



# Enterprise Learning 2006

*Trends, Focus Areas, and Predictions for 2006*

Josh Bersin

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## Enterprise Learning in 2005

This is the third year we have published our year-end review and forecasts for 2006. The goal of this report is to give our readers a summary of our perspectives for the year so you can think about major initiatives in 2006. Let us start this report with some brief observations of major changes that happened in 2005.

### 1. E-learning has matured

In 2005, the U.S. corporate training market made a major shift: e-learning matured. Although technology continues to play an increasing role in corporate learning and development, it is no longer a focus in itself. In fact, the e-learning market has become so big and broad that we no longer see it as a market in itself – it is now a tool being used for a wide variety of training and informational applications.

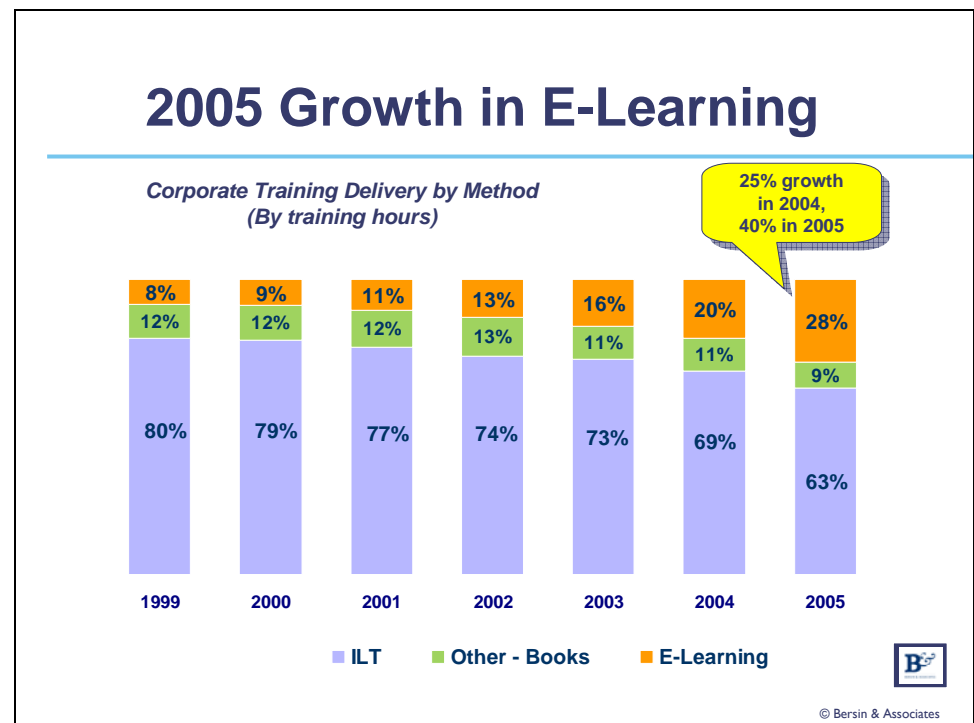


Figure 1: 2005 Growth in E-learning

The tremendous growth in e-learning that took place in 2002, 2003, and 2004 continued in 2005. Although we believe this growth rate will flatten we still see e-learning as a significant strategy and challenge in most training organizations, but it is no longer an independent initiative. In fact, we changed our research area definition of e-learning to enterprise learning.

No one questions whether e-learning is a good idea any more (at least not in the U.S.). We all know that the Internet is a

tremendous tool for instruction and information distribution – and corporations will continue to adopt many forms of e-learning.

## 2. Training budgets increased

2005 was the first year in many years that training budgets increased. Our research showed that most organizations had increases, and that the average increase was around 2%.

