



## Kineo Briefing

# UK E-Learning – A Tale of Two Markets

By Steve Rayson

We believe that we are seeing two very different and contrasting trends taking place in the e-learning market. In the technology side of the market e.g. Learning Management/Content Management/Virtual Classrooms we are seeing clear consolidation in the market. By contrast in the bespoke e-learning space the market is becoming more fragmented than ever. We analyse the trends.

### LMS/Virtual Classroom Market – Consolidation of Suppliers

The consolidation in the LMS arena is very clear. Recent mergers and takeovers have meant a reduction in the number of leading players as follows:

Previous Companies	After Mergers
Click2learn Docent Pathlore	SumTotal
Saba Thing Centra	Saba
Blackboard Webct	Blackboard
Oracle Peoplesoft	Oracle

It is not unusual in markets where there are significant barriers to entry to see consolidation to a point where there are just a handful of key players. The key barriers to

entry in the LMS market are the significant cost of building an enterprise scalable system and establishing a core customer base.

This LMS consolidation does have potential benefits such as:

- reducing the number of platforms that e-learning developers have to develop for
- it potentially makes LMS suppliers more financially viable. Financial stability and longer term stability, are key considerations when buying an LMS as it expensive to change out an LMS.
- It allows the large LMS players to offer wider suite and to compete more effectively with the ERP vendors.
- LMS suppliers argue they will have larger R&D teams and produce more innovative product developments.

The mergers do though create potential difficulties for the LMS suppliers as they have to integrate different platforms and migrate customers.

We suspect the LMS consolidation is not over yet but we can see the LMS suppliers increasingly grouped into:

- Large corporate LMS vendors eg SumTotal and Saba
- ERP vendors eg Oracle
- Open source systems eg Moodle and Sakai

There is also still a large group of smaller LMS providers that organisations will use, often for hosted asp LMS services associated for example with a specific training initiative.

There are still challenges to the LMS vendors to keep up with the changes in technology and the real power of internet communication. A participant on a recent discussion board challenged the LMS suppliers “Where is the wiki, where is the blog, where is the vodcasting and podcasting, where are the tools that allow learners to work socially and not just be receptors of knowledge.”

Open source LMS systems such as Moodle and Sakai are gaining ground but we feel they are unlikely to be a major threat at this stage to LMS sales in the large corporates

though they will be attractive to smaller organisations on more limited budgets. We look in detail at the rise of open source LMS systems in our full report Skyped: The Markets for E-learning. You can get the full report at [www.kineo.co.uk](http://www.kineo.co.uk)

SkillSoft have released their version of a virtual classroom Skillsoft Dialogue and NETg bought KnowledgeNet for their virtual classroom technology/LMS which gave rise to their Knowledge Know suite.

With regard to the e-learning generic content providers this has also seen a degree of consolidation, sometimes through attrition, resulting in a few large players. Most notably Skillsoft with over \$200m revenues and Netg. There are also a range of strong niche content product providers. The most interesting recently has been Thirdforce that has added Creative Learning Media, and their health and safety products, to their product portfolio which includes Electric Paper's ECDL product. Skillsoft and Netg are also widening their offerings. Both now have stronger virtual classroom capability, a number of organisations that have purchased large content libraries also use the Skillsoft and Netg LMS equivalents.

These larger generic providers are also moving into the custom bespoke e-learning market with offers to both customise existing generic content and to build new bespoke content.

### **UK Bespoke E-Learning Market – Increasing Fragmentation**

The consolidation taking place in the LMS/Virtual Classroom market is not happening in the bespoke e-learning market. We have not really seen any significant consolidation in the bespoke e-learning market. It has only happened on a small scale. Thought there have been some mergers for example, Redtray merged with Knowledge=Power and very recently merged again with BlueU. Futuremedia is in the process of acquiring EBC and the market rumours are that we might see a tie up of Adval and Maxim. In addition, Huveaux has acquired Epic, however, this is a not really a market consolidation as Huveaux are primarily an information provider and publisher. As fast as these mergers have taken place new companies have entered the market resulting in further fragmentation overall.

As evidence of the growing fragmentation of the market we have listed in the table below over 30 companies that compete to varying degrees in the UK bespoke e-learning space.

3T Academy Internet Adval Attic Learning Balance Bourne Brainvisa Brightwave BYG Copia Corous Cylix E2Train EBC eOrigen Epic	Fuel Futuremedia Imparta Information Transfer Knowledgepool Line Pennant NIIT NuJuice RedTray Saffron Tata TIS Teknical Vega Walkgrove
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The links to all these companies are provided on the Kineo site [www.kineo.co.uk](http://www.kineo.co.uk)

There are a number of key reasons for the fragmentation in our view. They are:

- there are few barriers to entry to setting up a small bespoke e-learning company. Partnership and outsourced development to offshore developers mean that a UK e-learning company can be a small front-end.
- average prices and project sizes are falling, hence smaller companies can adequately take on projects
- the smaller and short timescale of the projects means that companies can allocate projects to smaller companies without needing to worry significantly about whether they will be around in 5 years time. This is very unlike the LMS market where you want to be fairly sure your supplier is going to be around for a while.

As a consequence smaller companies have done very well. For example, one company was less than a year old when it was appointed as a framework provider for a major financial institution; new smaller companies were appointed to the latest UFI framework contract; and similarly small companies did well in winning places on the BBC's e-learning framework contract.

This increasing competition combined with better tools and more efficient practices and a more aggressive move into the UK by Indian suppliers has led to aggressive pricing in the bespoke e-learning space. This has squeezed margins which could potentially see some companies move out of general e-learning development into niche areas as they seek to survive financially.

The Indian suppliers have placed more emphasis on a UK based account team and are becoming more sophisticated and competitive in their offerings. This will put pressure on margins unless suppliers can reduce their cost bases. Suppliers are seeking to reduce their cost base by offshoring elements of the e-learning development process. The offshoring has focused primarily on programming, flash development and testing. Whilst there have been attempts at offshoring design, graphics and scripting these have proved less successful. The cultural issues in all three of these elements are difficult to overcome. However, there can be no question that offshoring is affecting pricing and forcing bespoke e-learning suppliers to look to streamlined tools and processes to reduce costs.

Unlike the LMS market where companies are being polarised into large and small companies, in the bespoke space companies appear to be converging and there is a growing number of established medium sized bespoke e-learning players. The increasingly competitive nature of the market may pose tough challenges for the e-learning suppliers but of course is good news for those organisations currently seeking to buy bespoke e-learning.

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