


A PUSH FOR SYSTEMS INTEGRATION, A CONSOLIDATING E-LEARNING MARKET AND AN EVER-INCREASING DEMAND FOR BUSINESS METRICS HAVE RIPENED THE ENTERPRISE APPLICATION MARKET FOR A SHOWDOWN BETWEEN THE PURE-PLAY LMS VENDORS AND THE ENCROACHING POWERHOUSES.

BY
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 **WE HAVE ARRIVED AT** what may soon come to be viewed as a watershed in e-learning's development. Many predict market dynamics, increasing enterprise adoption and maturing e-learning technology will cause significant changes in how organizations implement training and in how vendors approach the market.

There's no doubt e-learning is fast becoming a priority among top corporations—reaching a predicted global market of \$35 billion by 2005, according to research conducted by Stamford, Conn.-based Gartner Group. But as organizations begin to leverage initial success, learning management is quickly becoming an important piece of a much larger enterprise-wide computing pie.

The new concept has been dubbed Web services—compatible computer software systems that take full advantage of the Internet by sharing data across an organization. In theory, HR could plug into accounting, which could connect to sales, and so forth. The goal? In a word: seamless. Procurement, installation, compatibility, scalability and usability across an organization's full suite of bundled applications, including training.

While many agree Web services is years from fruition, many powerhouse vendors—the ERP, CRM and technology giants—are building on the model, quietly positioning themselves to play a much larger role in e-learning. By doing

so, they profess to deliver the enterprisewide data needed to draw the big picture and articulate training's value in business metrics.

"Enterprises of any size ought to manage their learning and instructional assets as any other in an organization, whether they are financial, manufacturing or human assets," says Chris Pirie, vice president of online learning at Oracle University, Redwood City, Calif.

For pure-play LMS vendors, the pressure is on. During the coming year, current e-learning vendors will respond by attempting to expand beyond entry-level LMS products, predicts James Lundy, Gartner vice president. And while many of these providers may produce better quality products than their powerhouse counterparts, that alone will not ensure their survival.

"The powerhouse vendors will take 25 percent of the market share by the end of 2004," says Lundy. "That's a pretty fair prediction, because it's mainly going to come out of their existing customer base. By late 2005, 50 percent of today's independent LMS vendors will cease to exist."

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Why Now?

The e-learning market remains in flux, both on the demand and supply sides of the economic equation. Needs do not remain static, especially in trying times. Greater corporate demand for business metrics has caused customers to look well beyond LMS basics for systems that will allow them to fine-tune training offerings using the latest available data gathered from across the enterprise. >>

However, IT spending overall is down, which could force many smaller e-learning vendors to either merge or disappear. All told, current economic and market conditions make the e-learning ground fertile for larger vendors to take root.

From the vendor side of the equation, to some extent the pure-play LMS vendors could be doomed by their own success, says Trace Urdan, senior analyst for Think Equity, San Francisco. "We are at a place where corporations are regarding it as a real and increasingly important technology," says Urdan, "but the part that has always been problematic for the pure-plays is that buyers see the need to be integrally linked to some of their existing ERP systems." Organizations are ready to take analytics to another level—a demand that the larger vendors feel they are primed to fill.

Part of a powerhouse vendor's appeal rests in its promise to move metrics not directly related to training. Vendors market such an enterprise product not on the capabilities of its individual pieces per se, but from the

position that the whole is greater than the sum of its parts; managing e-learning involves more than what can be tracked by an LMS alone.

"You want an LMS to have all of the features, but that's a little bit yesterday's game," says Scott Saslow, director of ERM for Siebel Systems, San Mateo, Calif. "If you look at all of the LMSs on the market, the features are all there. What's important today is a company that understands how this fits into larger business initiatives. Can they design a system where those activities are truly intertwined?"

In the short term, perhaps the greatest advantage the powerhouses have over the LMS pure-plays is their ready stable of existing clients. Since many large corporations already use some portion of the enterprisewide vendor applications, compatible LMS products are a natural add-on sale.

As early e-learning adopters look to further imbed training into larger enterprisewide configurations, compatibility with existing business systems will continue to be a top con-

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The Goliaths

Some of the players bringing big-picture perspectives from outside the training market include technology giants that have already dipped a toe into e-learning waters (Sun Microsystems), are incorporating training into HR systems or within a CRM model (PeopleSoft and Siebel), or have yet to make a concerted effort to capture the industry (Microsoft), among many others.

