Crossing the Desert

E-Learning Faces Its Biggest Challenge

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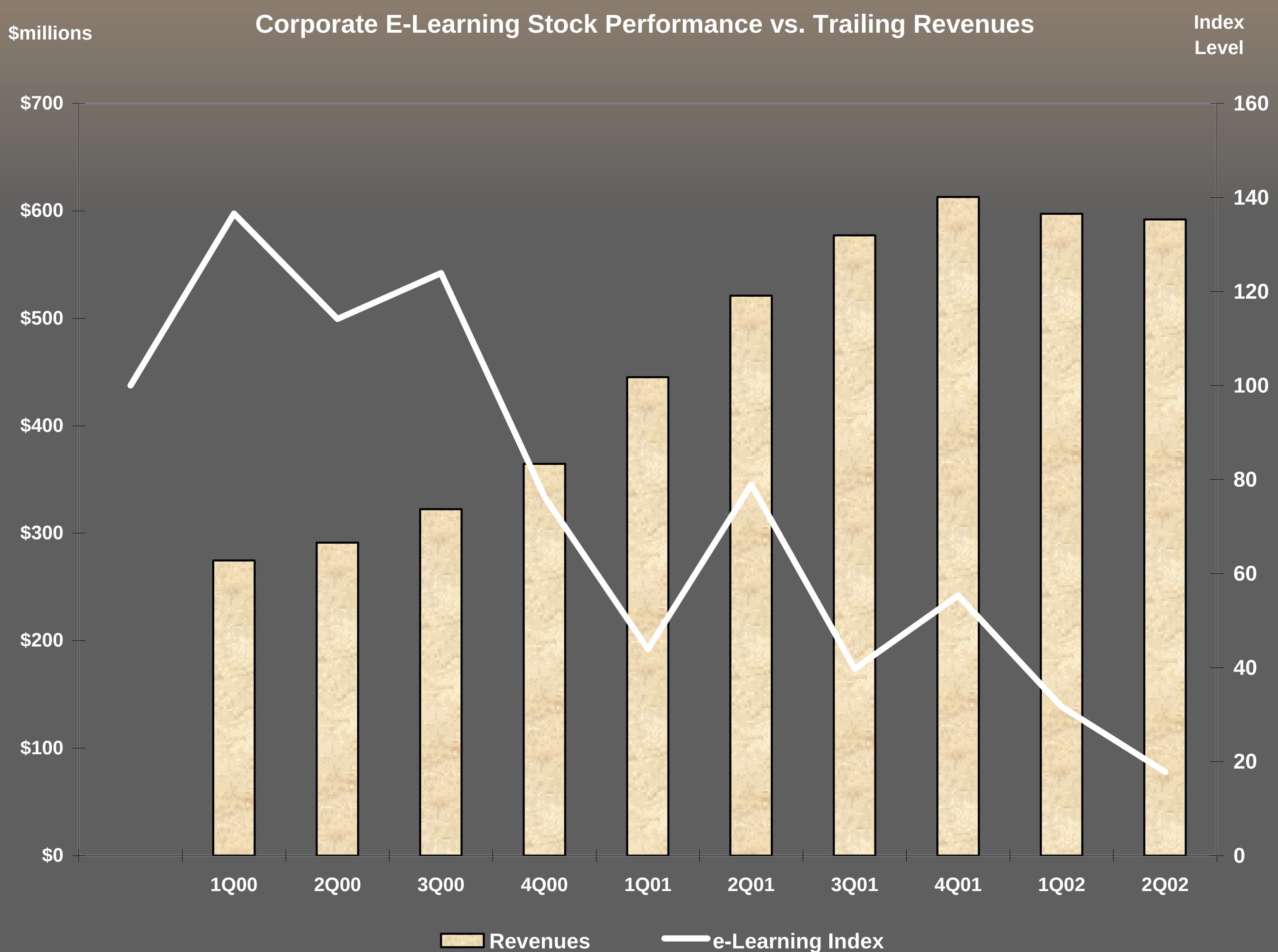


