

LDN Market Barometer

1st Quarter 2009 and forecast for 2nd Quarter 2009

Introduction

This is the second of a regular quarterly report into the state of the IT training market produced for the members of the Learning Directors Network. The data is drawn from a number of leading training providers representing more than 40% of the third-party IT training market.

The report, compiled by Pardo Fox Ltd, is based around a series of index numbers indicating ***growth or decline*** of various slices of the market, not absolute numbers or volumes. The scale ranges from +50 to -50, where 0 represents neither growth nor decline, and +50 represents growth in excess of 10% and -50 represents decline in excess of 10% compared to the same quarter in the previous year. Revenue refers to training delivered in the quarter and not bookings for future courses.

All data shown in this report pre-dating Q4 of 2008 was compiled using the same methodology and is the copyright of IT Skills Research.

Note

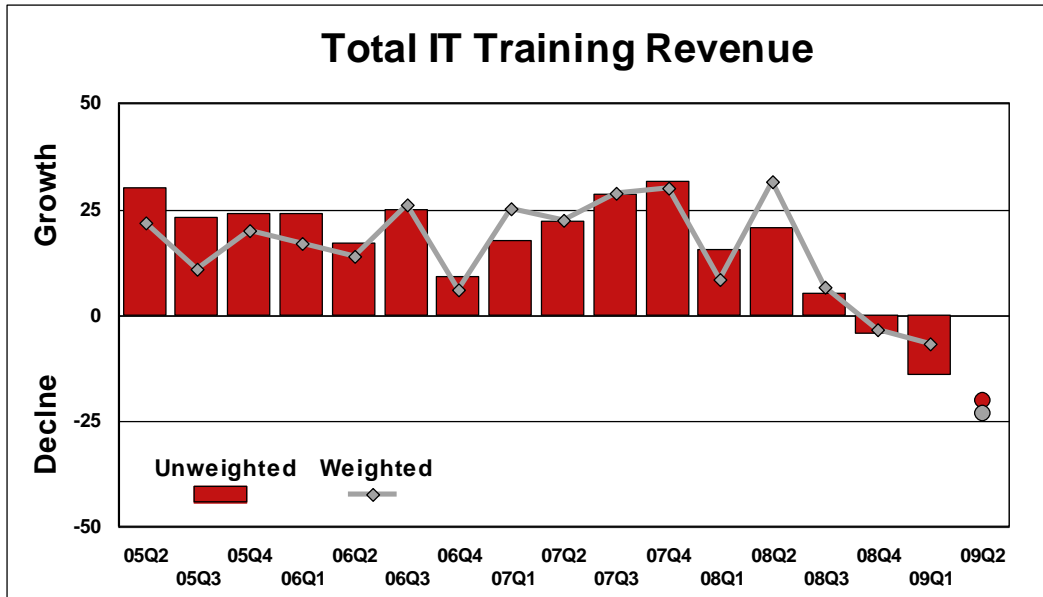
After discussions with interested parties, the section of this survey that was previously called “E-learning” was renamed (or replaced with, depending on your point of view) “Learning Technologies” in order to reflect the growing use of technology in the teaching of IT and in its wider use for managing learning. The “Total IT Training” index is therefore different in composition from all prior versions – ILT accounts for approximately 80% of revenue in this survey compared to approximately 90% in previous ones - but not so much as to make comparisons invalid.

