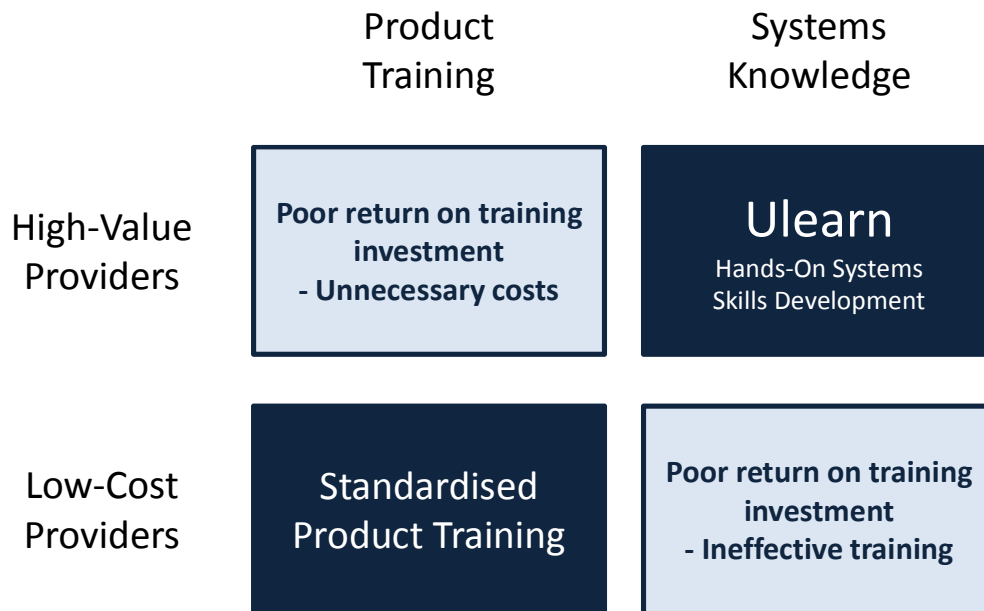
A rationale has been presented to help managers decide when to choose low-cost providers for training (assuming provider's follow-through with low prices) and when business interests are better served by choosing a training Company that invests heavily in course development and delivery.

The graphic, below, summarises the two dimensions to our discussion on instructor-led training. In one dimension we distinguish between the two extreme business models of training companies – low-cost providers which give highest priority to minimizing the costs of delivery, and high-value providers which invest in course development and instructor competence to maximise the business value of specific forms of training.

ULearn recognises this essential difference and organises its portfolio accordingly. On the one hand we have hands-on and systems knowledge courses competitive with those in the upper quartile of high-value training providers. On the other hand we are

organising a range of product training courses for IT systems, with a business model aimed at being the most competitive cost provider for this type of training.

value providers are the best choice and highlight the two zones outside the portfolio.



The differences in their approach are stark, but appropriate to their purpose. ULearn understands that it must invest heavily to maximise the productivity of training so that the value of employee work is maximised, whereas commodity providers recognise that they deliver standardised training and focus management attention on doing this in accordance with product suppliers' standards at the least cost. Whether or not the offerings of ULearn represent the best choice for all customers is not within the scope of this paper. Its purpose is not so much to sell the merits of the ULearn portfolio, but to use it to explain when high-

This is where customers risk getting a poor return on their training investment:

- High-value training providers who extend their portfolio into commoditised courses yet maintain the relatively high margins that are only justified for recovering the heavy investments made on high-value training courses.
- Low-cost providers of systems knowledge who make insufficient investment in course development and instructor competence which leads to ineffective training.

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**ULearn on Training** is an occasional series of white papers that address issues of topical interest in the technical training industry. In the last few years ULearn Training has delivered high-value courses to more than 15,000 participants across 50 countries – all at unrivalled high levels of customer satisfaction.