The State of the Training Industry: Are you prepared for what's coming next?

**Predictions for 2008

Doug Harward

At the beginning of every year, industry analysts and prognosticators work diligently to predict how various markets are going to change for their respective businesses. Well, the training industry is no different. What makes predictions for the training industry especially challenging is the high level of volatility of the market. How many times have you heard someone say that the first two things that corporate executives cut in down economic periods are travel and training? When the economy is good, companies spend more for training. When the economy is down, they do the opposite.

Since 2003, the large international training companies have experienced their highest growth ever. Compounded annual growth rates (CAGR) of over 20% have been common. News stories reporting consolidation and acquisitions of some of the most successful training companies have been frequent and the training business process outsourcing (BPO) segment has seen strong growth. Growth rates of training BPO services have been increasing at greater than 20% per year. The finance and healthcare training sectors have experienced some of the strongest growth. Compliance programs continue to drive the need for training for new entrants to these professions and continuing education programs are often mandated for incumbents.

Most recently though, spend for corporate training organizations has begun to slow. In 2007, the overall training industry grew at a rate of 6%. The training market in the U.S. reached more than $130B in 2007 and the global training industry is now coming close to $500B. The biggest international growth areas have been China ($72B), Europe ($80B), and Russia ($22B).

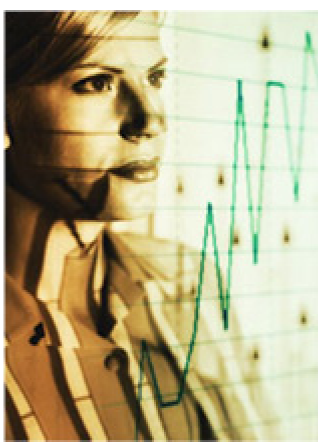
Will the next few years be the same? 2008 looks like it could be a year of transition. Economists are predicting a slowdown in U.S. economic growth – and some suggest the possibility of a recession. Will this result in a slowdown in the growth in the training industry? Or, should we expect to see something different?

It's my opinion that the drop in consumer confidence and concern over a recessionary market may ultimately effect the training market.

Executives of many of the large training suppliers are beginning to talk about a weakening market. The general perception is that companies will be slowing spend for employee learning this year as fears of declining profits and revenue growth from previous years loom.

But, consider this. According to a Standard and Poor's report published January 9, 2008, earnings per share (EPS) growth for 2008 is projected to be 15.6%. I'm a believer that earnings growth is a leading indicator of spend for training services by S&P 500 companies. If the S&P performance projection holds true, be wary of the media reports on the economy. We may just see another solid year. *****My conservative estimate is that total spending on corporate training services will remain flat compared with 2007 levels.*** I expect the first half of 2008 to be slow, but the second half of the year will see a rebound to levels that we have become are used to. Let's hope that business leaders see the upside on the horizon and avoid significant cutbacks in the short term.

If the training market does slow, who will take the biggest hit? Our research shows that when there are down economic cycles and large corporations reduce spend for learning, the smaller training vendors generally take the biggest hit. To achieve budget reductions, the first thing Training Directors typically do is reduce the number of course sessions delivered. For example, if course X has typically been scheduled for 10 sessions per year, the prudent Training Director reduces the total sessions to seven to reduce expenses. Many of these programs are delivered by local niche training providers thus reducing the revenues for the smaller companies. Corporate relationships with larger training service companies, like the top learning BPO companies, have a more strategic imprint and spend is usually more stable even during hard times. These larger training providers are better able to weather an economic storm.



This leads me to a bit of good news. Because the training BPO companies are strategically better positioned with their customers and because corporate executives continue to look for ways to move training costs from fixed to variable expenses, we can expect training BPO engagements to continue to grow at a hefty rate. *****My conservative estimate for 2008 is a 12% growth rate for the training BPO market***. Many believe, including me, that training BPO growth is inversely correlated to the earnings per share (EPS) growth rate of S&P corporations. If EPS growth declines, BPO activity accelerates; if EPS increases, BPO activity slows.