Overview

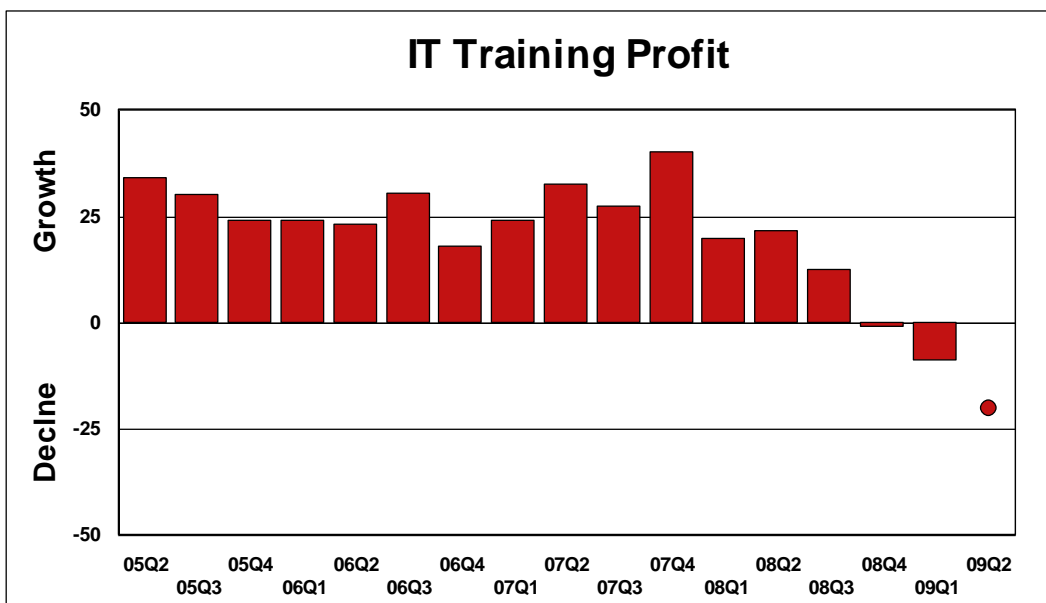
Given the general state of the economy and last quarter’s forecast, the IT training market is unsurprisingly showing a second consecutive quarter of negative growth – meeting the generally accepted definition of an industry in recession. The outlook for the current quarter is even bleaker with two-thirds of the respondents predicting a decline in revenues compared to Q2 of 2008 – and

most of these expecting a decline of more than 10%. As always, a few companies managed to buck the trend and reported some growth in Q1, but even they are pessimistic about future sales.

The chart below shows how total IT training revenue has grown quarter by quarter over the last five years. The solid bar indicates the average growth index of the contributing companies; the line shows the index number when due allowance has been given to the relative size of those companies. In the main, the larger companies were growing more slowly than the smaller ones for the first two years, but then matched and occasionally exceeded the smaller companies' growth rates for the next three years. The dots in the 09Q2 column indicate the forecast rate of decline compared to the second quarter of 2008.



The index for training company profits closely follows the pattern of total revenue:

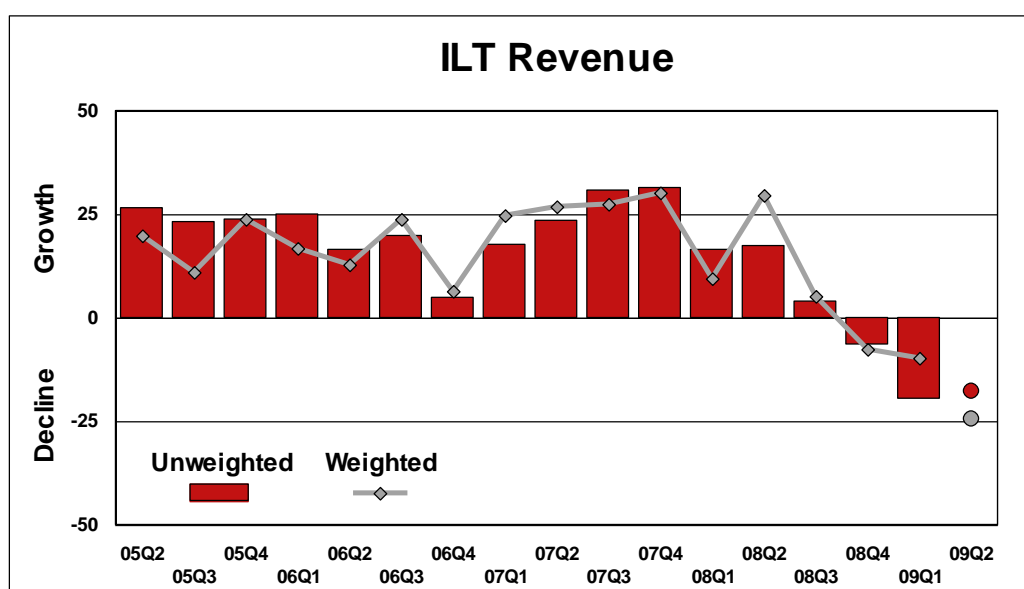


There is no weighted index for profit.