PeopleSoft, Pleasanton, Calif., is best known for its suite of products to manage human resources, but the company has steadily expanded its focus to include CRM, supply chain management and human capital management applications. With the company's acquisition of LMS vendor Teamscape, PeopleSoft added a LMS to its product line in December, further committing itself to the training market.

"We want to have all of the transactions in the human capital management area," says Jason Averbook, PeopleSoft's director of human capital management product marketing. "That's where we see the entrée—by having HR data, such as performance reviews, trigger training activity. You don't have to go someplace completely different in the system for training information. Training can be inserted, as you need it."

PeopleSoft recently announced that Detroit Public Schools will be the first customer of its new Enterprise Learning Management solution. The school district will use the system to design, deliver and promote curriculum to its 22,500 employees in more than 275 locations. Other *Fortune* 1,000 contracts are "in the pipeline," according to the company.

Siebel Systems is approaching the market from a similar vantage point. Founded in 1993, Siebel has established itself as a leading CRM provider—with more than 3,000 global customers that produce nearly \$2 billion in annual revenues.

Siebel hopes to duplicate its CRM success in what it dubs ERM, or employee relationship management. CRM was

cern. If a large corporation's current LMS does not fit with other important business suites—such as a CRM application, for example—they will dump it for one that does, no matter how well it works to manage training. Companies rarely succeed with the LMS they begin with. In fact, the average lifespan of an LMS is only three years, according to META Group, a Stamford, Conn.-based analyst.

To some extent, larger vendors benefit from their sheer size and recognizable brand names, regardless of the quality of their applications and rather late entry into the e-learning space. Signifying stability, bigger is often seen as better, says Jennifer Vollmer, analyst at META Group. "I think businesses are very torn with who to do business with. There is a lot of concern around the way the market is shrinking, which is something that plays to the larger vendors."

As business systems grow in complexity, so do the purchasing decisions. A couple of years ago, independent training professionals primarily made procurement decisions, but today the questions are slightly different, says Margaret Driscoll, director of strategy and ventures, Lotus Software, IBM Software Group, Cambridge, Mass. Increasingly, training professionals are being asked to consider a company's overall IT strategy, something they know little or nothing about, she says. As a result, IT will increasingly have a greater stake, and control, in purchasing enterprisewide LMS systems.

Meeting such enterprisewide demands may require greater knowledge and experience from vendors, say the powerhouses. "We are going from questions about content and product design to understanding the really hard-core plumbing of the underlying technology," says Mike Wegner, senior director of learning system innovation at Sun Microsystems, Broomfield, Colo. "That's the kind of thing that the technology giant brings to the table on this kind of question. If I were talking to a customer, I'm concerned about things that they might not even be aware of yet."

As such, IT personnel may soon begin to prefer working with a single vendor's products across the board. "Customers, to a great degree, are tired of the hassle of integrating a bunch of systems," says Deborah Quazzo, president of Think Equity, Chicago. "They'd prefer to see an application by a big guy."

Still, initial training offerings from the bigger players have been slim, Quazzo says, which she believes to some degree has been intentional. "They've wanted to raise some dust and then see what the real market demand is before they made an investment." Until now.



Perhaps the most speculation regarding technology giants entering the e-learning market has centered on Redmond, Wash.-based Microsoft. The company is taking a different approach than most of its competitors, opting—for the moment at least—to offer customers "best-of-breed" solutions through its partners while it focuses more on platform and other technologies that will support enterprisewide applications.

"In the past, we haven't had a good story," says Tom Masters, product manager for Microsoft's learning strategy, global life learning and readiness group. "A salesperson in the field, with a customer interested in an e-learning enterprise solution, would ask, 'What's our position on this? What are we doing?' We had no answer. We needed to change that. In partnership with Click2Learn and other vendors, there is a business opportunity for Microsoft to go after these enterprise accounts."

For e-learning management, Microsoft chose Click2Learn's Aspen LMS, configuring the product to be compatible with its .NET Web services platform. Will there ever be a Microsoft LMS? Only if a business case can be made and customers ask for it, says Masters. "I think we prefer

simply to deal with clear-cut core technology." For now, Microsoft has gone so far as to label the new LMS Aspen.NET.

