Ambient Insight's

The US Market for Self-paced eLearning Products and Services: 2009-2014 Forecast and Analysis

There are still significant untapped revenue opportunities in this mature market

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Executive Overview

The US market for Self-paced eLearning products and services reached $16.7 billion in 2009. The demand is growing by a five-year compound annual growth rate (CAGR) of 7.4% and revenues will reach $23.8 billion by 2014.

In the past two years, the rate of growth for Self-paced eLearning products and services has slowed, down from a 22% growth rate in the 2007-2012 forecast period. Recently, however, this rate of decline has decelerated significantly and has actually stabilized in hard-hit segments such as the enterprise sub-segment of the corporate segment. Despite the recession, and in some cases, because of it, the demand is positive in all the buying segments."

This report forecasts the expenditures for Self-paced eLearning products and services across eight customer buying segments: consumer; corporations and businesses; federal civilian and military government; state and local government; PreK-12 academic; higher education; NGOs, non-profits, and associations; and healthcare.

Figure 1 – 2009-2014 US Self-paced eLearning Five-year Growth Rates by Buyer Segment (across all products)
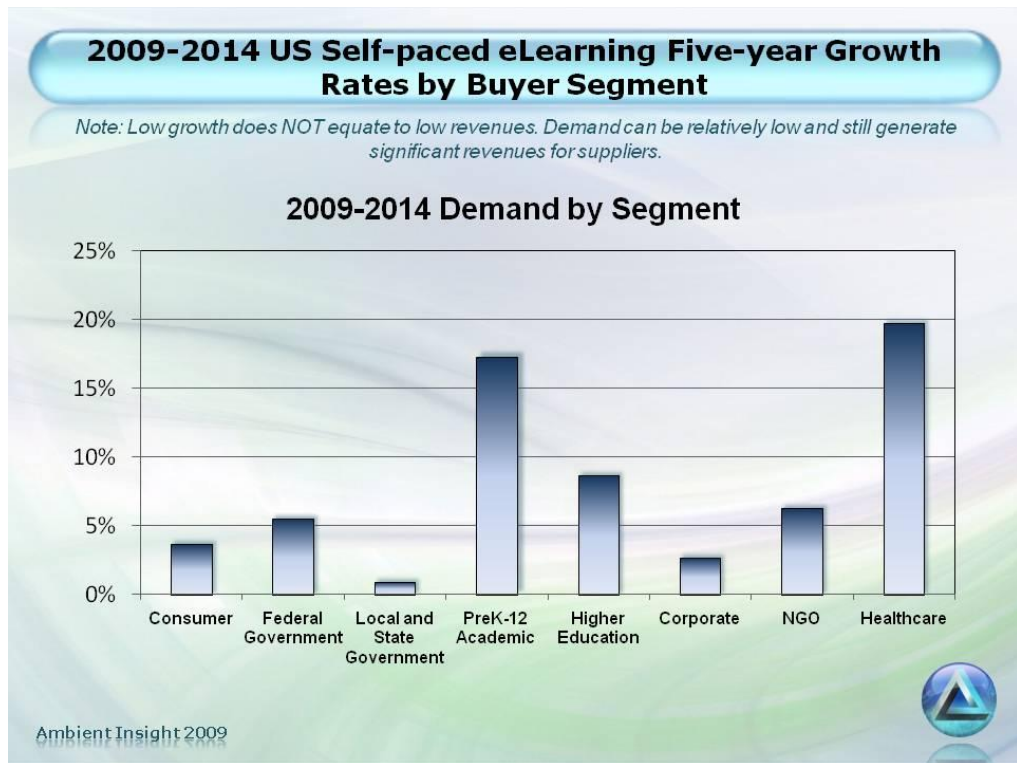
The highest rate of growth is in the healthcare segment followed by PreK-12 and higher education. The healthcare industry has been recession resilient and suppliers competing in that segment have been relatively immune from recessionary pressures. The rate of growth in the PreK-12 and higher education segments is due in part to the inexorable migration to

online content formats, but also due to the success and proliferation of for-profit online schools.

There are only two sub-segments that are experiencing negative growth: state government agencies and the enterprise sub-segment of the corporate segment. State government training and education budgets have been hit hard by declining tax revenues caused by the recession.

