



### Main Points

- ┆ As America becomes more technologically savvy and used to self-directed, on-demand learning, there will be more e-learning.
- ┆ The way e-learning is priced in organizations is affected by several things, including value perception and demand.
- ┆ E-learning pricing structures include pay as you go, flat fee, and free. Though e-learning can cut costs, expect to pay a lot for quality products.



What's this stuff supposed to cost, anyway?

# E-Valuation: Pricing E-Learning

**I**t's old news that e-learning is sweeping the planet. You can probably count on one hand the number of people who haven't heard of e-learning or aren't at least familiar with the concept of leveraging technology to learn. There are e-learning offerings in nearly every major business or organizational segment, as well as in nearly every learning role.

For instance, e-learning opportunities for people in government organizations cover everything from safety to leadership. There are Web-based courses for credit in institutions of higher learning. There are certification programs for various information technology functions as well as for hardware and software

applications, such as Microsoft Certified Systems Engineer (MCSE).

In a nutshell, as America becomes more technologically savvy and used to self-directed, on-demand learning, there will be more e-learning.

So, with all of the e-learning either already taking place or planned, why is it so darned hard to price this stuff? It's like trying to figure out how much an electron is worth.

Is a four-hour classroom course comparative to a four-hour online learning session?

What models are used to price e-learning?

How do we e-evaluate e-learning?

Why is e-learning pricing critical?

What does *price* really mean?

First, let's look at the last question. According to *Webster's Revised Unabridged Dictionary* (1996), price is "the sum or amount of money at which

a thing is valued, or the value which a seller sets on his goods in market; that for which something is bought or sold, or offered for sale; equivalent in money or other means of exchange; current value or rate paid or demanded in market or in barter; cost."

One can easily see how pricing works for some items. In almost any grocery store, a dozen jumbo grade A eggs are comparative to a dozen jumbo grade A eggs. You can pick up a dozen eggs at a store in Kansas and a dozen at a store in Florida and pay roughly the same price. Products on the market that have become commodities—such as crude oil, sugar, winter wheat, and pork bellies—are bought and sold on commodities markets. But e-learning offerings are disparate. Can they be made into commodities and as such traded on the open market?

By Darin E. Hartley

**W**hy is e-learning pricing critical? Part of the success that organizations either experience or don't experience as e-learning proliferates is based on the pricing foundation of e-learning offerings. There's an equitable price that people are willing to pay for any product or service in regard to the definition of price above. Consequently, the way e-learning is priced in organizations is influenced by several factors, including value perception and demand. Let's look at value perception first.

In general, people place more value on things that they pay money for. And, in general, the more money that people pay for something, the more they're likely to value it. Envision someone who has just bought an imported sports car as a special treat for years of hard work. Does this person let his or her new baby that was paid dearly for fall into disrepair and rust? No. The car will get washed regularly and serviced on or ahead of schedule because its value perception is high. Now picture someone with an economy rental car. *Oops!* Spill a little ketchup on the seat? No problem. Just rub it in with a napkin and toss the napkin on the floor. The value perception of a rental car is low.

How does that apply to e-learning pricing? There's a danger of under- or overpricing an e-learning offering above or below its value perception. Cornelia Weggen, an e-learning research analyst with WR Hambrecht + Co, says, "Good-quality e-learning isn't cheap. There's a certain myth out there that e-learning is cheaper, and, in fact, it can reduce costs in many ways. But organizations should expect to pay [a lot] for good e-learning."

Price too low and there's no perceived value in the instruction. That's one reason I worry when I hear e-learning vendors offer courses for 12.5 cents per student. What could that be worth to the student? Have you ever known of a graduate course offered for 12.5 cents? Would anyone even take a course priced at 12.5 cents and not be suspicious of its quality?

But where's the sweet spot for e-learning pricing that's neither too high nor too low? It's critical to try

to assess what the market will bear when pricing your e-learning offerings. Now let's look at demand.

Consumption of products is based on laws of supply and demand. That also holds true for e-learning. If quality e-learning is readily available at an equitable price and meets the needs of consumers, the demand should be relatively high. Conversely, if the price is outrageous, the demand will be low or nonexistent.

For instance, a vendor once came to me with a business simulation for a call center. It was computer-based and elegant. After getting interested in the product and toying around with the simulation, I asked my usual closing question: "How much is it?" The vendor gulped visibly and said, "\$23 million." The price was beyond anything we could handle, so the demand instantly dropped to zero. So, it's easy to see that e-valuation is critical as you start to implement e-learning in your organization. But how does one e-evaluate e-learning?

### **The price is right**

Pricing of e-learning happens in a myriad of ways. Here are some of the more common approaches.

**Price per seat.** This is the most common way to price an e-learning offering. As implied, an organization or individual pays a price per participant. For example, a four-hour e-learning session on coaching might cost out to \$89 per participant. Anyone taking the course can have it prepaid by the organization, get his or her cost center charged, or pay by credit card and get reimbursed. The variation is the discount given to organizations that promise a large volume of participants. If many people will use a solution, it's probably worth getting a licensing deal to drive down costs.

**One-time flat fee.** Sometimes called a subscription model, companies can offer a suite of e-learning courses or an entire set for a one-time flat fee. In such cases, all employees in the company are allowed to take all of the courses as many times as they'd like during the year. Again, a large volume of participants can be a great negotiating point for better pricing.

**Pay as you go.** With this type of pricing, courses are available and organiza-

tions or individuals aren't charged until they take them. In most instances, people are billed at enrollment; in other instances, people are billed after completion. That option, however, lends itself to potential free use of the courseware, simply by not completing it.

This particular approach to e-learning pricing will become more compelling as more companies begin to migrate towards zero-base budgeting.

