

“Crossing the e-learning chasm”

The wonderful thing about trying to forecast how markets will develop is the benefit of hindsight. This may sound slightly perverse, especially in the year we’ve just had. The dot coms, dot bombed. The stock markets slashed billions off of collective wealth. Discussion was only of recession. Telecommunications companies overnight went from the giants of the future to the debtors of today. Suddenly the obvious charge of technology wasn’t so obvious anymore.

For e-learning, 2001 might not have been quite as world-changing, but it was still pretty momentous. It was the year e-learning really hit the corporate radar, when the supply-side of the industry grew exponentially, as the overall market doubled or tripled in size. But ultimately it was also a year tinged with disappointment, of expectations not met, and of the beginnings of market consolidation.

The e-learning Chasm

IT marketing guru, Geoffrey Moore talks about technology market evolution as including chasms and tornados as they progress from early adopter stage towards the mainstream. In his book “Crossing the Chasm” he talks about this stage of development in the market as the period when the buyers change and the reasons they buy changes too. Suppliers are no longer selling to visionaries and early adopters who are looking for innovation and compelling advantage, and are prepared to buy primarily on faith. For them, the risk is worth the reward.

In the mainstream, risk becomes a dirty word, and stability seems more important than innovation. Proven benefits are the order of the day. The upside of mainstream is that the market size is exponentially bigger, and market size drives opportunity. Suppliers are more stable. Products are more proven. For large corporations, this is the land of “enterprise” decisions, of major projects rather than interesting pilots, and of strategic commitments rather than tactical suppliers.

The point of the above is simple. In 2001, e-learning lurched across the chasm.

It was the year most corporates started to get into the e-learning game for real. And for some, it was the year they started to think about it strategically. E-learning directors or managers became a more common job title, and the focus started to shift from individual pilot projects to strategic capabilities. It was the year when the big consultancies and integrators started to drive company-wide enterprise e-learning infrastructure projects, and the year that the plethora of niche e-learning vendors started to consolidate and rationalise.

Don’t believe the hype!

I was always optimistic about how 2001 would really put e-learning on the corporate map. But I was always pessimistic about the ability of the supply side of the market to deliver as e-learning turned into the next dot com gold rush.

Looking back, and I believe both sides have lived up to my positive or negative expectations . E-learning is now firmly embedded into corporate training future. Whilst in overall budget and activity terms, it may still be the junior player, learning without some e-learning is now almost an inconceivable position for corporate training and development. All areas of the training and education market place are changing as e-learning becomes integrated or blended into mainstream delivery, or in some cases, even becomes the dominant form of delivery. We are still at the beginning of the really big changes, but the patterns for change are much clearer. Economics and learner convenience will force the delivery agenda of the future. And that agenda will increasingly include ‘e’. Training companies must now focus on understanding how to positively embrace the change and new opportunities, rather than denying the inevitable.

But the supply-side of the e-learning market has to be really able to deliver against this tide of increasing demand and expectations. Something it has clearly struggled to do to date. The

explosion of e-learning vendors in 2001 didn't help. As every learning provider became an e-learning provider. As every product vendor became an end-to-end solutions vendor, and as everyone seemingly created alliances with virtually everyone else, confusion has reigned. With marketing budgets outstripping deliverable reality, some mainstream buyers have become disappointed and disillusioned with their initial forays. Remember, in chasm-speak, this is an audience that expects guaranteed outcomes and stable products, not rapid change and risk. The e-learning kick-back had begun.

All the above was happening before September 11. The market was already becoming difficult and many vendors were struggling to meet their over-hyped revenue targets. September 11 sealed it. With business travel immediately frozen, potentially the value proposition for e-learning became even greater, and there is evidence that it had a positive effect for some e-learning companies. Most though, are suffering with the after-effect of frozen capital expenditure and slashed training budgets.

Consolidation and rationalisation

Business committed for the third quarter 2001, was suddenly uncommitted. Companies clamped down on spending, and investment in training, as always, was at the front-end of the cuts. With continued downturn and recession in the US, I expect to see an aggressive rationalisation of the e-learning market in 2002, with troubled limited discretionary spending on anything until at least the middle of 2002. Although I expect the market will still grow in aggregate terms in 2002, funding will be problematic and the increased uncertainty of vendor viability will accelerate market consolidation amongst the e-learning companies. In turn, this will lead to the emergence of a small number of dominant vendors in each of the primary e-learning sub-segments; content, infrastructure, consulting and end-to-end solutions. The question is who?

