



# LMS's 2008: What You Need to Know

## CONTINUED GROWTH WILL BE FUELED BY THREE PRIMARY FACTORS

BY CHRIS HOWARD

The LMS market has grown considerably over the last few years, because organizations of all sizes now realize that they need some form of learning management solution.

In 2004 (when Bersin & Associates published its first report on the U.S. market), we forecast LMS vendor revenues at \$380 million. In 2005, the revenues increased to \$480 million. In 2006, despite consolidations and mergers, the market reached approximately \$583 million (see Fig. 1). This article explores some of the underlying business drivers behind this growth

and the implications for both buyers and solution providers.

The LMS market is still growing steadily, although this growth has slowed slightly from 26 percent last year to 21 percent this year. The slowdown in the market is due partly to saturation in the global enterprise market and some commoditization of learning management systems, as vendor feature sets have become more and more similar in recent years. This is still a buyer's market; multiple vendors compete for most contracts, putting pressure on vendors to keep pricing moderate.

We forecast continued growth in the LMS market, fueled by three primary factors.

>> Key corporate personnel now clearly understand the important role of learn-

ing management systems. E-learning is no longer something new — it is a daily part of the life of a training professional. In fact, a recent study showed that nearly 30 percent of all formal training hours are now delivered through self-study online or virtual classroom methods. Today, compliance training is critical to most large businesses. Cost often justifies the LMS purchase, as the LMS is critical to managing and tracking these programs.

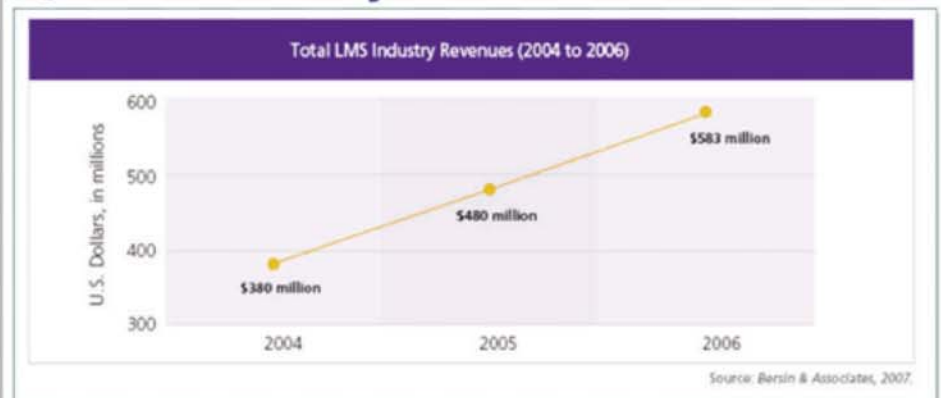
Our research continues to point out that the LMS has become far more than an administrative tool for training; well-implemented learning management systems can improve corporate effectiveness and efficiency by 25 to 35 percent.



>>> Training is of increasing importance in the changing U.S. labor market. In 2006, total spending on training grew by 7 percent, the highest growth rate in years. This growth is fueled by the dramatic needs for talent in U.S. corporations. Demographic changes, the aging workforce, and changes in the profile of U.S. education have created talent shortages in most organizations. As it's no longer possible to "hire skills," they must be developed internally. This increase in skills-building has created what we call "talent-driven learning organizations," which focus on organization-wide talent issues, not just individual workers' skills. This increased focus and new spending demand the use of a corporate LMS.

>>> LMS systems themselves are evolving. Nearly every LMS vendor has developed a new set of capabilities for performance management, succession planning and competency management. Vendors understand the new market for talent management solutions, and the LMS is taking on an

**Fig. 1 LMS Industry Growth**



ects take years to cost-justify and complete, and we believe this consolidation will continue for years to come.

The enterprise market (large organizations with employees primarily located in one country) is growing very significantly. These enterprises also have multiple LMS's, but they tend to have only one corporate training system. These companies may use a platform from SkillSoft (or one of the other midmarket players in sales or

often start their journeys into the LMS market through a single training program or program area (like sales training, customer training, partner training or e-learning for compliance). This market is growing at a rate of more than 40 percent per year, and most LMS vendors have made major changes in their business models to reach this market effectively.