Yet, before Microsoft could offer an enterprisewide e-learning solution, it had to become a learning organization first. Over the past three years, Microsoft has reevaluated its learning strategy and has begun the process of streamlining training efforts to become more centrally focused. It's a big company, with diverse training needs—nearly 64,000 employees with operations in more than 62 countries.

Microsoft has worked to establish what it calls a quantitative performance tree—methods to determine how best to blend technology with other structural changes to optimize training's value across an organization. "I think that's what customers are after, almost more than even they are the specific technology," says Masters. As both a vendor and a company working to optimize enterprise e-learning, Masters offers others the following bits of advice:

Develop a consistent vision. "We really needed to have a vision of where we wanted to be. Why are we doing this consolidation? What's the value we will get out of it? What will the end-game look like? Then we learned we needed

groups to work around the infrastructure. It's easy for relationships to get stormy when everybody keeps their departmental hats. How can I trust you to take care of my needs if we all consolidate to one infrastructure?"

Fragmentation is a real blocker. "There is beginning to be more of a focus, and I think we are realizing the detriment of fragmented learning, both from a cost perspective but also a time-to-market

perspective in terms of getting our people ready. We have all of these product cycles happening continuously, and that puts a strain on our learning to keep up with the products and make sure people are ready to provide service and sell our technologies and solutions."

Enterprise e-learning is more than a portal. "There is a need for a learning portal, one place where people consume various kinds of learning. But we also have many different businesses

that focus on widely different audiences, which have a need to also be able to take learning services on a kind of a la carte basis—maybe drop them into Web sites or maybe tie them to mobile applications, things like that. That's where we really need a Web services versus just a standard portal-like approach. That's .NET."

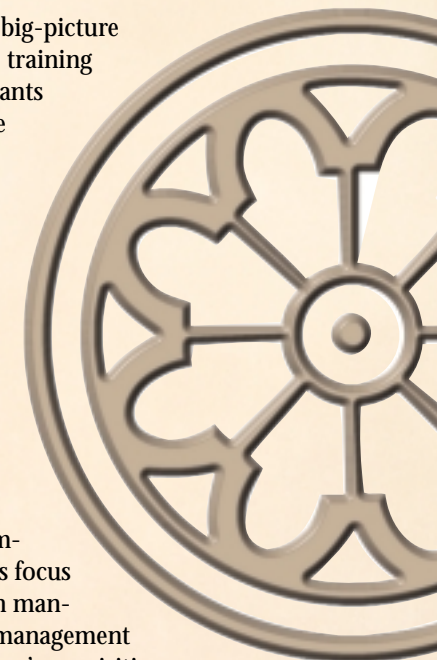
All of the answers aren't found in a vendor solution. "There is too much pressure from the enterprise customer. It's not selling or licensing the technology, it's figuring out how to support the customer and provide them

with an array of services after you have made the sale, and I think that's where it will drive the change in the vendor landscape. So yeah, I think the players in this field will look very different in five years. I think they will be more like the IBMs and those who are strong in enterprise today. For sure the players who are going to be around will have to partner with somebody and make alliances or be acquired in the next few years ... or be gone."

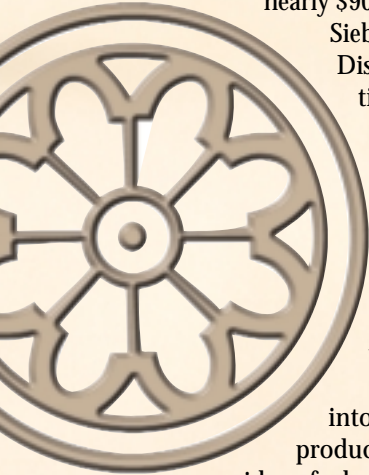
—J.S.



MICROSOFT'S TOM MASTERS



designed to handle customer training from the start by incorporating its own basic LMS. Siebel has adapted the technology and strategy—as well as developing a few new products, including a modified LMS—to fit an ERM model for large organizations. In December 2001, Siebel formed a separate ERM division around its product offering. Currently, Siebel has 230 ERM customers, most of which came from the company's existing client base. The division experienced “tremendous” growth in 2002—expanding revenues from 2001 by nearly 250 percent, from \$24 million to nearly \$90 million.



