

Movers and shakers

John Helmer looks at the state of the UK e-learning market

An independent study commissioned this year by Epic into UK e-learning provides reliable information for perhaps the first time about this emerging market.

The study shows evidence of steady growth, poor profitability and improving productivity, providing a far more detailed picture of the supplier market than has been shown before.

The study

The study identified 157 companies providing e-learning products and services in the UK and looked in detail at the financial performance of 34 of them, using information submitted to Companies House. The latter group comprises companies registered in the UK for which e-learning is the principal or sole business activity.

Although some well-known names (for example, Tata, Line and Brightwave) are excluded from the 34, because they haven't submitted full accounts to Companies House, the list contains most of the major players, and the wide range of company sizes covered – from the largest,

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best-known companies to 'backroom operations' with just two full-time staff – means we can draw wider conclusions about the market.

All the companies in the study focus principally on organisational learning. It should be noted that the study excluded companies offering

products and services solely to the education market, which is why companies such as Blackboard and 3T do not feature.

General characteristics

The first thing to say about the e-learning market is that it is fragmented. There are a lot of small- to medium-sized businesses, diverse in their strategies, origins, personalities and relationships to their parent companies. Barriers to entry are almost non-existent and buyers have low switching costs, making for a highly competitive marketplace in which larger players are vulnerable to attack from smaller ones.

Larger players have emerged, however. By 2005, the top ten companies on our list accounted for 71 per cent of total revenues. But despite considerable consolidation between 2003 and 2005 – a trend that continues – no one company can be said to have overall control. Having said that, the recent acquisition of Thomson NETg by Skillsoft, if successful, promises to result in a dominant US-owned player, well-resourced, with a virtual monopoly in the field of large-catalogue generic (or off-the-shelf) e-learning content and a significant size advantage.

Not that size is the only factor in this market. Generic content has thrived far less than bespoke in UK e-learning, reflecting the general tendency of training buyers here to prefer 'local' suppliers who offer a tailored service.

The question of who would fill the number two slot in this scenario is not any easy one to answer. The strong market share and growth

The 34 companies in the study

Adval Group	Happy Computers	RedTray
Assima	Imparta	RTIX
Atrium Communications	Ivy Learning Services	RWD Technologies
Attic Learning	Jenison CCI	Saba
Easy i	KnowledgePool	Skillsoft
EBC	Learndirect Solutions	SumTotal Systems
Enlight	Learning Resources International	Thirdforce
Epic	Maris Technologies	Thomson NETg
FT Knowledge	Outstart EMEA	TPG Academy
Fuel IT	Pennant	XOR
Futuremedia	PTT	
gtslearning	Questionmark	

Figure 1

Top ten by turnover

	2005 turnover in £'000
1. Thomson NETg	19,733
2. Futuremedia	15,652
3. Skillsoft	11,450
4. RWD Technologies	10,934
5. Pennant	10,785
6. Thirdforce	8,475
7. Epic	8,104
8. KnowledgePool	6,943
9. Assima	5,669
10. SumTotal Systems	5,059

Source: Companies House

Figure 2

of Futuremedia during the period (21st in 2003, top dog in 2004) were largely due to revenues from the Home Computing Initiative (HCI), based on a tax break that has now been withdrawn. Though the company has moved to fill the resulting hole in its revenues by

acquiring e-learning company ebc and marketing company Button, it remains to be seen whether stability can be brought to a company whose progress to date has been a bit of a roller-coaster ride.

Thirdforce is carrying heavy losses. Pennant, though consistently profitable, has shown little propensity to grow and RWD Technologies, sixth-largest by turnover in 2005, is neither profitable nor growing.

Market size

The average turnover of companies in the study, on a straight arithmetic average, was £4.2m. Multiplying this figure by the total number of companies identified by the study gives an estimated market size of £659m. However, a caveat should be added about this calculation, because so much of the data needed to arrive at a true estimate of the size of the e-learning market lies outside of the scope of this study.

Twenty three of the companies identified as active in the organisational e-learning market are large service companies (e.g. IBM, Accenture, Raytheon), for which e-learning is not core business but



which would tend to win some of the meatier contracts because of their existing presence within large-scale organisational development programmes. Since UK e-learning revenues are not pinpointed in their accounts, it is hard to know exactly how much they do with any certainty. In addition, many of these companies sub-contract e-learning work to smaller specialist players, so there is a risk of 'double counting'.

Any estimate of market size is therefore likely to be a guesstimate at best.

Our best guesstimate, given the data to hand, is a market for e-learning products and services in the range of £500m to £700m. This indicates that e-learning currently represents 3-4 per cent of private sector training provision in the UK.

This is not the whole story, however.

