E-LEARNING

By Kevin Oakes

Will enterprise software companies take over e-learning?

"This concludes the formal part of our presentation. John and I would be happy to answer any questions," I said at the end of our last public earnings call, the customary close that invites industry analysts and shareholders to query me and my CFO. One of the first came from Conny Weggen, an analyst at ThinkEquity Partners, whom I've known for several years.

"Kevin, how do you assess the competitive threat of companies such as Oracle or PeopleSoft? Do you think Microsoft will pursue the e-learning market? Are these companies getting traction in the market?"

I can't say I was surprised. I've been asked those same questions every month for about 10 years. The only thing that changes on occasion are the names. You could substitute SAP, Sun, HP, Siebel, Lotus, or IBM, among others. The notion that large enterprise software players will enter and take over the corporate e-learning world is as old as the industry itself, but lately the projection comes up more frequently—primarily because many of these large players have become more serious about the e-learning industry. Whether through acquisitions, new product announcements, or increased marketing

presence, enterprise software vendors are more visible in the e-learning space. As the slowdown in IT spending has continued and traditional markets have become more saturated, enterprise software providers are pursuing expansion into different verticals. When I talk with senior executives from other software industries, they all say the same thing: "XYZ enterprise software company is dabbling in our space." Dozens of vertical markets are affected.

I've said before in this column that most organizations will come to view the process of learning and managing their intellectual capital electronically as mission critical, much as they now view a CRM, ERP, or HRIS system. So, is it any wonder that these same vendors are interested in e-learning as a growth area?

The power of corporate learning technology is its ability to leverage corporate knowledge as an asset to increase worker productivity and, ultimately, business performance. Knowledge, learning, and information are seemingly natural areas to expand into because they can easily be rationalized as being synergistic with whatever traditional software industry these companies are currently in, all generally designed to increase worker productivity and business performance.

But will enterprise software players be successful in e-learning?

There have been multiple famous entrances and exits into e-learning over the past several years from several of the technology vendors mentioned. Some have been "in and out" of our industry as many as three or four times. For the most part, enterprise software companies have struggled to succeed in the e-learning space and will likely find the road ahead just as challenging. The main reasons are

● features, functionality, and software architecture

● fundamentally different markets
● focus.

Features, functionality, and software architecture. It's fairly well known that, from a product feature and functionality perspective, collectively the major enterprise software entrants have been significantly behind in their offerings relative to the existing leaders in the industry. Not unlike many technology markets, the messages have often been far ahead of the actual capabilities.

That could change quickly, many observers have said. Weggen's boss at ThinkEquity, financial analyst Trace Urdan, recently commented—accurately—that some ERP players spend as much as 20 to 70 times what a pure-play e-learning vendor spends on product development. But does greater spending ensure success? To date, it generally hasn't, and it's not clear how much of the R&D budgets at the large IT companies goes into e-learning development. Perhaps someday that will be a big differentiator and enterprise software companies will produce greater innovation at a faster clip than pure-play vendors. But that has been the theory for several years now.

Aside from nuts-and-bolts functionality, a disconnect often seems to exist in the fundamental approaches to solving business problems. ERP and CRM systems are typically known for their transaction orientation. The fundamental requirement for such a system is the sanctity, consistency, and uniformity of such data—meaning it is the same for all viewers. The primary paradigm is to map and fit with a business process. The data—once created—is often static, designed not to change. But the opposite is usually true in enterprise human capital development and knowledge management. Learning often doesn't map to a business process; it cuts across business processes and adapts to them. A course or learning object is often made up of

dynamic, changing data; it's usually not static by nature. Many e-learning vendors encourage content or objects to be personalized, and the data often adapts to the audience and each individual learner based on his or her skills, competencies, and profile. Many times, learners are encouraged to modify the data (or course) by creating shareable study aids such as bookmarks, notes, and highlights, among other items. Once enough is known about the end-users, many e-learning vendors think that no two users should necessarily see the exact same information.