Siebel also recently launched Siebel Distance Learning, a Web collaboration and communication product, to fit with other training product offerings. ERM contains knowledge management capabilities in its base product as well, including an employee locator that allows searches for fellow employees based on skills, profiles, job history and even previous employers.

As with many of the new entrants into the training market, Siebel's product offerings attempt to expand the idea of what learning management should be.

With the big picture in mind, Siebel, much like PeopleSoft, hopes to entice customers with its suites of products that, by connecting to other key business information systems, offers more tidy metrics for measuring training's value to the corporation.

But perhaps the greatest speculation regarding activity in the e-learning market centers on the technology giants themselves—the purveyors of business computing hardware and software that until recently have made e-learning development a low priority.

“IBM, Sun, Oracle, they've all established their own e-learning divisions or have recently purchased companies to build an e-learning presence,” says Tom Masters, product manager for learning strategy, at the global life learning and readiness department, at the biggest tech giant: Microsoft, Redmond, Wash. “We are taking a bit different approach. We're partnering with strong vendors, and we'd rather drive our partners to the direction of a strong .NET environment.” (See, “The Microsoft Factor,” page 20).

In recent years, Microsoft has worked to develop the core technology behind Web services with its platform called .NET. Much like a Windows operating system for a personal computer, .NET is the layer upon which applications are built. In theory, software written to comply with .NET standards will operate harmoniously. Components will connect, and systems will talk to each other and share data.

For the LMS component, Microsoft has formed a partnership with Bellevue, Wash.-based Click2Learn to supply customers with a product compatible with .NET standards. Over the next 12 months, Microsoft will continue working with Click2Learn on “recapping its system into a

set of Web services,” says Masters.

IBM Learning Solutions, Cambridge, Mass., is also positioning its training wares as part of a larger enterprise-wide system. But, perhaps rekindling an old Microsoft rivalry, IBM supports an open, Java-based Web services model rather than closed architecture, such as .NET. As the platform debate continues, many analysts predict that vendors will either fill a specific niche with their products, or will lead the market by providing platform and server choice.

Yet, unlike its rival, IBM offers its own branded LMS to customers. In January, IBM repositioned its LMS in the market as the IBM Lotus Learning Management System, dropping the IBM Mindspan label. More than just a name change, IBM's new LMS will include more powerful tools, including drag-and-drop report creation.

IBM has also created a new learning services division that will be vendor-neutral—becoming in essence a systems integrator by organizing around global services. For such consulting services, the company formed the Emerging Business Opportunity business group, which includes consulting services, software services and outsourcing. “It's a large move, and it's not focused on 'e' as much as it's focused on just plain learning,” says Driscoll.

Asked to define its e-learning strategy, Oracle's Chris Pirie responds: “aggressive,” despite many stops and starts along the way. For three years, Oracle has been implementing online learning as a component of its own Oracle University, which delivers free training on Oracle applications to more than 20,000 partners around the world. Operating the corporate U as a business, last year Oracle generated nearly \$550 million in revenue, training 670,000 students in the classroom and an additional 200,000 students online. To manage the training, Oracle created its own LMS. The in-house technology was subsequently developed into a product to take to market. In January 2002, Oracle offered the first installable version of its LMS, iLearning, and now has 230 customers—doubling its customer base on a quarter-by-quarter basis.

Another technology giant to recently reengineer its LMS (purchased from ISOPIA) is Sun Microsystems. Last October, Sun released its Sun Enterprise Learning Platform, which includes additional features such as the ability to run in multiple languages. Yet it is the invisible things included in the LMS that better prepare Sun for enterprisewide computing of tomorrow, says Wegner. Sun would not disclose the number of its customers for this story.

“Security, capable, flexible, interoperable—all of those things are critical,” Wegner says. “It is not just the application layer, but the whole infrastructure mindset. We are interested in software, hardware, network connections, particular processes as well as the entire system.”

Despite reporting a record quarterly loss of \$2.28 billion in January, Sun continues to work on a project known as N1, an enterprise computing concept that links server storage systems, software and networking so its parts are centrally managed. Said to be a direct response from customers want-

ing to deal with fewer vendors, the N1 label will be placed on software that acts as a control panel for the different computing resources, including training.

Winners And Losers

So what really matters as vendors look to take enterprisewide e-learning to the next level? Will the innovation come from within, or will learning management be annexed into a corporate suite of applications from a neighboring industry?