This drive by corporate executives to improve the bottom line and transform how they manage talent and resources leads to my next prediction. My conversations with CFO's, COO's, and procurement executives from Fortune 1000 companies leads me to believe we will see much more integration of HR, training, and finance functions in how they manage and source talent. Frustration in how we effectively recruit, manage, retain, and develop talent using a decentralized approach is growing. The solution requires creative alternatives involving all of the functional areas in the human capital management process coming together. *****My prediction is that the HR, training, and finance***

organizations will become much more interdependent in the talent management processes and we will see more talent management-based BPO engagements in the future.

A common topic of many executives has been an upcoming talent shortage due to the baby boomer effect. We believe that these discussions will continue but we also believe that the problem is way overstated – and one that is improperly focused. The baby boomer effect was not created in one day and will not become a business crisis in one day. The baby boomer population growth occurred over an 18 year period. This means that boomers leaving the workforce will occur in a pattern similar to how they entered the economy. In other words, it's going to take 18 years for us to experience the full effect of the baby boomers leaving the workplace.

We believe the bigger business issues relating to boomers leaving the workforce is how we will continue to get access to talent and how we will manage that talent. The transformation to a global workforce is already under way. Companies are solving the talent access problem by going global and getting skilled labor wherever it is available. Collaboration and telecommunications technologies allow us to have employees anywhere in the world. So, how do we recruit and train employees in a global workforce? This is the challenge facing the training industry.

I refer to this debate as ***"Global Learning",*** similar to that of the growing Global Warming discussion. Global Learning solutions involve the integrated business processes of HR, IT, Finance, and Training. Use of Web 2.0 methodologies and synchronous and asynchronous delivery tools will effect how employees and customers learn. Growth in the localization and translation of content will effect how employees and customers can access learning simultaneously in diverse markets.

We believe the biggest change ahead related to learning technologies may be in how we simulate real world environments. In the 90's, technologies used for movie making got repurposed into the sports and entertainment games market. Now, the same technologies are being repurposed for the government and corporate market for the use of simulation based learning programs. This is possible because the economics are changing for simulation based learning. In the past, we either needed large numbers of students to justify expenditures in simulation learning programs, or we did it because there was a high "cost of failure" that we wanted to avoid. As these technologies become more commonplace, the cost of developing and delivering content will come down and the use of these technologies will increase.

This market segment is also seeking a new identity. "Serious gaming" has become the term referring to the use of simulation based learning programs in the corporate and government sector. *****My prediction for 2008 is that the use of simulation based learning or "Serious Gaming" will accelerate.*** This will occur as the cost per student interaction comes down. This means that the economics will improve and these technologies will become more practical in learning applications. This should be good news as the younger generations, who are more comfortable with using these technologies to learn, enter the job market.

This type of technology will also drive consolidation and acquisition activity in the training industry. Investors in training companies have always found technology based organizations more attractive than service based companies. *****My prediction is that 2008 will begin a several year cycle of strong investment in simulation-based learning companies***. It will mirror what we experienced in the late 90's for LMS/LCMS companies. I expect that most of these companies will be focused on the healthcare, financial services, and government sectors.

I also predict that 2008 will see acceleration in the adoption of Web 2.0 methodologies in learning organizations. This will occur because learning professionals are becoming more knowledgeable about 2.0 strategies and are catching up with the web development world in how to incorporate them into mainstream platforms. Expect updates to many of the existing products and LMS's to follow. The concept of the web-as-a-participation platform will become mainstream for learners.

*****The last and one of the most important predictions for the future of learning is the further integration of training with marketing organizations.*** We live in a litigious society and the costs of failure regarding the use of our products continue to rise. Since more and more products are now technology oriented, the need for training on how to use, maintain, or service these products will continue to grow. Of course customer training has been around for a long time. But the biggest change is that learning and marketing functions are becoming much more in tune with how to document the completion of the training for legal purposes.

Traditionally, practitioners in the training industry have thought of learning services as employee oriented. The reality is that companies spend much more money on training customers than they do their employees (58% to 42%). This fact has been hidden because the costs are often buried in marketing budgets and managed by non-training professionals. The requirements to comply with government or industry regulations and document proof that training has been provided for customers are bringing the marketing and training function closer together.

With all of these changes ahead of us, the long term future for training has many opportunities and more challenges. And, we're sure that you have an opinion on these matters. If you would like to submit your ideas for future articles, please send me an email at dharward@trainingindustry.com. The best way for us to learn is through each other. Your thoughts are always welcome and appreciated.

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