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SkillSoft Acquires NETg from Thomson Corporation

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SkillSoft's highly strategic acquisition of NETg creates a corporate e-learning powerhouse.

A Corporate E-Learning Powerhouse Is Created: The New SkillSoft

On October 26, 2006, SkillSoft (SKIL) announced the acquisition of NETg from Thomson Corporation. This highly strategic acquisition creates a corporate e-learning powerhouse: a single company with leading market share in online IT and soft skills training, online references, and a variety of other professional training resources and supporting technologies.

Market Impact

SkillSoft and NETg have been bitter rivals for many years. Most training managers ended up choosing one or the other as their primary off-the-shelf e-learning vendor, so competition between the two companies has been intense. Both companies:

- Made the transition to a single content architecture;
- Focused on building a technology platform; and,
- Have been expanding broadly beyond IT into other corporate training areas, including:
 - management training;
 - professional topics (e.g., project management);
 - leadership development; and,
 - executive education.

SkillSoft was far ahead of NETg in its platform technology: SkillPort (SkillSoft's hosted LMS and delivery system) is a completely integrated, on-demand LMS that includes support for instructor-led training, advanced

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We believe that OLSA is a very strategic offering for SkillSoft because it enables customers to provision, launch and manage content from any LMS platform seamlessly.

The KnowledgeNet LCMS is one of the most valuable assets acquired through this purchase.

Our research shows that interest in LCMSs has skyrocketed in the last year ... and as many as 30 percent of training managers are now looking for some type of content-management solution.

Bersin & Associates views LearnFlow as a best-of-breed solution for any type of blended-learning program.

search, independently branded portals (KnowledgeCenters) and an advanced programming interface called OLSA (Online Learning Services Architecture)¹. We believe that OLSA is a very strategic offering for SkillSoft because it enables customers to provision, launch and manage content from any LMS platform seamlessly.

NETg has its own technologies. In 2004, the company purchased KnowledgeNet, a high-end provider of Cisco and other certified IT training, which had developed an industry-leading LCMS (learning content management system), a virtual classroom system, and a unique and powerful approach to live, online technical training. The KnowledgeNet LCMS is one of the most valuable assets acquired through this purchase. Our research shows that interest in LCMSs has skyrocketed in the last year and as many as 30 percent of training managers are now looking for some type of content-management solution.

The other key NETg technology is LearnFlow, an innovative program management system designed to help learners progress through a wide range of coursework, exercises, quizzes and assessments to complete certification programs. LearnFlow provides calendaring, resource management and easy access to resources in a user interface designed for a professional student. We view LearnFlow as a best-of-breed solution for any type of blended-learning program² and expect SkillSoft to integrate this offering into SkillPort.

Bersin & Associates estimates that the total market for e-learning content, technology and services is approximately \$14.5 billion. This

¹ For more information, please see Bersin & Associates Research Bulletin, *SkillSoft Launches Web-Architecture for Learning Content*, Bersin & Associates / Josh Bersin, September 28, 2006.

² For more information, *Blended Learning Program Management: What Works® – Issues, Solutions, and Platforms for the Management of Blended Learning Programs*, Bersin & Associates / Josh Bersin, January 2006. Available to research members or for purchase at www.elearningresearch.com.

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represents about 26 percent of the total corporate learning market, which is more than \$55 billion in size. The new SkillSoft, with combined revenues of more than \$310 million, is the largest single content provider (other than software companies, such as Oracle or Microsoft, which sell training for their own products). This acquisition gives the company a leading market position in e-learning-delivered courseware.

Figure 1: SkillSoft and NETg – Pre- and Post-Acquisition

	# of Customers	Revenues
SkillSoft (before acquisition)	2,000	\$220 Million
NETg (before acquisition)	1,100	\$160 Million
The New SkillSoft	~ 3,000	\$310-\$340 Million³

Source: Bersin & Associates, October 2006.

SkillSoft has made an impressive transition from the first generation of e-learning solutions, which consisted of online courseware, to the more mature and sophisticated stages of e-learning, which incorporate resources, such as referenceware. (For more information, please see the research report, *The Four Stages of E-Learning*⁴.) SkillSoft's Books 24x7 has defined the market for online reference books and SkillSoft's Executive Blueprints have taken the lead in the market for executive-

³ SkillSoft has a conservative revenue recognition policy and will likely reduce the stated revenues of NETg. In addition, we believe SkillSoft may decide to rationalize some of the NETg products and services.

⁴ For more information, *The Four Stages of E-Learning: A Maturity Model for Corporate Online Training*, Bersin & Associates / Josh Bersin, October 2005. Available at no charge at www.bersin.com/stages.

The new SkillSoft now has greatly expanded content and technology capabilities ... this acquisition will help SkillSoft to increase its margins and fund new investments..

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level online support materials. The company has invested in the development of its own webcast tool, SkillSoft Dialogue, and customizable portals called KnowledgeCenters, which give specific audiences access to a wide variety of resources (e.g., courses, references, mentors, assessments and labs) specifically arranged and tailored to the needs of a particular corporate audience (e.g., database administrators, sales representatives).