Corporate E-Learning Stock Performance vs. Trailing Revenues
$millions
Index Level
$700
$600
$500
$400
$300
$200
$100
$0
160
140
120
100
80
60
40
20
0
1Q00
2Q00
3Q00
4Q00
1Q01
2Q01
3Q01
4Q01
1Q02
2Q02
Revenues
e-Learning Index

What Do Buyers Say

- Allstate Corp.
- Bureau of Alcohol, Tobacco, & Firearms
- Cigna Corp.
- Eastman Kodak Co.
- Eli Lilly and Co.
- EMC Corp.
- General Motors Corp.
- IBM Corp.
- Internal Revenue Service
- Library of Congress
- NCR Corp.
- Office Depot, Inc.
- Raytheon Co.
- Vignette Corp.

A sophisticated buyer

- The group was extremely familiar with a variety of technologies, products, and vendors.
  - Learning management and content management systems, as well as synchronous collaboration tools, off-the-shelf and custom content, and issues surrounding integration, global scalability, and translation.
- The most sophisticated were those creating and marketing product training to external audiences.
- The low hanging fruit has been picked, and sales are likely to be increasingly competitive.

Central buying

- Consolidating disparate initiatives.
- Content and software-based infrastructure coordinated through a training officer with tangential IT involvement.
- A technology blow-up with a vendor can put training in the IT penalty box.
- At a minimum, IT and “soft skills” training purchases seem to have consolidated with a single buyer.
- While most vendors continue to aim to sell to a line manager, this is increasingly less likely as buyers’ sophistication increases.

Employing multiple vendors

- Buyers are focused on the issue of financial viability and want to limit their exposure to a single vendor.
- Many mentioned employing several IT content vendors simultaneously.
- Others described weak companies with strong products and the need to insist on source code in the purchase process.
- Despite their desire for one-stop shopping, buyers seem comfortable managing multiple relationships in order to avoid becoming dependent on a single vendor.
- Buyers understand the difficulty their behavior represents for vendors, but spoke of the need to act this way in an immature market.

Doing less with more

- A clear business case for getting product information into customers' hands at even more rapid speeds.
- The ability to make scarce budget dollars go farther is an important driver.
- Buyers expressed frustration with the library pricing model (all you can eat) employed by most vendors as most perform a cost/usage analysis at the end of the contract term.
- Buyers were aware of the margin pressure their request might place on vendors but did not care, pointing again to the long-term positive outcome for both constituencies of reducing the number of market participants.

Biggest obstacles for growth

- The risk around e-learning technologies remains high.
  - Difficulties outside US with bandwidth and hardware limitations. Several commented on the expense of translating content into multiple languages.
  - Many buyers echoed the difficulty integrating learning and content management systems with other back-office systems. Most suggested this was at best an arduous, time-consuming, and expensive process.
  - Some even reversed projects due to the expense of fully integrating their chosen LMS with their legacy enterprise software programs.
- In the case of off-the-shelf content, buyers spoke in frustration of the need to hunt for the various pieces they need from different vendors.
- The market has not matured as quickly as the appetite for the product.

Strong desire for consolidation

- SAP and PeopleSoft were most often cited as the ideal consolidators.
- One buyer suggested she would forgo the three LMS currently deployed at her company if SAP could provide 75% of the functionality.
- At the same time, most felt these vendors would likely fall short in terms of functionality.
- We have to believe that PeopleSoft, SAP, and others must be hearing these concerns.

The good news

- E-learning's share of the training dollar will continue to expand aggressively.
  - A staple of their corporate knowledge transfer efforts.
  - First-hand experience with infrastructure, content and service vendors.
  - All grasped the strategic importance of knowledge transfer, particularly as it relates to transferring product information both internally and externally.
  - An aggressive transition from instructor-led training to e-learning between 2002-2005
  - A further impetus for purchase cited by the group was the ability to do more training with significantly fewer resources.