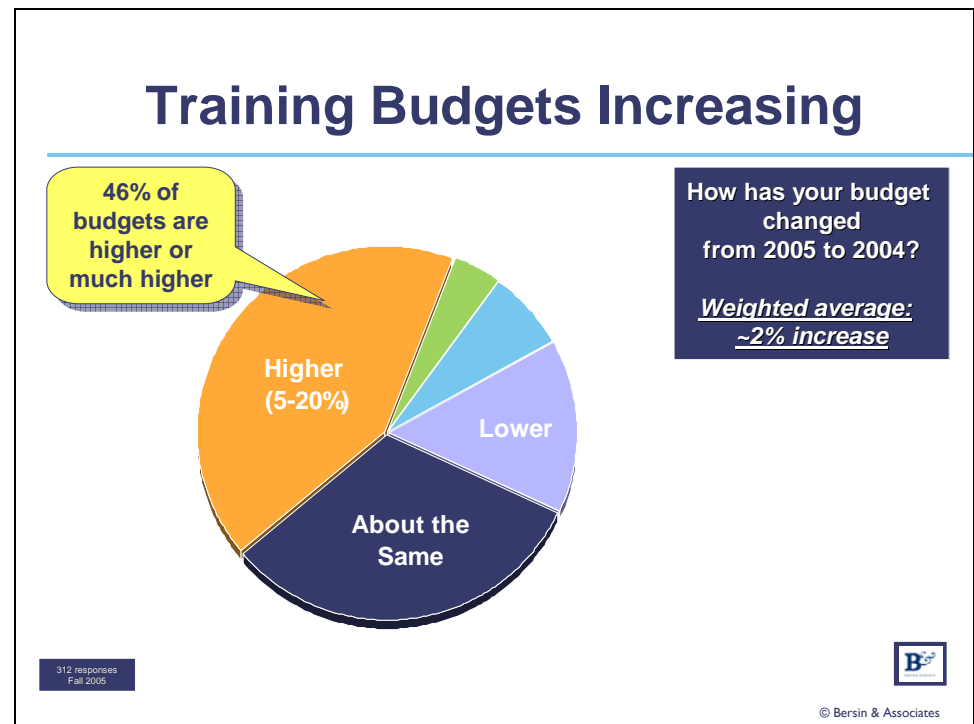


Figure 2: Training Budgets Increased in 2005

The largest single program area of spending continues to be leadership and management education, which is the top priority for one-fifth of all training organizations. These organizations are spending around 30% of their program dollars in this area. The second largest area continues to be professional and industry-specific training, followed by mandatory compliance programs. IT training has been flat to declining for several years, and we expect it to continue to be flat until Microsoft announces its new suite of Vista-related offerings.

Much of the spending increases went toward technology, which has changed the economics and nature of corporate training. This leads us to our next observation.

### 3. E-learning has changed the economics of training

Originally, e-learning was viewed as a way to reduce cost. We now have proof that e-learning does not really save money. The complexities of e-learning (LMS investments, tools, new staff, technical support) require a significant capital investment. In fact, our 2005 research shows that organizations spend upwards of 8-15% of their total training investment in technology – an enormous increase in the last few years.

What e-learning does do, however, is shift variable training costs into fixed costs. It reduces cost per student hour, enabling training and information to reach more people more often.

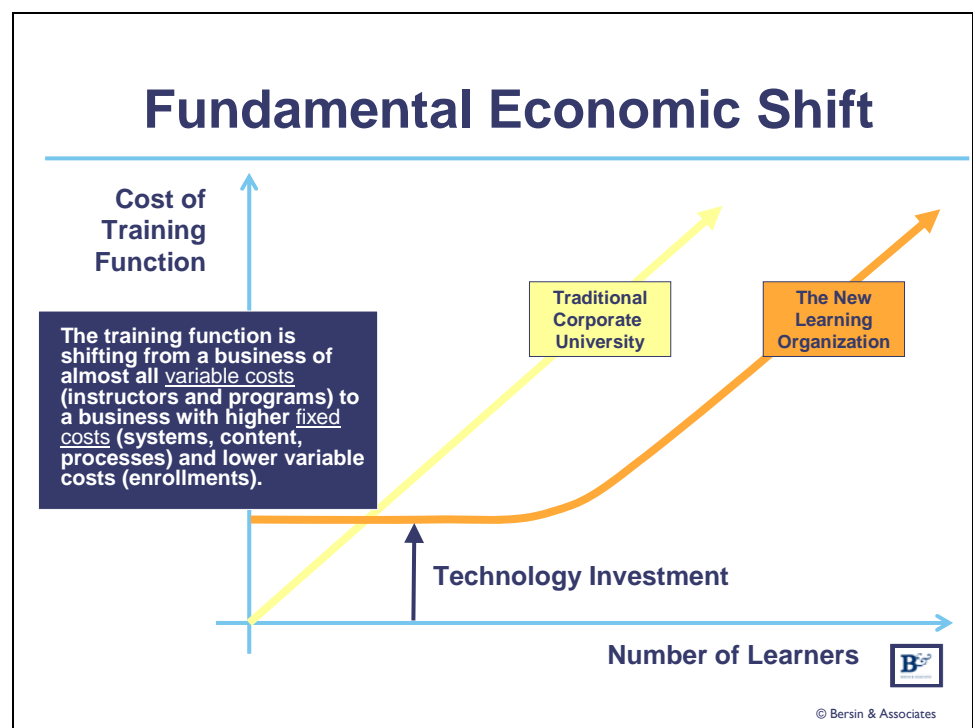


Figure 3: New Economics of Training

As Figure 3 shows, today's training organization (the orange line) has much higher fixed costs than the traditional organization but lower variable costs (cost per student hour). E-learning has turned training from a variable cost operation (each student takes a seat in a class) into a fixed plus variable cost operation (after building a course, many students can consume the cost for almost no additional cost).

