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Which market is suffering most?

By Peter L. Martin

Overall corporate IT spending in 2001 is expected to decline more than 12 percent from 2000 estimates, according to Cahners In-Stat. Considering the deterioration of the market since March 2000, that data shouldn't be a surprise to training and software vendors, except that it would be the first decline in a decade. What we believe is pertinent about the data is the segment breakdown by market, which isolates the decline by company size.

In our analysis, the enterprise market began declining early in the year, starting first with cuts to instructor-led training then a subsequent slowdown in IT soft-

ware initiatives after an over-investment in IT services and products in 2000. Although the small and SOHO markets saw a delayed impact as the economic slowdown worked its way through the economy little by little or, should we say, business segment by business segment.

IT spending is expected to decline well into 2002 due to the uncertainty of the economic environment, particularly among small companies due to increasing business failures. We believe the impact of reduced IT budgets will continue to affect instructor-led and hardware providers severely, as well as consultant services. We're hoping that

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Company eLearning	Ticker	Price	52 Week		Mkt	3-Mon Avg
		11/30	High	Low	Cap (mm)	Trdg Vol
Infrastructure Software and Service						
Click2learn.com	CLKS	\$2.55	\$13.25	\$1.00	\$57.42	142,366
Docent	DCNT	\$2.17	\$14.94	\$1.48	\$105.54	250,987
RWD Technologies	RWDT	\$2.41	\$5.25	\$1.70	\$36.11	14,082
Saba Software Systems	SABA	\$5.75	\$21.00	\$1.52	\$256.32	700,113
Vcampus Corp.	VCMP	\$0.42	\$2.75	\$0.36	\$6.01	22,549
				<i>Average</i>	<i>\$92.28</i>	<i>226,019</i>
Content Providers						
DigitalThink	DTHK	\$8.42	\$18.81	\$5.34	\$323.24	268,938
Dow Jones & Company	DJ	\$50.62	\$64.30	\$43.05	\$3,201.64	379,439
FactSet Research Systems	FDS	\$29.98	\$47.49	\$17.80	\$1,005.17	174,570
John Wiley & Sons	JWa	\$23.19	\$24.10	\$17.90	\$1,190.83	43,679
ProsoftTraining.com	POSO	\$0.68	\$15.00	\$0.29	\$16.58	161,459
Skillsoft Corp.	SKIL	\$23.91	\$38.94	\$11.75	\$360.85	222,356
SmartForce Public	SMTF	\$22.29	\$46.56	\$13.40	\$1,239.37	1,725,417
				<i>Average</i>	<i>\$1,048.24</i>	<i>425,123</i>
Collaboration and Communication						
Act Teleconferencing	ACTT	\$9.79	\$11.97	\$3.89	\$79.08	123,672
Centra Software	CTRA	\$6.64	\$17.14	\$2.75	\$179.68	608,992
Eloquent	ELOQ	\$0.60	\$2.09	\$0.45	\$12.09	42,002
Genesys	GNSY	\$5.65	\$15.29	\$4.55	\$162.94	27,193
Mentergy	MNTE	\$0.78	\$4.50	\$0.23	\$8.50	43,520
Nuance Communications	NUAN	\$9.74	\$75.44	\$5.65	\$310.07	510,028
Polycom	PLCM	\$34.53	\$55.28	\$10.75	\$3,201.09	3,135,942
Raindance Communications	RNDC	\$5.42	\$7.40	\$0.74	\$250.63	930,590
Speechworks International	SPWX	\$8.29	\$65.38	\$4.10	\$261.85	326,356
WebEx	WEBX	\$32.11	\$37.87	\$5.06	\$1,262.07	1,692,178
Wire One Technologies	WONE	\$6.91	\$10.22	\$1.44	\$140.89	410,138
				<i>Average</i>	<i>\$533.53</i>	<i>713,692</i>
Content Management						
Actuate Corp.	ACTU	\$4.76	\$28.75	\$2.80	\$314.80	731,402
Adobe Systems	ADBE	\$32.08	\$77.56	\$22.20	\$7,974.40	4,585,003
Broadvision	BVSN	\$3.01	\$27.19	\$0.68	\$917.46	6,872,635
Documentum	DCTM	\$18.90	\$63.88	\$5.88	\$745.29	647,113
Imanage	IMAN	\$6.42	\$8.50	\$1.50	\$150.78	79,210
Innodata	INOD	\$3.00	\$9.25	\$1.26	\$66.14	59,741
Insightful Corporation	IFUL	\$2.34	\$4.44	\$1.25	\$25.58	25,641
Interwoven	IWOV	\$8.98	\$47.69	\$3.11	\$916.09	2,878,453
Macromedia	MACR	\$22.20	\$84.63	\$11.30	\$1,401.13	1,089,385
Stellent	STEL	\$23.54	\$64.00	\$13.24	\$497.68	441,974
Vignette Corp.	VIGN	\$5.41	\$27.13	\$3.08	\$1,334.43	5,200,354
				<i>Average</i>	<i>\$1,303.98</i>	<i>2,055,537</i>
Instructor Led Training						
Corporate Executive Board	EXBD	\$33.28	\$43.75	\$22.85	\$1,110.60	497,931
Learning Tree International	LTRE	\$23.96	\$59.75	\$14.50	\$461.78	159,279
New Horizons Worldwide	NEWH	\$10.88	\$18.70	\$8.30	\$113.53	18,961
Provant	POVT	\$0.60	\$7.25	\$0.32	\$13.62	124,598
				<i>Average</i>	<i>\$424.88</i>	<i>200,192</i>
				<i>Average Corporate Education Companies</i>	<i>\$781.88</i>	<i>930,743</i>