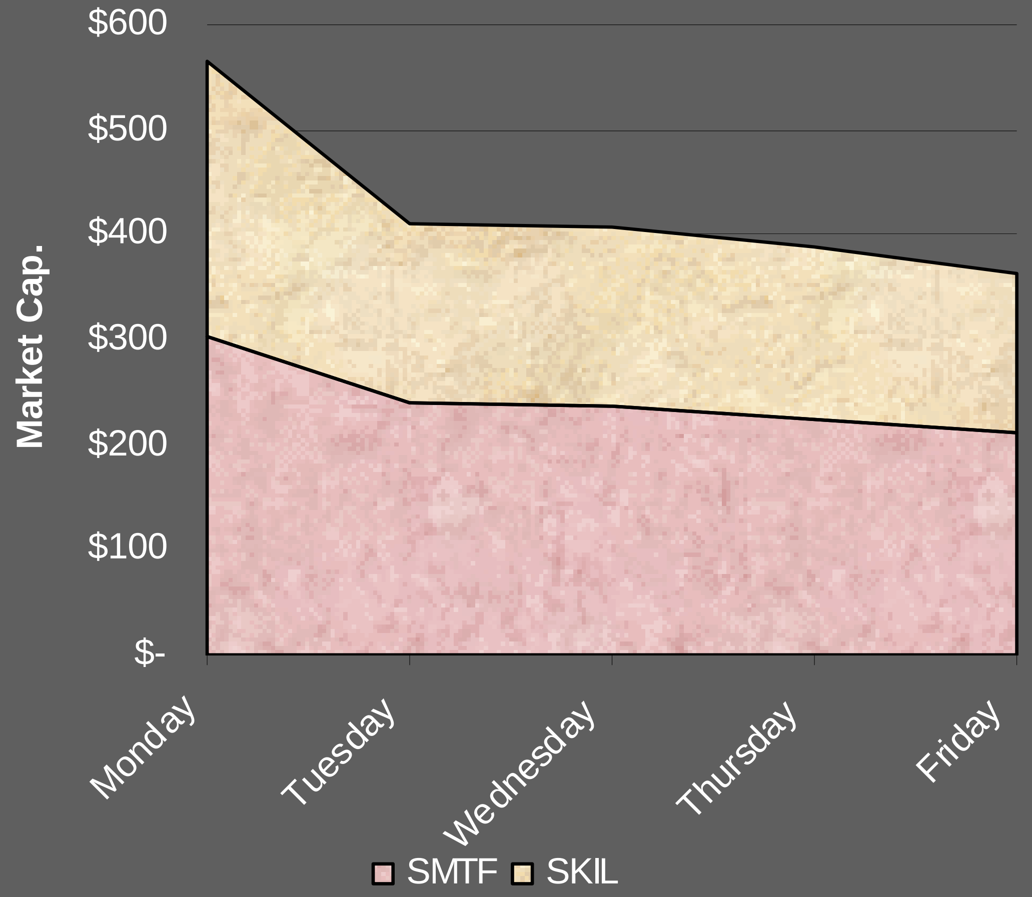
The bad news

- Buyers are sophisticated, strong, and full-up.
  - Buyers understand the range of products and have their own purchase agendas that are no longer vendor driven.
  - Most spoke of employing multiple vendors in a single category in order to protect themselves from business failures and are eager to see weaker players exit the market.
  - They were highly focused on buying only what they absolutely need. Of the 14 participants, only one was in the early stages of the buying cycle.

The conclusion

- Consolidation could happen even faster.
  - The buyers are clearly a voice favoring consolidation and cited their desire to see significantly larger collections of content come together.
  - They also expressed a desire to see infrastructure software united with larger ERP, HRIS, and CRM vendors.
  - At the same time, they expressed skepticism for the home-grown offerings of SAP, PeopleSoft, Oracle, and the like, believing that they are unlikely to be sufficiently feature-rich.
  - The group’s sentiment was summed up by the comment of a GM executive, “We have to eventually link to the HR system, and so I hope PeopleSoft hurries up and buys Saba.”

SMTF/SKIL Last Week



What's not to like?

Positives

- Market dominance
- Complementary library
- Strengthened team
- One-stop shopping

Negatives

- Visibility poor
- Street suspicious
- Simple made complex