Instructor-led Training

The continuing decline in end-user training, which has been the worst performing area for the previous three years, suddenly appears to be negligible as the more valuable technical and soft skills (personal, professional & business skills) training courses take a major tumble. The index for soft skills has not been negative since the industry started its climb out of recession in 2004 – indeed this area was recording growth a year before technical training started to grow again.

ILT revenues from public courses suffered more than on-site (one-customer) courses, and for more than one of the contributing companies, on-site revenue was actually growing compared to last year while public and total ILT revenues were falling.



Instructor-led Training Indices	4Q08	1Q09	2Q09
End-user	(6)	(2)	
Technical	(2)	(23)	
Personal, Professional & Business skills	7	(14)	
Public (scheduled) courses	(14)	(20)	
On-site (one-customer) courses	(2)	(15)	
Total ILT Revenue - unweighted	(6)	(19)	(18)
Total ILT Revenue - weighted	(7)	(9)	(24)

Learning Technologies Revenue

There is a significant difference between the weighted and unweighted index numbers in this category. For the majority of the respondents to this survey, revenues from learning technologies represent only a small percentage of their total revenues (as did *e-learning* before) and for these companies, they have followed the same trend as ILT revenues – in this case generally downwards. For some of our contributors, however, this is their main or only business, with combined revenues exceeding those of the more traditional companies' technology revenues. These companies reported relatively strong growth in Q1 of 2009, although they are not so bullish about Q2.

Under the new definitions:

Generic Content includes generic courseware, templates, and models

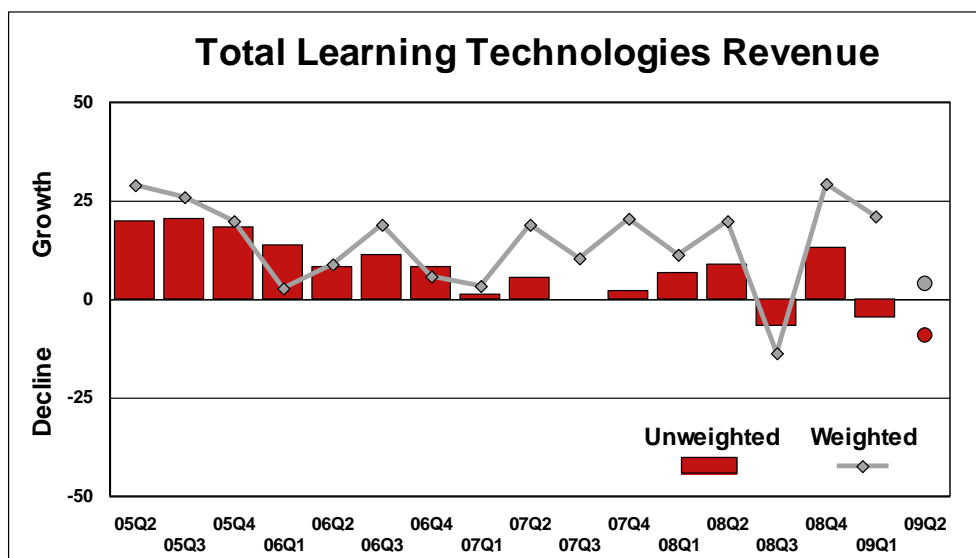
Tools includes authoring, performance support, virtual labs, simulation, collaboration, modelling, and assessment tools

Infrastructure includes LMS/ LCMS/CLS, enterprise content management, performance management, competence management, e-skills portfolio management, social networks

Development: the facilitation of client content and bespoke development of solutions using learning technologies

