

## LoD Viewpoints

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### Rob Edmonds

+44 (0) 20 8256 1404; fax: +44 (0) 20 8760 0635; electronic mail: redmonds@srbc-bi.com

## *Merger Mania*

### Why is this topic significant?

Saba's agreement to purchase Centra, Blackboard's agreement to purchase WebCT, and Huveaux's recent purchase of U.K. content leader Epic are yet more examples of the increasing consolidation changing the shape of the eLearning marketplace. But Oracle's plan to acquire Siebel Systems is also a reminder of the impact that larger players can have on an industry if and when they choose to move.

**T**hese Viewpoints may seem to be increasingly dominated by mergers-and-acquisitions analysis, but the industry is going through an unprecedented period of consolidation, and all players—enterprise practitioners, tools vendors, content companies, and service providers—will feel the impact of the changing shape of the industry sooner or later. Since we examined SumTotal's move to acquire Pathlore in August 2005, Saba has announced a definitive agreement to purchase Centra, Blackboard has done the same with WebCT, and Huveaux has purchased Epic Group. I begin by reviewing each of these developments in turn and finish with a discussion of what Oracle's plan to acquire Siebel Systems might imply for learning-technology players.

### *Saba and Centra*

Saba and THINQ, SumTotal and Pathlore, and now Saba and Centra. Recent months have been busy for Saba's and SumTotal's boards of directors. In the most recent deal, Saba announced a definitive agreement to acquire Centra in a cash-and-stock deal likely to be worth some \$60 million. The deal, which the

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companies expect to complete in early 2006, will create a company with more than 500 employees and estimated annual revenues of \$100 million.

The combination of Saba and Centra will create a company of a size similar to that of SumTotal. Competition against SumTotal (which has now completed its acquisition of Pathlore) is clearly a key driver for the deal, but acquiring a collaborative learning provider is altogether different from acquiring another LMS player. On paper, Saba will instantly increase its customer base, but many, if not most, of Saba's customers will also be Centra customers. The Centra customers that run a non-Saba LMS must somehow convert to the Saba platform if the deal is to create lasting value. But effecting this conversion will be difficult without cutting prices and reducing profitability.

The deal also has its benefits. For example, Saba and Centra have the potential to create a level of integration between collaborative-learning and learning-management software that few (if any) companies have been able to achieve without custom integration. Saba and Centra claim that they will release new versions of their products in summer 2006, including a "built-in and seamlessly integrated LMS/LCMS and Virtual Classroom solution." At least in the short term, Saba plans also to continue to sell the two companies' products independently, but the integrated platform is where the real value lies.

In the end, Saba and SumTotal are maintaining their position as the two rivals at the top of the corporate LMS market. The question now is how long they can go on before they themselves merge (like BlackBoard and WebCT in the academic sector—see below) or before they face much tougher competition from large enterprise-applications vendors.

### ***Blackboard and WebCT***

On 21 October 2005 Blackboard announced a definitive agreement to acquire WebCT in a cash transaction that values WebCT at \$154 million. The combined company will have more than 3700 clients and some 800 employees. As well as operating in the United States, Blackboard and WebCT will serve markets including the United Kingdom, Canada, Australia, Japan, South Africa, Finland, Netherlands, Singapore, Spain, Hong Kong, and Ireland. The companies have yet to announce projected combined revenues, but Blackboard's 2004 revenues alone were \$111.4 million, so the combined company will certainly be a major industry player and significantly larger than either SumTotal or Saba.

Although both Blackboard and WebCT serve the corporate sector to a limited extent, their core markets are universities, colleges, schools, and education providers, and in these markets the two companies are the dominant learning-management-system and course-management-system providers. The merger is therefore significant because it will create a clear market leader in the academic sector and a de facto platform choice for buyers. However, open-source alternatives including Moodle and Sakai are gaining ground and may present greater competition in the future. As one may expect, the new company will keep both Blackboard and WebCT product lines intact at the outset and, over time, Blackboard will incorporate the best features and usability characteristics from each of the new product lines into a combined product set.

Gauging the reaction of customers so soon after the announcement is difficult, but though some people will no doubt welcome an increasing standardization on a single platform in the academic sector, others will be concerned that Blackboard will face no real competitor, that prices will rise, and that innovation will stagnate. In practice, the merger will no doubt bring mixed fortunes for customers, and no one should rule out increased future competition from a large player like Oracle or IBM.

### ***Huveaux and Epic Group***

eLearning consolidation is not just among tools companies. Huveaux plc recently acquired the leading U.K. custom-content company Epic Group in a deal valued at some \$40 million. Epic's revenues were \$14.2 million for the year ended 31 May 2005, with healthy profits before tax of \$3.7 million.

Huveaux formed in the United Kingdom in 2001 with the objective of becoming a major publishing and media company by acquisition and growth. As well as including Epic, Huveaux companies and divisions include Fenman limited, a training and HR publisher, U.K. and European political publishing divisions, and Lonsdale SRG, a U.K. schoolbook publisher. Huveaux's 2004 revenues were \$25.2 million, so the arrival of Epic is a major addition. Huveaux's apparent intention is to let Epic continue trading as a separate company, but a Huveaux employee has replaced Donald Clark as CEO. The new ownership is a big change for Epic, which has always operated as an independent company with steady, organic growth. Time will tell how Epic performs under its new ownership.