The decline in the enterprise sub-segment of the corporate segment is the result of a combination of factors including commoditization pressures, reduced training budgets caused by the recession, labor-force reductions, and product substitution as the buyers move to different learning technology types. The decline in the enterprise is offset by the strong growth in the small and medium business (SMB) segments.

Figure 2 – 2009-2014 US Self-paced eLearning Five-year Growth Rates by Product Type (across all buyers)

> In the 2009 market, corporations are the top buyers of Self-paced eLearning products and services. By 2014, corporations will still be the top buyer, followed by higher education and the PreK-12 buyers.
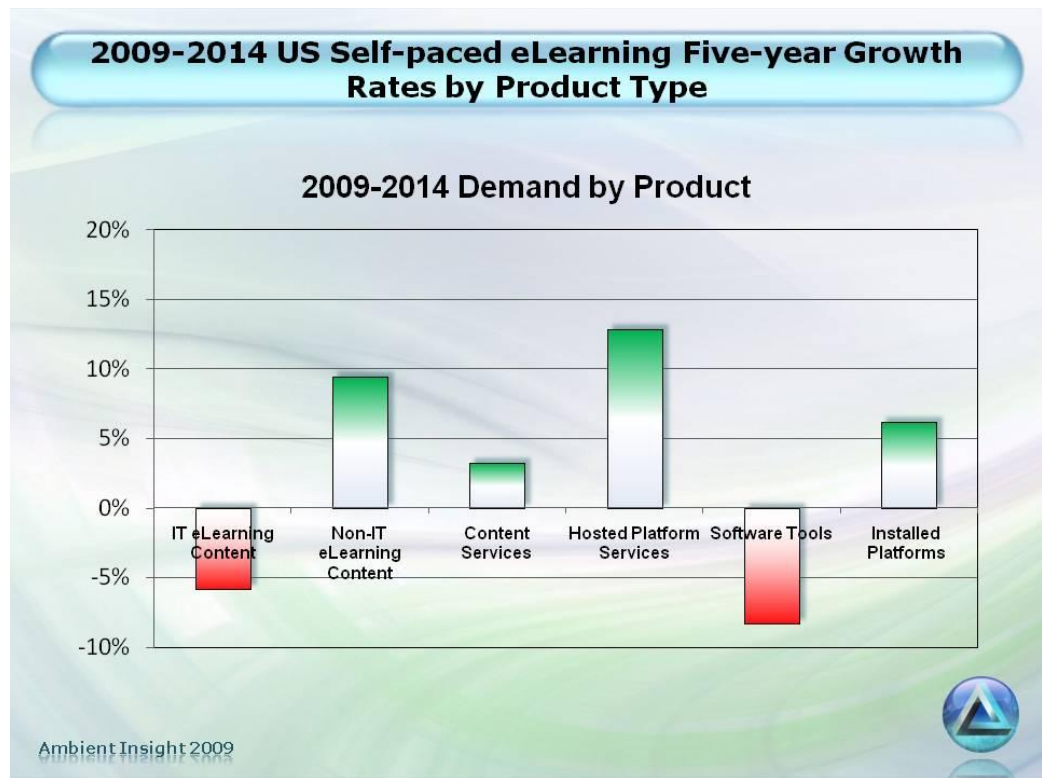
There are six major types of Self-paced eLearning products and services forecast in this report including:

- IT packaged content
- Non-IT packaged content
- Custom content development services
- Learning platform hosting services
- Software tools
- Installed learning platform technology

Hosted platform services are the fastest growing product category and are growing at 12.8%. The demand for non-IT packaged content is growing by 9.4% driven in large part by the demand in the academic segments. Installed platforms are growing at a five-year CAGR of 6.1%.

Throughout the forecast period, non-IT packaged content will generate the highest revenues followed by installed platforms and custom content development services.

It should be noted that these growth rates vary greatly across the different buying segments and a products analysis is provided for each segment. For example, the demand for both IT-related content and software tools is negative in general, yet even they are experiencing positive growth in specific buying segments.

This report provides detailed supply-side and demand-side analyses. The supply-side analysis provides suppliers with the total addressable market (TAM) for their product type across all buying segments. The demand-side analysis provides suppliers with insight into the buying behavior of specific buyer segments.

> Mature products often have low-growth rates. Low-growth rates **do not** equate to low revenues. Mature products still generate significant revenues for suppliers.