The new fixed cost of e-learning (represented by the difference between the green bar and the orange bar in the far left of the chart) means that the economics of training has changed. In the new training organization, which we characterize in *The High Impact Learning Organization Research*®, some resources, such as

instructors, are replaced with new roles in technology, content development, measurement, and support.

## 4. Training organizations are changing dramatically

As we have described in our recent member Webinars, we believe that the Corporate University model is dying. This model, which is patterned after the traditional university, is being replaced by a new model, which we call the **Learning Services Organization**.

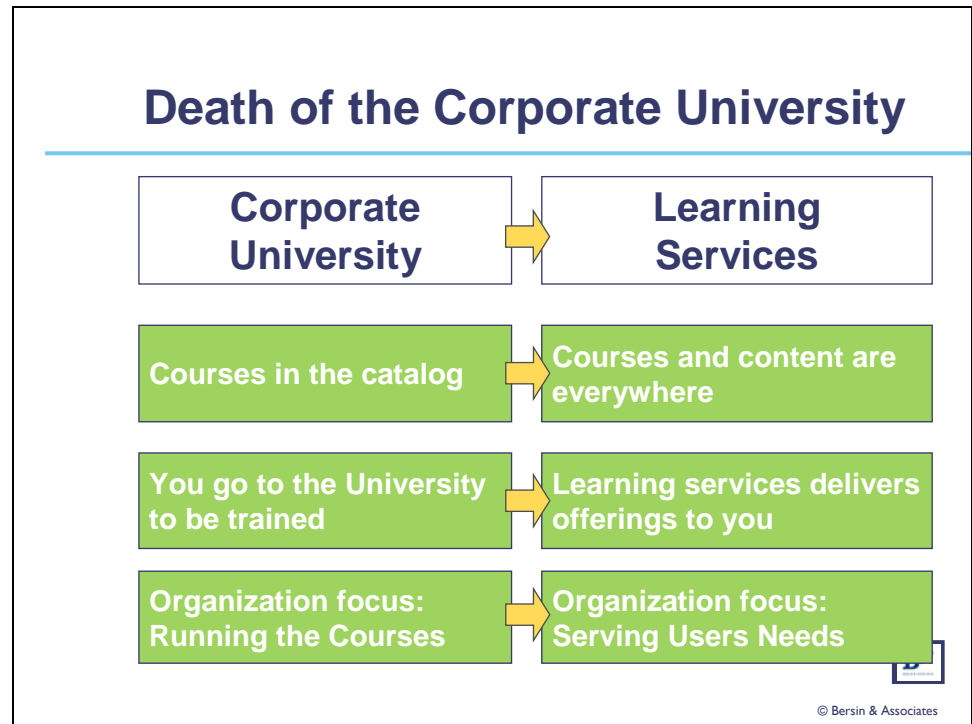


Figure 4: Changes in Training Organization

Learning Services is a service organization. Rather than inviting you to come to its courses, it delivers training, performance support, and consulting to you. Consider today's IT organization: it is a major evolution from the data processing organization of the 1970s and 1980s.