**LEADERS, SPECIALIZED VENDORS GAIN MOMENTUM**

At the same time, the LMS market has grown and matured rapidly. Today, the level of technology and features in LMS systems can be overwhelming. They include, among other features:

- >>> classroom scheduling and resource management;
- >>> e-learning management
- >>> content management
- >>> customizable portals
- >>> domain management
- >>> certification management
- >>> e-commerce
- >>> configurable course catalogs
- >>> competency-based learning
- >>> analytics

This rich feature set has created a significant barrier to entry. In fact, the number of LMS vendors in the market is stable for now but will likely continue to shrink over the coming years. Seven vendors now command more than 50 percent of the market. We believe a shift is under way toward a market of "leaders" and "specialized vendors." The leaders each have market shares of 4 percent or greater in terms of revenues and customer bases of 200 or more; the specialized vendors tend to have

**The fastest growing segment of the LMS market is midmarket organizations with between 2,500 and 10,000 employees.**

increasingly important role as the hub or core of an integrated talent management platform.

**CONSOLIDATION + ADOPTION**

Most vendors have tried to focus on the global enterprise market (large organizations with global operations), so it is the most penetrated. Our research indicates that as many as 70 percent of U.S. global enterprise companies already have some type of LMS. These organizations typically have multiple LMS's, many of which are outdated and poorly used. In this market, there is a clear trend toward consolidation and the adoption of an enterprise-wide global platform. These consolidation proj-

customer training), but would like to consolidate these into a single corporate system. We believe this market is growing very rapidly and is still under-penetrated.

Finally, the fastest-growing segment of the LMS market is in midmarket organizations (companies or departments serving fewer than 10,000 learners). These are smaller, often fast-growing companies with highly focused, expert training organizations. They often do not have a lot of IT support but realize tremendous value from an LMS. These organizations have many of the same complex needs as enterprise buyers, but their budgets and support staffs are far less. They tend to favor an on-demand or hosted solution, and they will

smaller revenues and focus on specific markets or geographies.

In addition, the enterprise resource planning (ERP) vendors Oracle and SAP remain serious about the LMS market and continue to grow, focused primarily on the global enterprise marketplace. We believe neither company has the focus nor the expertise to dominate this market; most companies purchase LMS's from Oracle (PeopleSoft) or SAP because they have already made a significant commitment to that ERP vendor's technology, and they are willing to accept an LMS with somewhat less functionality than one available from a more focused vendor.

In addition, because of the growth in the talent management market, almost every LMS vendor has announced or shipped a suite of additional functionality for performance management, succession planning and competency management. This has created a flurry of partnerships and potential mergers with talent management vendors partnering with and seeking to buy LMS vendors.

The challenge for LMS buyers is the complexity of the choices. Buyers can purchase an LMS independently and focus on the best possible solution for training. Then later, they can integrate this system with the performance management and succession planning systems, or they can buy an integrated suite (typically from an LMS vendor) and possibly live with less functionality in performance management. We believe the market is moving toward the latter solution, but not at a very fast pace.

While we believe strongly that integration between learning and performance management is a vital strategy for talent management, most companies do not implement LMS and performance-management systems at the same time. In fact, each is complex enough to take one to two years to roll out. We recommend that you consider such

integration potential as you select your system, but still focus on the right vendor to meet your immediate needs.

#### **OTHER TRENDS**

At the same time, there are other trends in learning and development organizations that will have an impact on technology purchases. "Learning on demand," a term

used to describe learning resources (of any type) that can be quickly and easily discovered, is becoming a reality for organizations, both big and small, that need to respond quickly to changing business needs. A component of learning on demand, social learning, is also being implemented by some training organizations. Both of these systems require their

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own technology and process investments that need to be considered in the context of the overall learning technology strategy. These are separate technology applications in and of themselves and will not be adequately addressed by LMS vendors.

These trends will continue to ensure that the LMS market evolves over the coming years. Both advances in technology and the changing purpose and structure of the training organization will drive much of this evolution. In addition to serving as a catalyst for business performance improvement, training departments will emerge as a key component of an overall talent management strategy rather than only as a producer and administrator of training.

The convergence of learning and performance management systems is still in its early stages. However, we believe that these two important business functions will ultimately be combined as organizations address the growing talent shortage taking place in many industries and organizations sizes. This evolution will continue to impact the LMS market as buyers and solution providers rationalize an ever-changing landscape. <sup>③</sup>

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