Key Findings

Key findings discussed in this report include:

- The buying behavior, product demand, competition, and market conditions vary in each buying segment and suppliers tend to specialize in meeting the needs of specific buying segments
- The recession is "factored" into the forecasts and buyers now have visibility into fiscal training budgets and suppliers have visibility into multi-year product revenues
- In the current market, the most significant inhibitor is not the recession, but product substitution
- Private investment surged in 2007 and 2008
- There has been a shake-out in the supply chain
- New suppliers are coming into the market at a steady rate
- There are significant untapped revenue opportunities

The competitive landscape in the US Self-paced eLearning market is still highly fragmented. This fragmentation is due to the different buying behaviors in each segment. Specific products are in higher (or lower) demand in specific buying segments. To date, very few suppliers have been able to meet the needs of multiple buying segments.

Consequently, there are no market leaders and there really is no monolithic market, per se. Instead, there are eight markets with specific buyers buying particular solutions from segment specialists. This fragmentation has allowed thousands of smaller suppliers to compete in niche product areas. It has also created significant revenue opportunities for suppliers catering to under-served buyers.

The recession has been good news and bad news for suppliers. The good news is that buyers with legacy print-based or classroom-based content are

now highly motivated to reduce their expenditures on these products. The bad news is that education and training budgets and learning technology budgets have been reduced across all buying segments except healthcare and PreK-12. This trend is acute in large corporations where training budgets have dropped over 15-20% annually over the last two years.

Large corporate buyers are still the top buyers in the 2009 market. The competition is fierce and being waged by global and national suppliers now competing solely on price. Consequently, these suppliers will generate significant revenues throughout the forecast period, but their profit margins will shrink dramatically. In contrast, the smaller domestic suppliers will have lower revenues, but much higher profit margins.

The impact of the recession on Self-paced eLearning revenues has "run its course." Unless the country experiences what is known as a "double-dip recession," the recessionary pressures are now factored into the budgeting processes of the various segments.

Except in the academic and healthcare segments, training budgets will not rise significantly during the forecast period, but the steep reductions have stabilized. This means buyers now have a clear idea of forthcoming budgets and suppliers have much better visibility into future revenue streams.

The most significant inhibitor in the current market is not the recession, but rather product substitution. Buyers are opting for different types of products. For example, higher education buyers are now avid buyers of a new type of product called lecture capture systems. These systems record classroom events and rapidly generate Web-based and mobile content.

In the corporate segment, buyers are beginning to purchase social learning platforms which are fundamentally different than systems used to create, deliver, and manage self-paced courseware products. Legacy suppliers have reacted by including social learning features in traditional platforms and new suppliers are entering the market with native social learning platforms.

> A major catalyst in the market is the availability of investment capital for suppliers. There was a surge in venture capital funding for Self-paced eLearning companies in 2007 and 2008.

There was a dramatic spike in private investments made to learning technology companies in 2007 and 2008. In late 2007 and early 2008, there were clear signals that the economy was entering a recession. It was also clear that investors were moving to education and training-related companies in anticipation of the recession. Learning technology companies received $1.86 billion in investment during 2007 and 2008.

The funding obtained by Self-paced eLearning companies was consistent for both years, but the type of supplier that attracted funding changed. In 2007, Self-paced eLearning suppliers obtained $90.8 million. Corporate-facing companies garnered $73.7 of that 2007 funding.

In 2008, the funding was $100.1 million with $65.9 million going to academic suppliers with the majority of that funding ($52.3 million) going to PreK-12 facing companies. Clearly, investment firms are attracted to suppliers serving the academic market.

However, the two suppliers that garnered the highest amounts both provide learning platform hosting services for corporate and government buyers. In 2007, Cornerstone OnDemand obtained $32 million in funding and an additional $12.7 million in 2009. In 2008, GeoLearning obtained $31 million in private investment.