The fundamental learning paradigms of personalization, adaptability, and flexible architectures go against the original paradigm of many enterprise software systems, which is a potential reason why these organizations have struggled to find success in the learning industry. Software architects, user interface designers, developers, product managers, even senior software executives often think in a particular way, and duality in software design isn't easy to achieve.

Fundamentally different markets. Enterprise software such as CRM and ERP is usually expensive. The vendors of those products are used to an average price per seat from five to 10 times (or more) the average price per seat in the current learning technology industry. In addition, the buyers have traditionally been sophisticated technology purchasers. By extending the ERP, HRIS, or CRM systems to include a learning module, these vendors are trying to straddle two markets simultaneously: a mature market and a nascent learning market. That poses several challenges from a customer perspective and from a sales perspective. The buyer in either case is usually different and has different price sensitivities and expectations. Typically, enterprise software salespeople are used to working on much larger deals in dollar size and selling learning

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modules often isn't natural to them. Several analysts have told me that the biggest challenge for some of the enterprise software players is teaching their salespeople to "remember to offer the e-learning module." It can be difficult to rationalize the price differentials of the core offerings and the new learning offerings to a buyer, while trying to convince that buyer of the advanced functionality in the new modules.

The challenges of approaching both markets with the same product suite—and, by extension, the same salesforce—poses a significant risk to the core business of enterprise software vendors. Lowering the price point of a sister product dramatically, or offering it for free, runs the real risk of erosion of pricing power on the core products. That has undoubtedly been one reason that several large enterprise players have dabbled in the learning technology field, only to change their minds and pull back at a later date.

In addition to possible pricing mismatches, a potential mismatch looms in the business approach. Learning is a different animal from the typical enterprise business application; it requires inherent expertise with adult learning design, theory, and success factors, in addition to numerous other nuances unique to the learning field. Though the large IT vendors might have technological expertise, it takes real expertise in learning and education to develop successful learning technologies and to help companies use them successfully. That isn't just another enterprise software market; it's more complex than that.

Focus. Learning technology is just one of many industries the large IT vendors are looking at for expansion, and it's likely not at the top of the list.

In a recent edition of *Information Week*, the editors asked more than 30 of the top executives in technology to share their vision of the future of the IT industry. As the editors wrote, these xecs are "going on record with candid opinions and field-tested analyses of where the [technology] industry is headed, how business and technology priorities stack up, where problems still exist, and where the growth potential is." Largely written in the first person, the CEOs of Microsoft, HP, PeopleSoft, IBM, Sun, SAP, Oracle, and Siebel offered up their thoughts. They mentioned several areas for growth: data mining, Web services, security, mobility, on-demand e-business, grid computing, supply-and-value-chain management, Linux, business-process computing, and more.

Most of those companies have offerings in the learning technology field, but not one CEO came close to mentioning something along the lines of human capital development, learning, or knowledge. That's potentially telling as to where e-learning falls in the hierarchy of growth priorities within those companies. For several of them, I suspect that "focus" on core areas will be an issue long-term. They might be successful at some of the new application areas, but it's obviously difficult to be all things to all business segments, and to all customers. Senior management at these firms have to make tough strategic choices all of the time about which vertical industries to pursue and which to drop. In the end, the decision boils down to which verticals will offer the greatest revenue and profitability opportunity. To the minds of those CEOs, the e-learning opportunity seems to fall behind many other areas for now.

What's that say for the future of the industry?

No one seems to doubt the ultimate potential for the learning technology industry. The debate centers on *when*, not *if*. Success will require patience, passion, and commitment. I know many people in the learning divisions of the aforementioned companies, and they're as bright and passionate about learning as any of their peers.

I suspect that the core concern of several of those people is, "Will my company remain committed to this space long-term?" We may well see a forward-looking enterprise software player emerge as a leader long-term in learning technology. But it will take products that are on a par with, or better than, the available technology; a thorough understanding of what it takes to be successful with learning; and a focus on the industry.

Those primary obstacles have prevented the large IT vendors from actualizing the decade-old hypothesis to take over the e-learning space, and those same obstacles are the most formidable barriers going forward.

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