Hosted (SaaS) Vs. Licensed Cost Analysis of a Learning Management System/Learning Content Management System

by Bob Goldschneider, Director of Business Development at SyberWorks, Inc.

There are two ways a company may purchase a learning management system/learning content management system (LMS/LCMS). They can license the software and host it on their own servers internally, or they can purchase a hosted service where the software is hosted on the vendor's servers.

The hosted vendor service option is also called SaaS. SaaS (vendor hosted applications) stands for Software as a Service. Vendor hosted applications/SaaS have become a very popular option in the last ten years. There are benefits to both types of configurations and it ultimately depends on the specific business case.

Licensing an LMS/LCMS

Licensing Learning Management System/Learning Content Management System software allows companies to have full control over their installation and system configuration. They are able to internally monitor usage. In most but not all cases, it ends up being the most cost effective in the long run (over 5 years). Generally, the disadvantages of licensing are higher upfront costs because of the purchase of the software itself, installation, set-up and configuration. It also can take longer to deploy the system and IT employees may need training. Organizations must also pay ongoing personnel costs and training for internal operation and maintenance of the software.

Hosting an LMS/LCMS

The advantages of a Hosted Learning Management System/Learning Content Management System model are usually lower upfront costs, no installation required and shorter deployment times. There are also no ongoing costs associated with employing technicians (IT personnel) to maintain the product. Software upgrades and fixes are done automatically by the vendor. The company has the option to ramp up quickly or reduce usage if their business expands or contracts. In this scenario, depending upon the usage plan, companies can sometimes pay as they use the service (pay as they go). Generally, the disadvantages to hosting are the company has less control over the LMS/LCMS and maybe less-cost effective in the long run (over 5years).

Running the Numbers

So you say hosted (SaaS) is the way to go. But not so fast, you really need to look at the costs spread over a five year period. Heck, you may even impress the guys in accounting! Below is a sample cost worksheet:

Sample Hosted vs. License LMS/LCMS Worksheet

Licensing versus Hosting	Licensing	Hosting
Number of Users	1,000	1,000
LMS Software and Services		

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Base Product	**$X,XXX**	**Included**
(Add-on Functionality, Etc.)		
Module A	**$X,XXX**	**XXXXX**
Module B	**$X,XXX**	**Included**
Module C	**$X,XXX**	**Included**
Total LMS Software Cost	**$X,XXX**	**$X,XXX**
Professional Services		
Campus Setup	**$X,XXX**	**$X,XXX**
Branding	**$X,XXX**	**$X,XXX**
Training Data Migration	**$X,XXX**	**$X,XXX**
HRIS Interface (one-way/two-way/multiple batch updates)	**$X,XXX**	**$X,XXX**
Single Sign-on	**$X,XXX**	**$X,XXX**
Active Directory Interface	**$X,XXX**	**$X,XXX**
Own Web Site	**N/A**	**$X,XXX**
Training and/or Consulting	**$X,XXX**	**$X,XXX**
Total Professional Services Costs	**$X,XXX**	**$X,XXX**
Hosting Server Hardware & Software Cost		
Server Hardware	**$X,XXX**	**Included**
Server Software	**$X,XXX**	**Included**
Total Server HW/SW	**$X,XXX**	**$ -**
Total One Time Costs	**$X,XXX**	**$X,XXX**
Annual Reoccurring Costs:		
Information Technology Resources (Partial Head Count)	**$X,XXX**	**Included**
Bandwidth/Network Cost	**$X,XXX**	**Included**
Separate Database		**$X,XXX**
Support, Software Upgrades and Maintenance	**$X,XXX**	**Included**
Hosting Usage Fees	**N/A**	**$X,XXX**
Total Reoccurring Costs	**$X,XXX**	**X,XXX**
5 Year Cost		
Year 1	**$X,XXX**	**$X,XXX**
Year 2	**$X,XXX**	**$X,XXX**
Year 3	**$X,XXX**	**$X,XXX**
Year 4	**$X,XXX**	**$X,XXX**
Year 5	**$X,XXX**	**$X,XXX**
Total 5 Year Cost	**$X,XXX**	**$X,XXX**
Cost per User per Year	**$XX.XX**	**SXX.XX**

Hosted vs. License LMS/LCMS Calculation Assumptions and Observations

The worksheet above assumes that some of the add-on modules are included in the hosted application, but some may not. The worksheet also accounts for personnel costs. It is by no means

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exhaustive and exact. It needs to be crafted to reflect your company's requirements. It also assumes that maintenance and support is included in the hosted arrangement. Keep in mind that in the hosted scenario, there may be additional charges related to bandwidth usage, especially if your courses are large, graphic intensive and need to be streamed. Finally, it's important to compare costs on a per-user basis.

Typically the decision to license an Learning Management System/Learning Content Management System versus using a hosting service is made not a cost basis but due to other factors such as isolated networks (from the internet) or for mandated security policies (DOD). Generally, costs over a 5 year period are comparable on a total cost per-user basis.

Good luck!

About Bob Goldschneider

Bob Goldschneider has over 25 years experience in corporate training and educational services. He has served as Director of Educational Services and Director of North American Sales and Service for the Open Software Foundation. He built their Educational Services division from the ground up into a multi-million dollar business. He also served as Director of Educational Services at Apollo Computer and Training Development Manager for Wang Laboratories, where he managed a staff of over 50 instructors, course developers, video producers, and graphic designers.

About SyberWorks

SyberWorks, Inc. (www.syberworks.com) is a leader in the custom e-Learning Solutions and Learning Management System industries for Fortune 1000 corporations, higher education, and other organizations. Located in Waltham, Massachusetts, the company serves the multi-billion-dollar e-Learning market. Since 1995, SyberWorks has developed and delivered unique and economical solutions to create, manage, measure, and improve e-Learning programs at companies and organizations in the United States, Canada, Europe, and other countries.

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