Figure 3 – 1999-2008 US Private Investment in Learning Technology Companies (by Number of Deals)
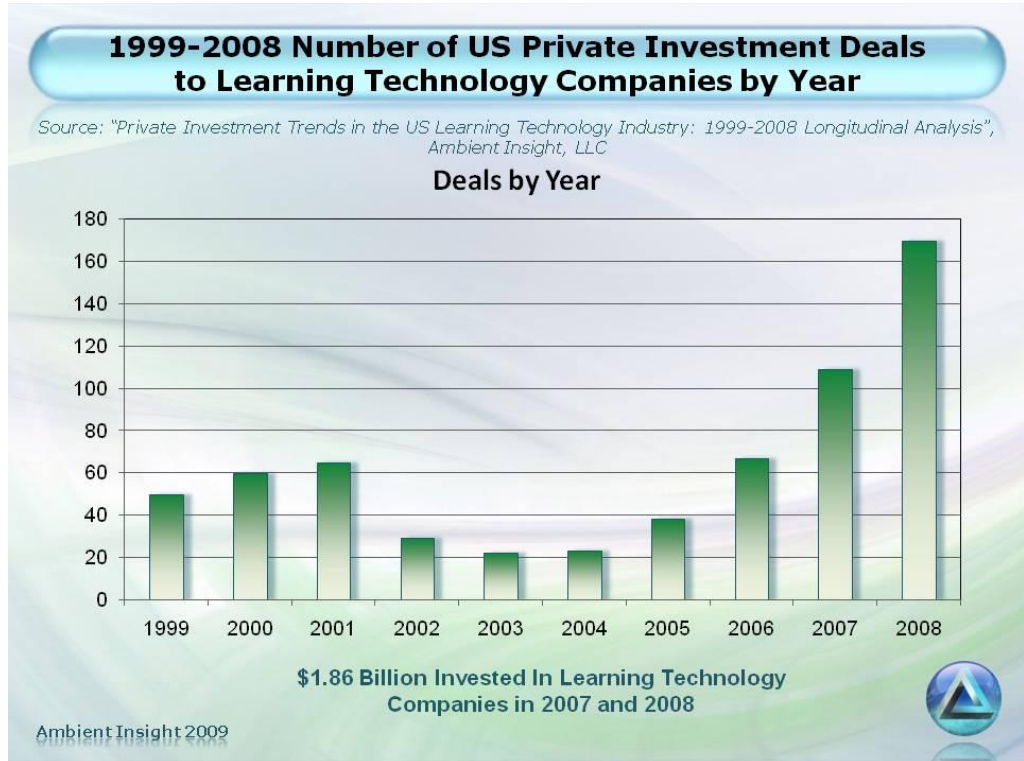
Source: Private Investment Trends in the US Learning Technology Industry: 1999-2008 Longitudinal Analysis, Ambient Insight, LLC.

The supply chain in the US Self-paced eLearning market is showing signs of a "shake out." There is now evidence of consolidation at the top, clear signs of disintermediation in the middle, and growing stratification at the bottom.

There is a supply-chain imbalance as mid-level suppliers exit the market (known as disintermediation, or "exclusion of the middle man.") The mid-level suppliers are being forced out by pricing pressures, being purchased by larger suppliers, or being bypassed by buyers that are going to offshore suppliers. The mid-level suppliers left are staking territory in specific segments or in local markets as vertical specialists.

In the meantime, many new smaller suppliers are entering the market to serve the needs of specific sub-segments, such as for-profit academic institutions, and the small and medium-sized businesses (SMB).

This process has been underway for several years. Essentially, there are fewer suppliers at the top of the market and a growing number of newer suppliers in the low end of the market. In supply chain dynamics, this is known as the "barbell effect" with suppliers concentrated at opposite ends of the competitive spectrum.

The US market for Self-paced eLearning is quite mature, but due to the diverse needs across the buying segments, there are still large untapped

revenues. For example, the SMB buyers were slow to adopt technology-based learning until the recent recession. There is now a relatively healthy demand for Self-paced eLearning products and services in the SMB. (*Source: The US Corporate Market for Self-paced eLearning Products and Services: 2009-2014 Forecast, Ambient Insight, LLC.*)

The vast amount of training and education content in the US is still in classroom and print-based formats. Self-paced eLearning is best suited to learning that targets accreditation, certification, and licensure. This is why the demand is so strong in the academic and healthcare segments. Developers are able to map with great precision Self-paced eLearning content to mastery tests.

There are revenue opportunities across segments and within segments. For example, language learning content is a good example of a product in demand across all the segments. There are also large untapped revenues in each buyer segment and those revenue opportunities are included throughout this report.

The US market for Self-paced eLearning is now over ten years old and it has matured considerably. The current market is characterized by a reduction of spending by the early adopters such as large corporate buyers and government buyers.

However, a new wave of adoption is now underway and new buyers and new suppliers are emerging at a steady rate. This trend started before the recession and the recession acted as a catalyst accelerating the new wave of adoption. The current market favors suppliers that can identify and meet the needs of these new buyers.