The Strategic Advantages of This Acquisition

The new SkillSoft now has greatly expanded content and technology capabilities, along with strong market-share leadership. Financially, this acquisition will help SkillSoft to increase its margins and fund new investments. Many of the courses, technologies and services provided by NETg are identical to SkillSoft offerings – so the company can eliminate duplicated products and greatly reduce the total cost of delivery. These savings, in addition to savings by consolidating facilities and overhead, will help SkillSoft increase margins to invest in R&D.

We believe the company will manage the merger well. Through prior acquisitions, SkillSoft has shown great discipline in incorporating acquired assets into its portfolio, and making end-of-life decisions for various products and technologies. While the acquisition price seems high (nearly 1.8 times revenues for a company that was losing money), this will be a very profitable acquisition for SkillSoft.

These financial benefits will have direct benefits to corporate buyers. Instead of spending dollars to try to catch or leapfrog NETg, SkillSoft can focus on new modalities and technologies for e-learning (video, for example), more technology features, and increasing the breadth of the company's content catalog.

As a larger company, SkillSoft also now has greater leverage with its partners. The company can negotiate more profitable agreements with resellers, technology integrators, outsourcers and other players in the corporate training market.

The new SkillSoft will have the profitability to invest more heavily in support, technology, content and services.

We do believe that SkillSoft will be one of the “must have” vendors for most corporate training managers.

NETg customers will now have the opportunity to take advantage of SkillSoft’s more advanced SkillPort platform.

Could SkillSoft raise prices? Perhaps, but this is unlikely – the company believes it is still operating in a highly competitive market. We actually believe that slightly higher prices for catalog content would be good for buyers. Instead of two competing companies in the market with a combined profitability of zero or less, the new SkillSoft will have the profitability to invest more heavily in support, technology, content and services.

Does SkillSoft now dominate the corporate e-learning market? Not at all. The e-learning content market, which is more than \$4 billion in size, is very fragmented. More than 500 companies sell custom courseware in a wide variety of markets. We do believe, however, that SkillSoft will be one of the “must have” vendors for most corporate training managers. Organizations like to consolidate their vendors and SkillSoft represents the best-of-breed “one-stop shopping” for a wide variety of content offerings.

Implications for Customers

NETg customers who were dealing with NETg’s transitioning platform architecture will now have the opportunity to take advantage of SkillSoft’s more advanced SkillPort platform. They will be able to purchase a larger library of referenceware (Safari’s online reference offering, which was resold by NETg, has not caught up to Books 24x7) and will have new tools, such as SkillSoft KnowledgeCenters and SkillSoft Dialogue, as part of an integrated solution.

Over time, SkillSoft customers will see the benefits of a SkillSoft-provided LCMS, blended learning platform (LearnFlow) and a variety of new content areas (e.g., Cisco and financial services training), which will complement the current SkillSoft offering.

There could be one potential negative. Customers who are very enamored with a particular NETg course, technology or service offering may find that, over time, it could be discontinued or replaced with a SkillSoft offering.

IT e-learning providers will find SkillSoft to be a tougher competitor than ever before.

We believe that SkillSoft's new market presence, with expected increased profitability, will help the company expand into new content areas.

In 2002, SkillSoft managed its acquisition of SmartForce with great discipline ... Bersin & Associates expects a similar level of focus and discipline with this acquisition – and the result will likely be much higher profitability.

NETg customers will now see more content, technology and resources available to them. SkillSoft customers will benefit from this availability of the LCMS, LearnFlow and complementary content titles.

Implications for Suppliers

Most e-learning content vendors have grown up in the shadow of SkillSoft and NETg. IT e-learning providers will find SkillSoft to be a tougher competitor than ever before. Those vendors that focus on soft skills, leadership training, professional training and industry-specific training will likely see no real changes – except now there is an even stronger 900-pound gorilla, which could become a partner or a potential competitor.

Over time, SkillSoft might become an even tougher competitor. The company is very well-managed, and has taken careful steps to make sure that all expansion plans are well-planned and financially profitable. We believe that SkillSoft's new market presence, with expected increased profitability, will help the company expand into new content areas.

Bottom Line

This is a hugely positive step for SkillSoft. By eliminating its primary competitor, the company will no longer be forced into discounting wars. SkillSoft will also have far less pressure to “guess” what NETg is doing with its technology and content roadmap. In 2002, SkillSoft managed its acquisition of SmartForce with great discipline. The company quickly eliminated redundant offerings, closed unnecessary facilities and consolidated staffs. In addition, SkillSoft accomplished major technology conversions within publicized deadlines, with relatively few problems. We expect a similar level of focus and discipline with this acquisition – and the result will likely be much higher profitability.

Customers will probably see many positives from this acquisition. NETg customers will likely receive the biggest and most immediate benefits since they will now see more content, technology and resources available to them. SkillSoft customers will benefit from this availability of the LCMS, LearnFlow and complementary content titles. Prices may go up slightly – but, as they do, capabilities should go up and new vendors will enter the market.

SkillSoft and OLSA will now have enough market clout to create a de-facto standard, which all vendors and buyers will adopt.

This acquisition will also help solve another problem: the challenge for LMS vendors and buyers to integrate many forms of e-learning content into their systems. SkillSoft and OLSA will now have enough market clout to create a de-facto standard, which all vendors and buyers will adopt.

Stay tuned for periodic updates. This is a business event that we will be watching closely over the coming year. As always, we look forward to your comments and feedback on this research. Please contact us at info@bersin.com, or (510) 654-8500 if you have any questions or comments.