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## RESEARCH REPORTS: LEARNING MANAGEMENT SYSTEMS

# LMS SERIES

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## RENT OR BUY A LEARNING MANAGEMENT SYSTEM?

by Bill Ellet

**It may be the single most important decision to make about a learning management system—and the most difficult. Should you buy a client-server system and install it on your internal system, or should you rent a system hosted by an application service provider, or ASP?**

On the supplier side, LMS companies tend to be one or the other, although more and more client-server firms are offering ASP versions. That in and of itself says something about the perceived advantages of the hosted option for many organizations.

The major differentiators of the ASP versus client-server installation decision are as follows:

### EXHIBIT 1

#### RENT VS. BUY DECISION FACTORS

| SOLUTION      | ADVANTAGE       |
|---------------|-----------------|
| ASP           | Cost            |
|               | Speed to market |
| Client-server | Customization   |
|               | Control         |





## THE ASP CASE

ASP vendors say they have research that shows the cost of ownership for ASP solutions is lower on average than client-server installations. Will Hipwell, vice president of marketing for GeoLearning, an ASP vendor, quotes a 2002 survey by the Information Technology Association of American that found 39% of ASP users received between 10% and 50% ROI, with 14% realizing ROI between 51% and 100%.

If your organization is small to medium in size, an ASP is generally the best fit for the cost. The price of admission for an installed client-server LMS is usually too big an investment, and an installed system requires internal IT personnel and resources that such organizations don't have or can't spare. Larger organizations may also find that an ASP is a lower-cost way of experimenting with e-learning than an installed system.

Cost issues can run deep. An ASP is responsible for operating the LMS 24x7, upgrading server hardware and learning management system software, training operators, and dealing with the innumerable problems of running a complex computer system. These costs can run up fast, but you are immunized to some degree with an ASP.

Of course, you are dependent on an ASP to perform its tasks capably to capture a healthy ROI. A troubled or incompetent vendor can burn the return quickly. For big organizations, the cost of ownership of an installed system may not exceed that of an ASP, when measured over a period of years and spread across thousands of users.

A second advantage of an ASP is speed to market. Installing an enterprise software system of any kind is a major undertaking. It takes time, more time than usually estimated, and it is a complex operation. With an ASP, you can be ready to go with minimal upfront preparation and can start benefiting from your training investment. That usually translates to higher ROI.

A possible sticking point is integration with existing enterprise systems, e.g., a human resource information system (HRIS) such as PeopleSoft or SAP. To pipe the training information from an ASP into an internal database in real time is—well, it is a challenge for a variety of reasons, including security. But ASP providers say that the vast majority of their customers do not need real-time updates of training data. Periodic updates every day or even weekly are fine. These transfers are not difficult or expensive to implement.

It may not qualify as a decision factor, but the pricing of ASP learning management systems is transparent. You can figure accurate pricing based on vendor-provided schedules. Pricing for installed systems, on the other hand, defies straightforward calculation. We think this is a problem for the entire product category. Customers have difficulty understanding the product itself; throw in pricing mysteries, and it is no wonder that vendors are facing a sales challenge.

## THE CLIENT-SERVER CASE

So why does anyone ever buy an installed LMS? Customization is one reason. Beyond a certain irreducible core of code and functions, installed LMSs are really bundles of different services that can be put together in a large number of ways. Indeed, no two installations are exactly alike for client-server vendors. As a result an organization can tailor a system that fits its particular needs and requirements.

The range of customization possible with an LMS is a continuum. Where you are located on it is determined by the money you are willing to invest. The extremes are shown in Exhibit 2, Cost of Customization. Both installed and hosted systems have variables you can select to tailor their operation and appearance. This type of tailoring does not add cost. You should be aware of a long-term cost incurred by custom changes to an LMS, whether the vendor makes them at your request or your in-house staff does them. When the LMS vendor offers a new version or an update, the customer is responsible for transferring all that custom code to the new system.

## EXHIBIT 2

### COST OF CUSTOMIZATION

| Option    | Degree of customization                    | Cost |
|-----------|--|------|
| Installed | High                                       | High |
| ASP       | Minimal; <i>essentially out of the box</i> | Low  |

Control is another issue that favors an installed solution. When your organization “owns the box” the LMS is running on, employees of your organization control it. The system is protected by your firewall. You can make changes as you see fit and adapt the system as needs change. You can integrate with internal systems easily for real-time data flow if that happens to be important.

If you depend on an ASP and it goes out of business, you have a major problem. You could lose your entire e-learning infrastructure very quickly. The provider of your client-server system could go out of business too, but your system would not be immediately affected.

Internal control means that the system resides behind your organization’s firewall. As a result, security is often advertised as a key benefit of an installed solution. Hosted or ASP systems, however, can provide a high level of security through a variety of means, including encryption of data. You can also take steps with a hosted solution that minimize security risks. For example, you can set rules that prohibit the external use of sensitive information such as employee Social Security numbers and other personal information. Such rules should not be hardship for a system devoted to training.

Control may have another dimension that should not take you by surprise: the “politics of the box” in your organization. In some organizations, the IT group is strong and wants tight control over all systems the organization runs. It may oppose on principle any effort to outsource, viewing that as the slippery slope to job losses. Alternatively, an IT group that does not like to service functions that it believes will not enhance its internal standing may throw all kinds of roadblocks in front of an installed solution.

Be prepared for the politics of the box in your organization. You may already be well versed in this aspect of your culture, but if you are not, study it closely. It can influence the decision in a way that may optimize for organizational power, not performance.