This report provides extensive examples of competitors, products, and buying behavior to help suppliers understand the market. This is evidence-based data designed to help suppliers create sustainable business models, develop competitive products, develop go-to-market strategies, and generate significant revenues and profit. This kind of data is indispensable in recessionary business environments.

Methodology, Scope, and Product Definitions

Ambient Insight is an integrity-based market research firm that specializes in identifying revenue opportunities for suppliers. Principals at Ambient Insight have been tracking innovation and investment trends in the learning technology industry since the late 1990's.

Ambient Insight provides market revenue forecasts based on our proprietary Evidence-based Research Methodology (ERM). The ERM is an iterative process based on predictive analytics. ERM progresses from general patterns (the big picture) to very precise granular patterns. It is used to create a forecast model comprised of relevant predictors.

The forecast model is refined as additional data becomes available. Ambient Insight triangulates baseline revenues from three analysis vectors:

- Supply-side analysis
- Demand-side analysis
- Product and service analysis

Once the baseline revenues are triangulated, Ambient Insight uses the data to forecast the total addressable market (TAM). Ambient Insight uses the data derived from the ERM process literally as evidence to support our market forecasts.

Ambient Insight gathers market and competitive intelligence from a wide spectrum of information broadly classified as leading and lagging indicators. Economic and market conditions are subject to change and the data in this report are current at the time of publication.

Leading indicators signal future events and include venture capital investment trends, patent applications, technology-related legislation, technology standards development, product research trends, technology infrastructure trends, labor demand, and outsourcing demand.

Lagging indicators, referred to as "rear-view mirror" data, are past events captured in data that include new vendor activity, M&A activity, executive hiring patterns, US Economic Census data, SIC and NAICS data, SEC filings, local and federal government data, Universal Commercial Code banking reports, public-domain business records, court records, press releases, and industry association information.

Scope

This report does not include revenues derived from outside the US. The major US installed platform and hosted services suppliers do a significant amount of business in the international market, but those revenues are not considered part of the US market by Ambient Insight.

The multi-purpose platforms that are now known as performance management systems, human resource management systems, or talent management systems are not included in this report. Many of these platforms do have learning management features that are used to track Self-paced eLearning content but the modules are not sold separately.

This report does not include analysis of general-purpose content management systems that are now used to manage learning resources. For example, Microsoft's SharePoint platform is now being used by a growing number of corporations to manage Self-paced eLearning content. This is an example of product substitution that is actually a market inhibitor for legacy products.

This report does not include forecasts for other learning technology products such as simulation-based learning or collaboration-based learning products that are often marketed as "elearning" by suppliers. A detailed

Ambient Insight has a precise product taxonomy that narrowly defines Self-paced eLearning. This provides suppliers with clarity surrounding the demand for this product type.

product taxonomy is provided in: Ambient Insight's 2009 Learning Technology Research Taxonomy

Product Definition

Ambient Insight defines Self-paced eLearning as self-paced courseware products and services. This includes two major types of off-the-shelf catalog content, two types of software technologies (learning management platforms and authoring tools), and two types of services (custom content development and hosting.)

The defining characteristic of Self-paced eLearning is the pedagogical structure imposed by formal instructional design and systematic development of the products to meet specific performance goals.

The installed Self-paced eLearning technology includes learning management systems (LMS), learning content management systems (LCMS), courseware management systems (CMS), education management systems (EMS), and the range of products used in PreK-12 for tracking instructional content usually called student information systems (SIS).

Ambient Insight defines LMS products sold via the hosted SaaS model as hosting services in our market research. Access to the products is sold as a service and customers do not actually own the products.

Related Research

Buyers of this report may also benefit by the following Ambient Insight market research:

- The US Corporate Market for Self-paced eLearning Products and Services: 2009-2014 Forecast and Analysis

- The Worldwide Market for Self-paced eLearning Products and Services: 2009-2014 Forecast and Analysis

- The US Consumer Market for Technology-based Cognitive Learning Products: 2009-2014 Forecast and Analysis

- Private Investment Trends in the US Learning Technology Industry: 1999-2008 Longitudinal Analysis

- The US Market for Mobile Learning Products and Services: 2008-2013 Forecast and Analysis

- Snapshot of the US Market for Mobile Brain Trainer Products: 2008-2013 Forecast and Analysis

- Ambient Insight's 2009 Learning Technology Research Taxonomy

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