



Institute of IT Training

# IT TRAINING INDUSTRY MEGATRENDS: JANUARY 2009

The annual report on the training industry for the members of the IITT's Learning Directors Network





## IT Training Industry Megatrends – January 2009

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## 2009: How will it turn out?

### OVERVIEW

Most Training Providers are facing a difficult business climate, whilst emerging skills issues present compelling opportunities for gaining increased market penetration. There has never been a more critical time to assess the impact of economy and skills trends on budgets, project plans and planning assumptions for 2009 and beyond.

### Key Findings

- Training budgets will be critically impacted by the economic recession – especially in the private sector.
- Companies that focus on the application of learning technologies will escape the ravages of the recession.
- Transactional decision-making will have a major impact on organisations that rely heavily on a direct sales force for revenue.
- Funding class-room-based facilities will be a major issue for providers that are over-reliant on high fill-rates.
- Organisations in the B2C sector will be among the “we’re not feeling it yet” companies.

### Recommendations

- IT Training Providers should maximise the opportunities they have to achieve downwards scalability.
- Strategic plans should be developed with key clients to ensure both optimum penetration of the account and stakeholder identification
- Opportunities to leverage the contribution of learning technologies should be maximised.
- There should be a focus on what is required to ensure survivability – and a commitment to deliver on issues that contribute to survivability.

### 1. WHAT YOU NEED TO KNOW

Making any predictions this year is a challenge; whilst the public sector looks strong, in the private sector prospects vary from isolated, through weak, to severely distressed. This paper anticipates eight key developments that are expected to unfold in the relatively near term (during the next two to three years).

In broad terms, our market is affected by four factors:

- The impact of technology;
- The approach used to transfer skills;
- The demographics of the learners; and
- The economy

But it is the latter that will have the most significant impact on the way in which your revenues, margin and cash finish at the year end.

## 2. STRATEGIC PLANNING ASSUMPTIONS

### **Strategic Planning Assumption #1: In 2009, more than 75% of training budgets in EMEA will be reduced by at least 20%.**

**Key Findings:** For some time now L&D managers have been gaining more visibility and clout as a consequence of the migration of IT Training from IT to L&D. However, many L&D Managers remain tactically focused on legacy projects that are not contributing adequate value. While such commitments were below the radar in an up economy, that is no longer the case. As the problems in the financial sector have morphed to the economy in general, organisations are focusing on survivability – and only those skills initiatives that are similarly focused will retain traction. Without accountability and survivability alignment, L&D will face budget cuts as the economy gets even tougher.

**Market Implications:** L&D Managers who focus on skills issues that do not represent value will be let go and will not be replaced. Instead, these companies will lose a large proportion of the L&D function until the economy rebounds. As a supplier to such organisations, Training Providers will lose business opportunities – even if it is already contracted.

**Recommendations:** Training Providers should rethink their value propositions to clients and ensure that they are adequately representing the value of the intervention within client feedback. You can't control the way in which your clients use this information – although you can influence it – but providing them with the data will empower them to build a value case (as opposed to a cost case) to their management. Building stronger relationships with key stakeholders in the business will minimize exposure if L&D is downsized. At the same time, the market for managed services will increase as organisations release their own staff.

### **Strategic Planning Assumption #2: In 2009, the proportion of the L&D budget that is applied to Learning Technologies (using IT to transfer skills) will increase by at least 30% in over 60% of cases.**

**Key Findings:** The pressure is on most L&D departments to deliver more for less; and the only way in which they can do that is to increase the proportion of their budget devoted to learning technologies. NB e-Learning is a "learning technology"; but "learning technologies" comprise far more than e-Learning.

**Market Implications:** Companies that over-rely on classroom revenues will be over-exposed in the down-turn and need to validate their value proposition with key clients to assess whether their position is sustainable.

**Recommendations:** Carry out a review to determine what your current delivery mix is and what you want it to be by the end of each of the next three years – and then set the tactics to deliver that mix.

**Strategic Planning Assumption #3: Through 2009/10, transactional short-term purchase will account for over 90% of buying decisions by volume and 75% by value.**

**Key Findings:** L&D managers use different sourcing strategies depending on the environment in which they operate and the expectations of both their stakeholders and the procurement department. In the last six months there has been a significant trend towards transactional purchases and this in turn reflects the average value of the sales transaction.