The publicly-funded sector, as represented by Ufi (Learndirect), showed revenues of £246m in 2005, £24m of which was "income from learning materials". In the pre-Skillsoft/NETg-merger environment, this last figure alone would have made Ufi the largest player in the UK, and probably in Europe as well. Learndirect's market focus is on the individual rather than the organisation, admittedly; however it also has offerings for business, and many of the individuals who used its service will doubtless have put the skills and knowledge acquired to good use in their workplaces (and a proportion of them might even be small business owners).

Top ten fastest-growing

	2005 Turnover in £'000	Growth 03-05	Profit/loss £'000
1. RedTray	4,478	1147%	381
2. Futuremedia	15,652	1066%	-4,214
3. Assima	5,669	461%	97
4. Thirdforce	8,475	152%	-12,807
5. Enlight	2,114	145%	199
6. SumTotal Systems	5,059	126%	-3,470
7. Jenison CCI	885	122%	-9
8. Imparta	4,226	76%	583
9. PTT	64	64%	32
10. Attic Learning	2,469	38%	184

Source: Companies House

Figure 3

Also it should be borne in mind that not all organisational e-learning uses external suppliers. There is currently a thriving DIY market, with capability building the hottest growth area in e-learning consultancy. The recent Skills for Business study *Towards Maturity* indicates that a quarter of companies using e-learning develop their content in-house.

Growth

E-learning might have failed to fulfil some of the more extravagant predictions made for its growth around the turn of the century, but, on the evidence of this study, it is clearly a growing industry.

Between 2003 and 2005, the 34 companies in the study showed total revenue growth of 18 per cent.

Among the top ten companies, growth was more volatile, the figures for 2003/04 and 2004/05 being 28 per cent and 13 per cent respectively. These percentages are skewed by the rags-to-riches story of Futuremedia during the years of the HCI boom, and Skillsoft's one-step-forward-two steps-back approach following its merger with Smartforce.

It is encouraging, however, to note the consistency of this overall market growth, during a time when general training industry revenues stayed flat. This reflects a continuing move to e-learning from more traditional methods.

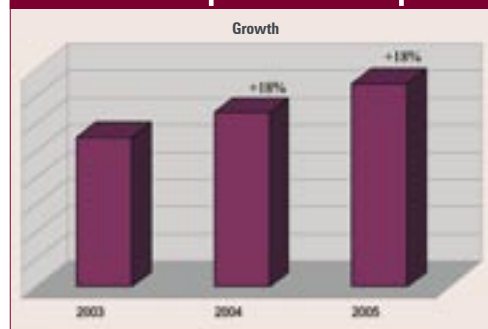
Profitability

One of the most startling results of this study is the poor profitability of many e-learning companies. The 34 that we looked at made a combined loss of £21.9m in 2005, and the preceding two years were little better (2003: -£22.5m, 2004: -£18.4m). There have been numerous failures in this area in the last few years, most recently Adval.

Clearly this is an industry in start-up mode, with many companies prepared to sacrifice short-term profitability for long-term positional gain. Interestingly, the top four companies in terms of revenue all turned in end-of-year losses throughout the period studied.

This willingness to endure losses in the short term in order to buy market share is one of the factors that increases competitiveness in the industry, with each company hoping to be the 'last

Growth - sample of 34 companies



Source: Companies House

Figure 4

man standing'. But it remains to be seen how long companies such as Thirdforce can continue to finance such high rates of negative return.

One should not come away, however, with the idea that this is solely a loss-making industry. Many companies have managed to grow steadily – even rapidly – while being profitable. Six out of the ten companies that grew fastest over the study period were profitable in 2005.

It should also be noted that the study uses the harshest measure of profitability: net total recognised gains and losses for the year, after tax and other deductions.

Headcount

Perhaps because of the extreme competitiveness of the industry, and downsizing in response to hostile market conditions, productivity grew over the period of the study.

Taking the perhaps crude measure of topline revenue generated per head of permanent staff [the annual revenue divided by the number of employees], the 34 companies in our study became 24 per cent more productive between 2003 and 2005. This could equally, however, reflect an experience curve, with companies tightening up their processes and developing smarter technology tools for production. ■

John Helmer is an independent marketing consultant in L&D. You can feed back on this article at <http://blog.epic.co.uk>

Profitability

	2005 turnover in £'000	2005 profit/loss £'000
1. Easy i	2,001	699
2. Imparta	4,226	583
3. Pennant	10,785	545
4. EBC	2,091	421
5. Epic	8,104	418
6. RedTray	4,478	381
7. FT Knowledge	1,501	359
8. Enlight	2,114	199
9. Attic Learning	2,469	184
10. Knowledgepool	6,943	178

Source: Companies House

Figure 5