With a number of high profile e-learning providers going under or being closed down, such as M2S and Xebec in Europe, who is a safe bet? With significant reduction in the value of their stock price, even the larger players are potential acquisition targets or may struggle to reduce their cost-base sufficiently before they run out of cash. This is not a doom-and-gloom scenario, just a natural evolution to a more mature stable market. One of the rules of the mainstream market is the need for mainstream suppliers. Overstretched specialist companies get consumed by newer and bigger entrants. And whilst the overall number of players in e-learning will still continue to grow, a few vendors will emerge as clear and dominant leaders in each segment. This dominance leads to perceived safety of corporate decision, developing a virtuous cycle of increased business leading to further stability.

2002 will increasingly see the big boys starting to dominate, especially with an increasing number of strategic e-learning infrastructure projects. These projects will be the domain of the big 5 consultancies and large systems integrators who will take "enterprise e-learning" to a whole new level.

e-HR makes the play

Another side-effect of the transition to mainstream will be the increasing importance of the large HR systems vendors including SAP, PeopleSoft and Oracle. Draw a Venn diagram of e-HR and e-learning functionality and you have an increasingly large overlap. As the corporate learning agenda gets increasingly driven by performance, skills and competencies rather than courses and catalogues, this overlap grows further. Learning management is clearly within the sites of the e-HR vendors, and so will be the other pieces of the e-learning infrastructure jigsaw. The key is again one of size, these guys are at least an order of magnitude bigger than their niche e-learning competitors. With SAP entering the fray with its own LMS in 2002, this game has now begun for real.

Rationalisation amongst the niche vendors will also lead to increasing consolidation of end-to-end infrastructure providers. Expect even more mergers and acquisitions, with a clear focus on assembling all the pieces of the e-learning infrastructure jigsaw including learning management, delivery and content technologies. With the stock prices of many e-learning

companies being an order of magnitude less than six to nine months ago, acquisition is a much more cost effective strategy to leadership than it was earlier last year.

The wild cards?

Enough about infrastructure, what about content and training providers. The number of content companies increased rapidly in 2001, with first the appearance, and in some cases, the demise of a number of specialist e-learning content companies. The content market is still largely driven by many of the established e-content vendors including SmartForce, NETg, SkillSoft, DigitalThink and a plethora of niche market companies. Whilst all these companies have been growing, much of that growth hasn't come from the core catalogue business, but from other areas such as infrastructure or custom content projects. The challenge for the niche providers is getting to critical mass and establishing a maintainable advantage.

What about the mainstream training companies? Whilst nearly all of the larger training companies have been playing with e-learning, for most of them, it has turned out not to be much more than that, playing. Traditionally, established classroom training companies have struggled to switch from their core classroom-based business model, and whilst most training companies can now offer some 'e' element to their services, it is often fairly peripheral or minor in business terms. Whilst I don't expect 2002 to significantly change this fact, I do expect to see more of the cracks appearing. The training marketplace is very fragmented, but I will be very surprised if at least one major provider in each segment doesn't make e-learning and blended delivery core to its business and start to develop more market share as a result.

Finally, we can't talk about content without talking about the major publishers. Potentially they have the biggest potential, and vested interest, in making the switch to e-provision. The only trouble is that they have really struggled to get to grips with e-learning. Whilst Pearson, Thompson and McGraw-Hill all made major investments in corporate training and e-learning, this doesn't seem to me to have delivered. With McGraw-Hill closing down MH Lifetime Learning (including Xebec in the UK), they now seem to be reducing their e-learning exposure not increasing it. Time will tell.

In Summary

Whilst I don't expect 2002 to see a total sea change for e-learning, I do think it will be a defining year. With real traction in corporate commitment, the development of larger, more financial stable enterprise-capable solution providers as well as clearer segment leaders in each of the main e-learning segments, we will see significant change. The overlap and integration between e-HR and e-learning will become clearer and the pattern of corporate spending associated with it will change – for the better – as a result.

Significant pressure on training budgets due to the broader economic factors may reduce the ability of many training companies to invest in e-learning. But paradoxically, economic pressures and reduction in corporate travel also significantly enhances the potential for e-learning solutions – either on their own or in blended programmes. If the overall e-learning stakes continue to climb as I've already described, I expect that having a solid e-learning offer will increasingly emerge as a real differentiator rather than a nice to have. If this is the case, training companies will have to play ball, or face the consequences.

E-learning market consolidation may also magnify this effect. Although the e-companies are not valued as highly as they were, they are still typically valued at much higher ratios than training companies. The potential for e-learning providers to acquire their non-e counterparts and partners is still definitely a possibility, maybe even a probability. We shall see.

Remember we're out of the chasm and now into main street. Companies want solid choices and stability. Rationalisation of the market during 2002 will make this normal, leading to a business environment geared for large-scale commitment, expenditure and delivery. The world of training will never look the same again.