Part of the current enterprise discussion amounts to nothing more than marketing, suggests META Group's Vollmer. Once technology ripens and standards become established, most LMS applications will be scalable with larger enterprise software, she says. The differentiation between larger vendors and LMS pure-plays will be in the amount of customer support a vendor can provide.

But some pure-play vendors may have a difficult time expanding their market footprint as the discussion shifts toward more than learning metrics. "The people who have the really great functionality for doing learning management systems run into such questions as, 'Can training plans or profiles of my employees be understood by the applications that help my managers conduct career planning, for example?'" says Oracle's Pirie. "It's a natural evolution from our perspective."

Vendors such as PeopleSoft and SAP approach the e-learning market with a belief that HR should track competencies and records of their learners' progress to further link an HR system to compensation, says META Group's Vollmer. "Their position is that they are leaving money on the table, and that people should be spending money on their HR systems and modules as an extension of their system," she says. "Instead, they feel they are losing money to the Sabas and the Docents of the world."

David's Response To Goliath

We asked executives at many e-learning vendors to share their thoughts regarding e-learning as they relate to enterprisewide computing and the future of the industry. Are software suites the next big thing? What does it mean for the pure-play vendor? Here are excerpts from their responses.

"Our focus is to build scalable, sustainable solutions—the key word being solutions. Anyone can build a product and market it. However, if the product is not based on achieving a solution, it simply won't survive ... The desired product moving forward will be a human capital management suite. We look forward to the future where the ultimate goal would be a suite of software products that addressed the reduction of cycle time, optimization of assets, reduction of costs and an increase in customer satisfaction."

—Joe Ellis, president and CEO, TEDS, Atkins, Va.

"It is an open secret that, from a product feature and functionality perspective, collectively the major ERP/enterprise software entrants are significantly behind in their offerings relative to the existing leaders in the learning technology industry, and have consistently disappointed the market. Few, if any, buyers have ever seen a truly comprehensive platform from any of these vendors—

not even fully formed LMS, LCMS or VC products—although many are making those claims. In fact, most in the industry would agree that the messages seem to be far ahead of actual capabilities, a trait that has been evident for years.

"ERP systems generally are known for their transaction orientation. The fundamental requirement for such a system is the sanctity, consistency and uniformity of such data. It is the same for all viewers. You are usually not encouraged, for example, to change a line item in the general ledger. The primary ERP paradigm is to map and fit with business processes, and the data, once created, is static. In enterprise human capital development and knowledge management, it is exactly the opposite. We typically do not map to a business process—we cut across business processes. A course or learning object should be made up of dynamic, changing data—it is not static by nature.

"In the past 12 months alone, we can list dozens of global 2,000 customers who had an existing SAP or PeopleSoft implementation, but passed on the incumbent vendor's learning offerings. These are big mature players, and for a sea-liner to change course takes time and sometimes even time is not enough.

"At the same time we know that learning platform players have significant challenges, and we cannot afford to slow down

the momentum we have built. Our customer knowledge, experience and small size give us more than a fair chance to fight, and even thrive, as the market matures."

—Kevin Oakes, CEO, Click2Learn, Bellevue, Wash.

"We don't believe the entrance of ERP vendors into the learning space will change the landscape in the near term. The barrier to entry in the enterprise learning management market is time, not money. Put simply, it takes years to develop an LMS infrastructure that is robust enough to meet the full array of needs for large organizations. The LMSs currently available from the larger ERP players rarely make it to the 'best-in-final' category of large enterprise deals, and the existing LMS companies who have tried to develop suites have yet to achieve credible success at the enterprise level. The ERP vendors will likely succeed in creating credible 'least common denominator' LMSs, which will put extreme pressure on LMS vendors that are not functionally and technically superior in the enterprise space."

—Paul Sparta, chairman and CEO, Plateau Systems, Arlington, Va.

"If properly integrated with other applications, e-learning can make for a valuable contribution to an overall suite, and frankly the economic climate does not

have a lot to do with the ultimate success or failure of such solution strategies. Much more depends on whether e-learning is part of an overall and coordinated vision, or is merely 'bolted on,' and indeed it even depends on what one means by the concept of 'e-learning' in that context.

