

## The rise of the host

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Reviewing some of the recent financial announcements from the e-learning technology companies hasn't necessarily been the most entertaining of reading. With difficult trading conditions and over-optimistic business plans, most companies have been downsizing rather than upsizing. Depressed stock market values – particularly for "tech" stocks has exposed companies to unwanted acquisition risk and made their employee stock options currently worthless, not an inspiring situation. All this is in spite of a significant underlying growth in interest and expenditure on their products and technology.

One note of significant optimism in all of the above, is that hosted solutions, i.e. running it on someone else's computer hardware rather than your own, has been growing rapidly. Even in the midst of third quarter depression last year, and associated job cuts, companies like Saba and Docent were announcing big gains in hosted solutions, and companies with purely hosted solutions were generally growing faster than the others. So what's the attraction of a hosted approach and why does it seem to be getting more attention now?

When I started eLearnity in 1996, one of the big issues in the emerging e-learning market was, and still is, the need to build and run your own IT infrastructure to run it. If you're looking at the tools to build a corporate solution (rather than just buying generic content), vendors sell you e-learning software, and you install it on your computers. The vendor makes money from selling you their tools. OK, so they also make money helping you to use the tools, but their core business is selling a software product with some other services or "solutions" components wrapped around.

Six years on and this model is still the dominant one, despite its disadvantages for most of its customers. The two main disadvantages are entry cost and the focus of resources.

The entry cost for the acquisition model is very high. Not only do you have to buy the e-learning software, you have to have the infrastructure to run it on as well. This means computer servers, networks, and databases etc. All this costs a (frequently underestimated) large amount of money to do it properly. Providing a robust infrastructure with high availability and sufficient network bandwidth costs big money, and that's before you put any learning on it.

It also needs IT skilled resources to run it. In corporate terms, this means IS resources. These resources are expensive and controlled by someone else. Given the training department is not usually at the top of the IS priority list, getting those resources in your project isn't easy.

From a corporate standpoint you may be able to afford the entry level, but for smaller businesses or training companies (virtually all of whom can be classified as small to medium enterprises), this investment in infrastructure and IS resources is highly problematic, if not impossible. They simply don't have the cash to invest upfront.

So the question for me was, why buy it and run it yourself? It's a bit like the software equivalent of saying you can't be a trainer without first buying and running your own classroom. Clearly for some people, having their own classroom makes sense – either for economies of scale or for control or security etc. For others, they are better using someone else's when they need it and paying them a fee for the privilege.

The same is true for e-learning infrastructure. For some people (typically larger providers or consumers of learning) it will make sense – for economies of scale, security or control to build their own. But for most, it doesn't. They can't really justify the upfront investment level and the cost of running a dedicated infrastructure on an ongoing basis. For most, they would be better renting the use of someone else's

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infrastructure as they need it, i.e. they would be better to use a hosted infrastructure or a learning services provider (LSP) who could provide the infrastructure as a cost of delivery/revenue rather than as a capital investment cost.

Having taken that view in 1996, the market continued to confound me by largely still taking the buy and own model. Yes, some companies were doing hosting, but often this was still an acquisition model, just run on external rather than internal hardware to avoid the trials of getting IS to run it. Now in 2002, I think reality has dawned and the hosted/LSP model will make a significant play. It's not a panacea and there are many issues to resolve in using it effectively but for many training providers and consumers it should represent a better way of accelerating a real capability to deliver.