Return (%)				
1-Mon	3-Mon	6-Mon	12-Mon	YTD
-17.2	-27.3	64.6	-75.4	-70.5
51.5	-54.1	-69.4	NA	-71.4
3.0	-21.0	-47.7	-41.7	-22.6
158.7	-37.4	-61.7	-67.9	-65.8
-16.0	-56.3	-75.6	-76.0	-50.2
36.0	-39.2	-37.9	-65.2	-56.1
3.6	-34.4	-3.6	-31.5	-52.8
9.3	-11.5	-11.3	-12.4	-11.7
10.4	18.3	-26.6	-9.8	-19.0
18.5	18.1	17.6	19.0	12.1
79.5	-51.7	-69.6	-91.3	-94.2
3.2	-21.6	-31.1	47.7	18.2
29.6	-24.5	-29.6	-36.1	-41.7
22.0	-15.3	-22.0	-16.3	-27.0
-10.1	50.8	35.2	23.5	37.5
47.5	-35.7	-50.5	26.4	83.5
-3.1	-42.6	-21.5	-63.3	-65.8
-17.7	-1.5	-58.1	NA	NA
20.7	52.2	-60.9	-79.8	-65.0
15.6	-12.5	-37.0	-70.5	-78.1
22.0	68.1	30.9	1.9	10.5
19.3	419.8	277.7	162.5	200.0
12.2	-10.4	-41.9	-73.1	-83.5
-2.7	65.2	69.0	58.0	53.7
-18.4	45.0	39.8	34.8	44.0
7.8	54.4	16.6	2.0	13.7
39.5	-26.9	-62.4	-74.0	-72.7
10.8	-0.2	-19.3	-47.7	-42.2
54.5	77.5	-53.1	-86.7	-72.7
24.8	29.9	28.5	-47.2	-60.8
42.2	29.0	79.8	96.9	40.3
-7.8	23.6	-53.7	-33.6	-43.8
-21.3	-41.6	-0.4	13.0	41.8
20.8	17.5	-53.6	-63.6	-73.4
45.3	66.3	3.5	-59.5	-60.3
-0.8	-1.5	-39.1	-44.0	-56.1
9.3	-24.2	-39.9	-67.9	-69.8
19.8	13.6	-19.1	-37.7	-42.7
3.8	-12.1	-8.6	-11.4	-19.8
12.4	-0.2	-1.1	-38.3	-51.5
11.4	-15.5	-39.5	-28.1	-19.6
6.7	-60.0	-74.6	-90.8	-85.1
8.6	-22.0	-31.0	-42.1	-44.0
17.7	9.4	-13.0	-26.0	-26.4

Our advice:
 Preserve cash and
 look without bias at
 your current business.

the environment will have a more modest effect (although still negative) on software providers as companies assign a greater proportion of limited IT and training budgets to online initiatives due to the inherent cost savings of online offerings versus traditional delivery methods.

For example, collaboration technology offered by providers such as WebEx should continue to benefit from concerns about the safety of and time involved in air travel. In addition, we'd expect average purchase orders to continue to fall as suppliers break products into modules, thus reducing the initial capital outlay. That also should provide future up-sell opportunities when spending resumes to a more normal level for providers that offer a number of different modules.

Should the IT environment continue to fall or even remain flat, we could see significant price cuts as vendors look to stimulate demand. That would put several suppliers out of business through margin pressure and liquidity constraints. Unless the economy picks up soon, we could be in for significant additional job cuts and business defaults. Our advice: Preserve cash and look without bias at your current business to avoid getting caught in the backdraft.

Last month, we unveiled a new performance table to help differentiate the corporate sector by niche. November performance was extremely positive, and

stocks recovered from the 9/11 sell-off. We're hoping that wasn't driven by short covering but by long-term investors looking beyond the first half of 2002 and buying stocks based on the upside of an economic improvement.

Infrastructure stocks led the group— enjoying a 36 percent increase, with Saba Software up almost 160 percent. The content providers were up 22 percent with a broad representation of positive moves, which is significantly more positive than the select movements of two stocks in the infrastructure niche.

The content management segment held its own, up almost 20 percent, with solid representation across the board. We look for big things in that

Per-Firm IT Spending

Market Company Size (full-time employees)	2001	Spending Change From 2000
Enterprise 1,000+	\$19 million	-18%
Middle market 100 to 999	\$846,000	-13%
Small business 5 to 99	\$70,000	-17%
SOHO business <5	\$6,000	-27%

Source: Cahners In-Stat

area in 2002. The collaboration sector rose roughly 8 percent as the momentum behind the group wanes until investors see 4Q earnings that justify current valuation. Overall, the industry rose nearly 18 percent in November.

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