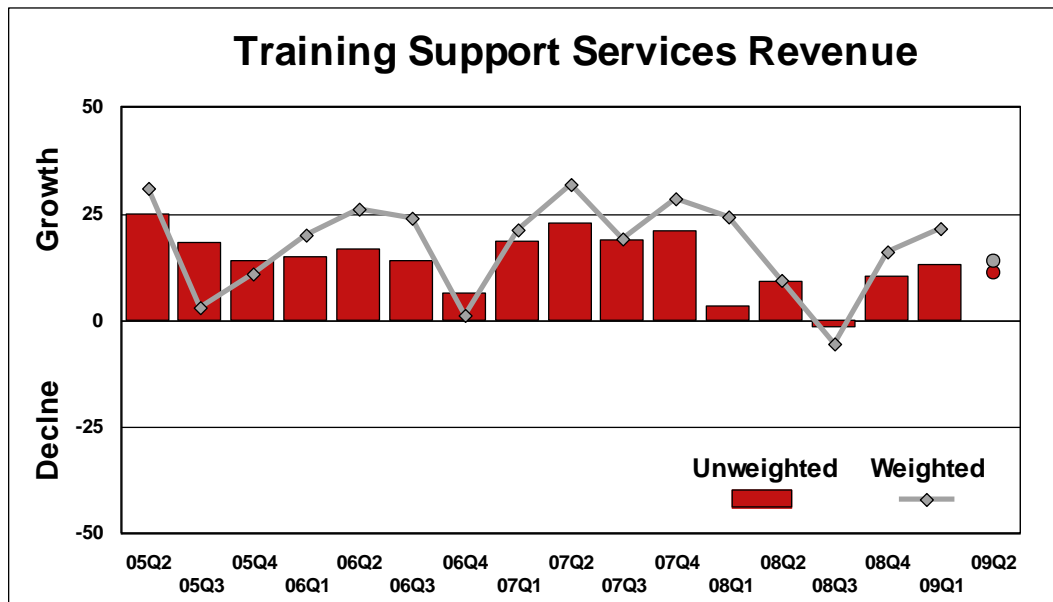
Consultancy: services that support the client in the application of learning technologies - includes strategy, vision and direction, engagement models, advice and guidance.

Learning Technologies Indices	1Q09	2Q09
Generic content	(5)	
Tools	8	
Infrastructure	(2)	
Development	6	
Consultancy	7	
Total Learning Tech Revenues - unweighted	(5)	(9)
Total Learning Tech Revenues - weighted	21	4



Training Support Services

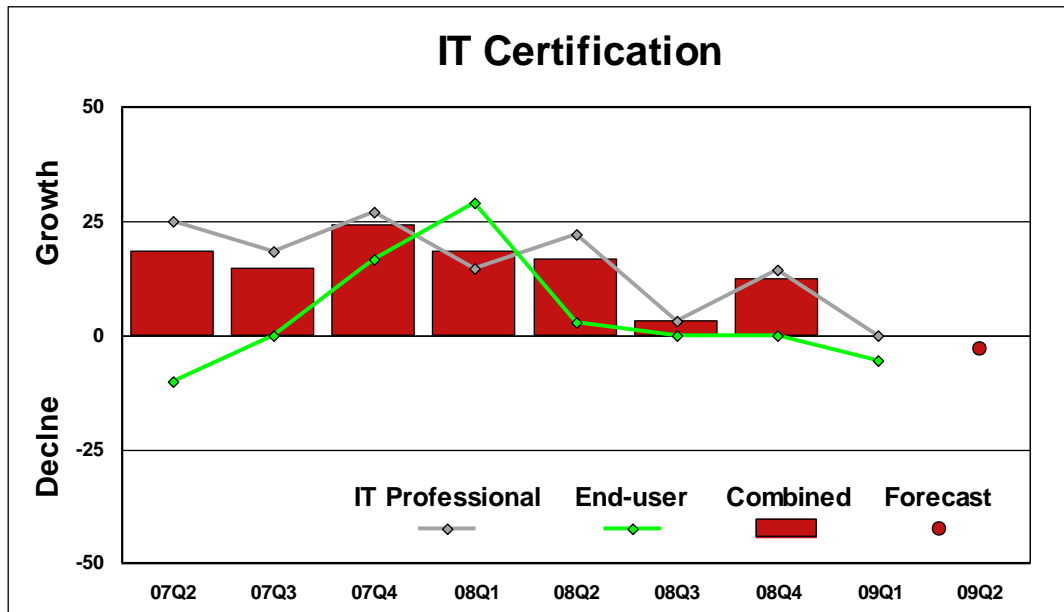
The market for training support services is proving to be rather more resilient than the rest of the market. The small decline in Q3 of 2008 has been followed by two quarters of modest growth, and the forecast for the Q2 of 2009 is for that growth to continue.