**Market Implications:** The great benefit of a direct sales force, over, for example, telesales, is that you can better understand the client's needs and can be more proactive in driving business. But a direct sales force is an expensive beast, and the impact of smaller value transactions and greater discounting (inevitable in a recession) will make it even more critical to clearly assess sales force productivity.

**Recommendations:** Maintain a constant review of sales force performance and be ready to conduct performance reviews on members of the team that aren't contributing. Ensure that the targets that are set are realistic and ensure that the sales force takes ownership of the numbers.

**Strategic Planning Assumption #4: The average value of the sales transaction will continue to decline through 2009/10 and will not recover to 2007 levels until 2013 (in real terms).**

**Key Findings:** This assumption is a direct consequence of the trend to transactional procurement decisions and has a significant impact on direct sales operations.

**Market Implications:** The trend to lower value transactions should mean that decisions are more constant throughout the year and that the Hockey-stick effect (a high percentage of the business in the last quarter) is reduced.

**Recommendations:** Use a best case/ worst case forecasting methodology over the full year and ensure that any excessive exposure in the last quarter is fully covered.

**Strategic Planning Assumption #5: By 2011, the content providers (e.g. Microsoft, Cisco, CompTIA et al) will have reduced the number of providers in their training partner programmes by 30%.**

**Key Findings:** When volumes are reduced issues of partner consolidation will become paramount and the content providers won't want to support organisations that aren't contributing significantly to their volumes!

**Market Implications:** Most providers now have some sort of tiering/ layers to recognise those organisations that are selling most of their product; make sure you're in the highest tier you can.

**Recommendations:** If the content supplier is critical to you, be prepared to invest time and effort in building the relationship; and if it isn't ...

**Strategic Planning Assumption #6: By the end of 2010, the proportion of the UK External Training spend covered by B2C will have grown by 25%.**

**Key Findings:** The compensation packages for redundancies, the pressures on outplacement services, an increase in freelancers, and the lack of job security will lead to a growth in privately funded training (i.e. the B2C sector). This area of the market will see modest growth in 2009.

**Market Implications:** If you're already in this sector then you can use it to offset exposure in other sectors.

**Recommendations:** The main problem with B2C is that it requires strong marketing and lead generation programmes; this is no time to cut the budget that is allocated to B2C!

**Strategic Planning Assumption #7: The proportion of revenues from Government Initiatives that influence skills will be constant through 2011.**

**Key Findings:** Government is clearly going to spend aggressively in an effort to get the economy re-started and the issue at stake is will this provide an opportunity for Training Providers? The Train to Gain programme does not appear to have been particularly successful and it was targeted at an economy that no longer exists! Admittedly this SPA is somewhat sceptical, but we have to start somewhere!

**Market Implications:** There will be lots of pump-priming – but in the main we will be secondary beneficiaries.

**Recommendations:** Don't take my word for it – keep an open mind and watch out for any initiative that looks promising; we'll be sure to cover it on LDN! And do look for any pump priming initiatives that have consequences on skills.

**Strategic Planning Assumption #8: By year-end 2010, classroom-based revenues will have dropped by 50% from 2008 levels.**

**Key Findings:** Forecasters have been saying that the end of the classroom is nigh ever since the 1980s! They've been wrong before but the issue is whether this recession makes it any different. The classroom will have its place in terms of entry level skills – but the demand for them will be significantly reduced over the next few years and that's the key factor behind the exposure.

**Market Implications:** The impact of lower fill rates, shorter term decisions and forecasting risk will create some critical decisions for the scheduling and administration part of the operation.

**Recommendations:** Re-look at your forecasting and fill-management models to see that they are optimised for the current conditions.

### 3. TAKE A LOOK BACK

It's a sobering exercise to look back at last year's predictions in the LDN MegaTrends report.

I have intentionally selected predictions from opposite ends of the scale — one where I was wholly or largely on target, as well as one I missed.

**On Target:**

**Last Year's Prediction:** The impact of green issues – 12 months ago this was low on most agendas; but what a difference 12 months can make!

**Missed Target:**

**Last Year's Prediction:** The impact of learning technologies on the L&D department – I was a bit too early on that one; but let's see what the attendance is at Learning Technologies at Olympia as a test as to whether this is the year!

Obviously I am more than pleased to help and discuss any of the issues outlined here – you can also use the **Members' Forum on the Learning Directors website** to discuss the issues with your fellow members.

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