**Per server.** Some e-learning providers license their content to servers. A company can pay for the number of servers it uses through additional maintenance and service fees.

**Free.** What's that you say? Free e-learning? Yes, this is definitely a pricing model that melds nicely with the Internet. You can go to [www.google.com](http://www.google.com), a free search engine, for free Web tools and see how many thousands come up. You'll find free email, free ISPs (Internet service providers), free calendars, free e-greeting cards, free graphics, and free project management systems ad infinitum. So, free e-learning is a natural extension of these Internet times.

A good example of free e-learning is at [www.powered.com](http://www.powered.com). Powered Inc., formerly notharvard.com, creates e-learning universities for their clients to help educate their customer bases, improve site stickiness, and sell peripheral products. Some of its clients are Dell Computer and Barnes and Noble.

**Payment based on time.** Some pricing is based on the time spent in a learning session. A management course might cost \$45 per hour; an IT course might cost \$125 per hour. I predict that with the advent of robust learning management systems that use standards for data collection, people in the near future will get e-learning bills similar to the cell phone bills they get now:

- 12/10 – 12 minutes of a coaching session
- 12/11 – 3 minutes downloading a performance management template, 32 minutes streamed video on how to use the performance management template.

Microsoft already offers plug-ins for its streaming-video components to allow chargeback. This model will become more prevalent as classroom time shrinks and people begin getting just the information or tool that they need to do their jobs.

Now that you've seen some of the major pricing models, a logical question is, Which pricing model is the best? That's akin to asking what's the best car on the market. Some people might name an imported sports car; others might say a mini van. Similarly, I can't tell you what the best pricing model is for your organization. You'll need to identify clearly what you're trying to accomplish with your e-learning strategy, business requirements, and operational environment to answer that question. All of the pricing models have strengths and weaknesses. So, you make the decision that will support your goals best.

Here's another question that begs to be asked and answered: Are classroom and e-learning solutions equal? Is a four-hour on-line session equivalent to a four-hour classroom session? My answer is a resounding no! In a typical four-hour classroom session, participants have to travel (generally speaking) to a campus, classroom, hotel conference room, meeting center, or wherever the training is happening. So, travel expenses are built on. Then, there are the mandatory half-hour introductory sessions, in which the participants and instructor introduce themselves, accompanied by the latest icebreaker. Additionally, there'll be at least two bio-cigarette 10-minute breaks (which will turn out to be 20 minutes each) that chisel away at the actual learning time and time spent debriefing and completing Level 1 evaluations.

In all, the average four-hour classroom session contains about 2.5 hours of viable instruction. Contrast that with a self-paced e-learning session. You know who you are, so there's no need for an icebreaker or introductions. You take shorter breaks because you don't have to wait for the entire herd to return. And most self-paced e-learning lets people pre-assess their knowledge so they can focus on areas needing improvement. In a classroom session, there's only one speed, that of the instructor,

which might be too slow or too fast for you.

I don't think we can compare classroom learning with self-paced and other types of e-learning; the dynamics are different. Anyway, classroom instruction is going the way of the dinosaurs. People are going to get the micro sessions they need and go on with the rest of their day, which I think is an important reason for the price-per-time model to develop because it will more closely parallel future learning.

Considering the variety of e-learning

pricing models out there, finding the sweet spot for you is crucial. Don't price it so high that there's no demand, and don't price it so low that there's no value perception. Remember: There's no one right model for e-valuating e-learning. You have to pick the model best suited for you and your organization, based on your requirements. □

**Darin E. Hartley** is developer of new business ventures at ASTD; [dhartley@astd.org](mailto:dhartley@astd.org).

## Pros and Cons of Pricing Options

Option	Pros	Cons
Price Per Seat	<ul style="list-style-type: none"> <li>● High volume can reduce cost per participant.</li> </ul>	<ul style="list-style-type: none"> <li>● Lower volume increases price.</li> <li>● Inaccurate forecasting can skew price per seat high or low.</li> </ul>
One-Time Flat Fee (subscription)	<ul style="list-style-type: none"> <li>● Participants can take multiple courses for one fee; participants with extra initiative can really benefit.</li> <li>● Generally, decreases cost per seat.</li> </ul>	<ul style="list-style-type: none"> <li>● Forecasting should be accurate, or you can pay overage fees. Accurate forecasting is problematic for most organizations.</li> <li>● Generally, much more expensive up front (front-end payment).</li> </ul>
Pay as You Go	<ul style="list-style-type: none"> <li>● Only pay for courses actually taken.</li> <li>● Less expense up front.</li> </ul>	<ul style="list-style-type: none"> <li>● Can be more expensive than paying for courses up front.</li> <li>● Forecasting should be accurate, or you can pay overage fees. Accurate forecasting is problematic for most organizations.</li> </ul>
Per Server	<ul style="list-style-type: none"> <li>● Flat fee per server gives you access to many offerings.</li> </ul>	<ul style="list-style-type: none"> <li>● Sometimes have to buy the entire offering of an e-learning solution provider instead of targeted offering.</li> <li>● Can be easy to forget maintenance fees and requirements.</li> </ul>
Free	<ul style="list-style-type: none"> <li>● It's free!</li> <li>● Can also provide access for participants to related software, books, and other offerings that will enhance learning.</li> </ul>	<ul style="list-style-type: none"> <li>● Can be perceived as too commercial because advertising or product sales are often tied to the learning.</li> </ul>
Payment Based on Time	<ul style="list-style-type: none"> <li>● Pay for use. The cellular phone analogy is familiar to most people.</li> </ul>	<ul style="list-style-type: none"> <li>● Tools and offerings are still being refined to make this a global reality.</li> </ul>