Training Support Services Indices	4Q08	1Q09	2Q09
Outsourcing and MTS	13	19	
Pre- and post-training consultancy	14	15	
Total TSS Revenues - unweighted	10	13	11
Total TSS Revenues - weighted	16	22	14

Certification

The market for IT Certification has gone flat, and end-user certification is showing a small decline from last year.



IT Certification Indices	4Q08	1Q09	2Q09
IT Professionals	14	0	
End-users	0	(6)	
Total Certification	12	0	(3)

On the next page are some of the comments from the contributors to the survey.

How do you see the current economic downturn and the latest budget affecting your business over the next 12 months, and what are your thoughts on the current state of IT training market?

“Early part of Q1 was bad; things are picking up”

“Harder to get visibility of the future but at the moment expect a flat year”

“Business decisions continue to be delayed but our services are in strong demand”

“Difficult but still some big projects available”

“Tough market, particularly for classroom training. Tools and LMS pipeline surprisingly strong at present.”

“Less public [course] spend, more project-related spend. 2009 is about survival, and making sure the business is in position to grow when the opportunity arises.”

“Economic downturn is having clear effect. Last 2 quarters were down, but more marked decline since new financial year.”

“Rate pressure means margins are being squeezed. Clients are looking to cut costs where they can. I don't see this pressure easing before Q1 2010.”

“The current market is affecting decision makers and causing sales cycles to take longer. There is more reluctance about decision making for training and the associated travel and subsistence costs.”

“Market is tough. However, we see larger customers looking to invest in training. Overall the number of orders is lower though large value sales are more common compared to this period last year.”

“The outlook is bleak. I expect the current levels of business (i.e. low) to continue and later improve. I don't expect it to get worse month on month.”

“Buyers are less likely to park large training budgets a pre-pay. IT Training market seems to have held up fairly well, but there is certainly more pressure in the recent months.”

“We are not seeing major differences from 2008 - couple of project delays - but nothing has stopped or been cancelled - yet.”

“Optimistic about 2009 as we're starting to see an upturn in sold courses and some larger deals being landed. The reduction in supply (i.e. New Horizons/Parity) and the rumours about QA's numbers rapidly decreasing plays into the hands of the rest of the market.”

“Public business is struggling by comparison. The Budget has had little effect.”

“Badly - sales seem to be down about a third”

“Customers are generally delaying or cancelling business critical projects, with a knock on effect to training. Projects are needing quick return on investment, nobody is investing in the future.”

“Customers seem happy to accept lower value offerings in return for cheaper costs - not good for a vendor training provider.”

“We are finding the market the toughest we have for many years. Our Q1 was excellent, our Q2 the exact opposite.”

“Whilst Q1 was strong for us, Q2 is looking to be far more challenging.”

Other comments

In response to the question “Have you noticed any recent or unusual changes in the way your business is generated, such as enrolment patterns, sudden growth or decline in certain topic areas, and if so which ones?”:

“Classroom training significantly down overall. Some upturn in interest for live online training.”

“Bookings are all last minute: of the courses sat in April nearly 50% of these were booked in April.”

“Enrolment cycle has shrunk considerably and we are also seeing late cancellations and rolling bookings forward.”

“Individuals are responding to our contacting them. We are not as able to sit back and wait for orders to come in.”

“Much shorter purchasing cycle”

“Later bookings and less tailored training”

“Fairly consistent across the board - although there is a lack of demand for Server 2008 product training”

“Late booking”

“Shorter term buying cycles”

“Massive increase in bespoke (Non-IT related) e-learning projects”

“Buying commitments are taking longer.”

“Scheduled courses are running with fewer delegates; buying patterns are changing; decisions are being taken later and later.”

The outlook

The charts below show the index numbers for the past nine years, taking in the recession of 2001-2003. There would appear to be parallels to be drawn between the start of that slump and what has happened in the past three quarters – a rapid fall from steady growth to decline – but the difference this time is that the smaller companies appear to be suffering more than the larger ones at this stage (the weighted average index is higher than the unweighted one).

The New Horizons franchise appears to be one of the first casualties of this current downturn, and no doubt there will be more to come, but lessons will have been learnt so we hope that the next year or so will not to be too painful for this vital industry.