"If one simply means the portrayal and delivery of educational content through the Web, simply attaching it to an ERP or CRM application is not likely to add much value; and even if one expands the definition to include basic LMS functionality, merely connecting the 'e-learning' to the broader application will not significantly enhance real value for the user.

"Basic e-learning or LMS 'pure-play' vendors are therefore dangerously exposed—when you are selling only part of the overall strategic solution, you are vulnerable to become irrelevant or marginalized. Enterprisewide, 'other category' vendors are also at risk; though their size and market shares would seem to provide them with great opportunity as organizations mature towards expanded applications, their lack of a broader human capital vision that was designed into their products from the get-go undercuts not only their short-term credibility, but also their longer-term, natural fit with the new multi-process, cross-enterprise way of working."

—Brook Manville, CLO, Saba, Vienna, Va.

Yet despite initial success entering the market, vendors approaching e-learning from an HR perspective may have a tough time gaining a foothold, says Vollmer. Among the drawbacks, she says, is that such systems usually must operate inside a company's firewall. Also, they are typically only touched by 15 to 20 percent of the organization's population and are usually expensive and difficult to use.

"PeopleSoft or SAP is not going to be innovative or move the market," says Vollmer. "They are watching and seeing what the Sabas are doing, and they're following very carefully."

When looking at the market, perhaps knowledge is power. Many analysts have predicted that enterprise e-learning could actually be captured by innovative knowledge management systems expanding on an LCMS model. Advances could arise from companies such as Documentum, the document management company that some analysts believe could soon acquire a languishing LMS vendor.

"Eventually the vision is that content will dynamically come to the surface to the right person at the right time—getting employees the knowledge when they need it instead of having to go take a course," says Vollmer. "The players that will probably have the most impact on the e-learning space are not those coming from the HR side, with the HR vision, but really coming from the knowledge management or content management vision."

Vendors such as Siebel may also have difficulties breaking new ground since the CRM market overall has taken such a hit during the down economy. The e-learning suites being offered are fine, says Gartner analyst James Lundy, but "categorically for most of them, the jury is still out as far as how focused they are going to be."

Those likely to lead the market are the tech giants, say analysts, particularly IBM. "Watch IBM to be the innovator and do some really great things," says META Group's Vollmer, who notes the company's work on a new platform that can handle disconnected training, automatically synchronizing course and student data when a student connects to the network. "IBM will be doing a lot as far as innovation goes, but whether they'll be able to restore confidence is a bigger issue."

Gartner's Lundy agrees in his assessment of the tech vendors. "I think IBM, by buying PwC Consulting, significantly enhanced its services," he says, "which were

strong to begin with on the IBM Global Services side. They are getting their act together on the product side, so they're looking long term like they will be formidable."

The argument for and against the market advantages of the large vendors may all come down to money. SAP spends nearly \$200 million a quarter on R&D, says Think Equity's Urdan, while PeopleSoft spends in the neighborhood of \$80 million. "And then you have Saba, which is the biggest LMS company that is out there, a public company," he says. "They spend \$3 million a quarter on R&D. How long is it really going to take? That's the race; that's the challenge."

While LMS product quality may be similar today between the pure-plays and the powerhouses, it's not expected to last much longer. Innovation will soon separate the winners from the losers.

"The value of the large vendors getting involved is that we are really at the start," says Oracle's Pirie. "It's going to require ongoing investment and innovation to make online learning more powerful."

Yet, the larger LMS players are not training companies, say analysts. And the rise of the larger vendors does not rid busi-

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—TRACE URDAN, SENIOR ANALYST, THINK EQUITY, SAN FRANCISCO

ness of the need for training experts. Successful enterprisewide implementation will depend on more than the application suite itself. Moving to an enterprise design involves business process reengineering that still requires training experts to customize the technology and implement it to a particular business.

For now, all products being equal, a large vendor's biggest advantage may be its ability to fight a price war. In the end, true innovation will only occur when the economy kicks into gear once again. E-learning will be around in the future, say experts, but who will lead or remain standing is to be determined.

"A lot of companies are in holding patterns," says Urdan. "Of course there are a few deals being made, and there are a few customers willing to go ahead. For the most part, the real opportunity here is still waiting in the wings. I really do believe the functionality and the application of enterprisewide e-learning itself is one that will be widespread, and long-term it can be valuable to a company. It's just who is going to deliver it that is, to me, still in question." ■

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