### ***Oracle and Siebel***

Mergers and acquisitions among learning-technology players are coming thick and fast, and we may even hear further announcements in the coming months. But anyone interested in how this picture will play out in the long term needs to monitor activity beyond the learning industry itself. In September 2005 came the news that Oracle is to acquire Siebel Systems in a deal valued at \$5.85 billion. In one step, Oracle will become the largest CRM provider in the world and an increasingly strong rival to SAP in enterprise software. Although this deal appears to have nothing to do with eLearning, it shows how large companies can make acquisitions that change the shape of an industry overnight (in this case the CRM industry). Further mergers and acquisitions seem likely. In an interview with CNET News.com, Oracle's copresident, Charles Phillips, said, "Given our size, we can do small, medium and large acquisitions, and multiple deals. We have a pretty good process down now."

Oracle has demonstrated that it is prepared to use acquisitions to eliminate competition, gain customers, and acquire software. The August 2005 Viewpoints argued that learning technology is a peripheral opportunity for most enterprise-software companies and, for now, this argument continues to be true. But the Siebel acquisition shows how enterprise-software players can change their behavior when a software market starts to reach a significant size.

### **Recent Developments**

### **All Flash and No Sparkle**

#### **Why is this topic significant?**

Researchers create some of the best eLearning content on the market today using Macromedia's Flash. But around the time of the release of Flash 8, Microsoft announced a new development tool that some commentators are calling a "Flash Killer." Will Microsoft's Sparkle replace Flash as the multimedia tool of choice for eLearning designers?

Macromedia's Flash is very popular as an eLearning content-development and -deployment platform because it enables good-quality interactive content and because it has become a standard technology that most computers and IT departments can support. In September 2005, Macromedia announced the availability of the Flash Professional 8

authoring tool and Flash Player 8. The company described the new software as a “significant release” with improved security and video support on the player and improvements to graphics performance, video support, and workflow in the authoring tool. Macromedia customers also seemed to welcome the release. According to Michael Lebowitz, cofounder of Web developer Big Spaceship, “In the past, effects like blurs, drop shadows and glows would have to be created in another program and imported into Flash. With Flash Professional 8, these effects can be applied directly, and in real-time, to objects and text. The results are reduced development time and smaller file size.”

But also in September 2005, at Microsoft’s Professional Developers Conference, the Seattle, Washington–based giant unveiled Expression Sparkle Interactive Designer, one of three products in the Expression suite of graphics tools. “Our goal is to redefine what is considered a ‘good enough’ user experience,” said Microsoft senior vice president Eric Rudder. Microsoft describes Sparkle Interactive Designer as a “bridge” between its graphics tool and Visual Studio, its application-development environment. Like Flash, Sparkle includes elements such as animation timelines, vector and bitmap image support, drawing tools, event-driven interactivity, and support for video and audio. However, Sparkle’s 3-D capabilities are stronger than those of Flash, as is its ability to access native code such as C++ for complex applications.

Does Microsoft really have a product that could rival Flash? The company has ignored multimedia content creation for some time, and Microsoft certainly has a history of squashing competitors when it moves into a new market—just ask Netscape.

But supporters of Flash need not worry. Sparkle Interactive Designer will not be on the market until the third or fourth quarter of 2006, and—importantly—Sparkle applications will run on only computers with Windows Presentation Foundation installed. Today, that qualification rules out pretty much every computer on the planet because this foundation is a part of the forthcoming Windows Vista operating system that will not reach the market until at least the end of 2006.

For Microsoft seriously to consider killing Flash, it first has to move a critical mass of PC users onto Vista. In the corporate world—where most eLearning players focus—many organizations are still running large numbers of Windows 2000, Windows 98, and even Windows 95 PCs. The transition to XP has been slow and painful, and the transition to Vista

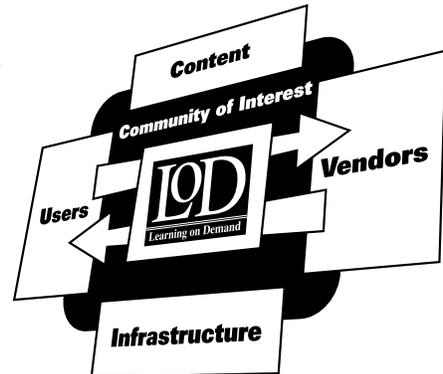
could be even worse as IT departments are increasingly questioning the ROI of operating-system upgrades. It could therefore be as late as 2010–15 before Vista and its successors gain critical mass in the corporate world and Sparkle becomes a viable deployment platform for eLearning. That delay buys Adobe and Macromedia quite some time to rise to the challenge.

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- LoD system developers receive information about the factors driving or constraining market demand for LoD systems.

For more information about the Learning-on-Demand multiclient research program, contact:  
 Eilif Trondsen, Program Director; etrondsen@srict-bi.com  
 333 Ravenswood Avenue, Menlo Park, California 94025-3476  
 Telephone: +1 650 859 4600  
 Or visit our Web site: www.srict-bi.com.



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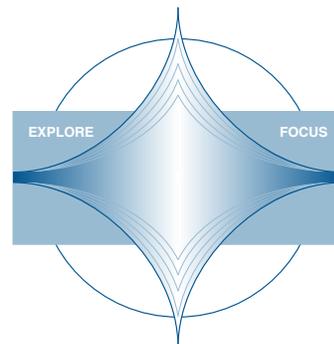
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