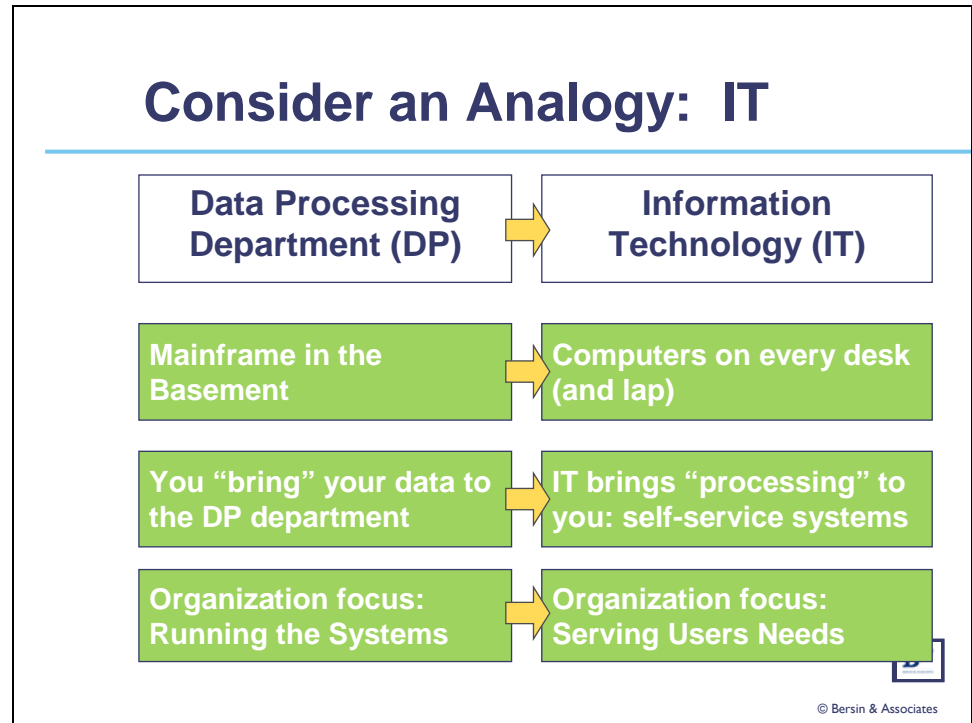


Figure 5: Data Processing vs. IT

The new organization, Learning Services, has changed the nature of the way training is organized, governed, and measured. For more information on these changes, we highly recommend you read, *The High Impact Learning Organization*<sup>1</sup>, our keynote research on this topic – or come to one of our **Building the High Impact Organization** workshops in 2006<sup>2</sup>.

Many important changes have taken place, including a whole new alliance forming between training and HR.

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<sup>1</sup> *The High Impact Learning Organization*<sup>®</sup>: *What Works in the Management, Operations, and Governance of Corporate Training*, available to research members or for purchase at <http://www.bersin.com/highimpact>.

<sup>2</sup> *Building the High Impact Learning Organization*, a Bersin & Associates WhatWorks<sup>®</sup> Workshop, is offered throughout the U.S. in 2006. For more information, go to <http://www.bersin.com/workshop>.

## 5. E-learning expands well beyond courseware

The definition of e-learning continues to expand. In 2005, we identified the four stages of e-learning, through our maturity model research, available at no charge at <http://www.berzin.com/stages>.

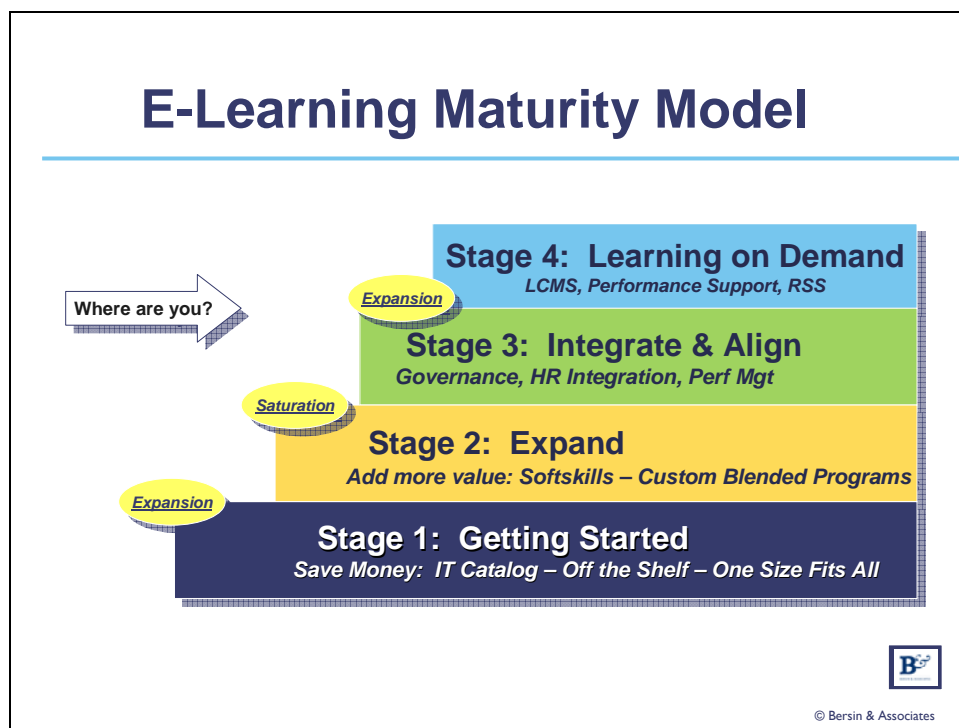


Figure 6: *The Four Stages of E-Learning*

Every organization goes through these stages. As they do, the definitions of online learning changes. What was an exciting new approach a few years ago has become mundane today.



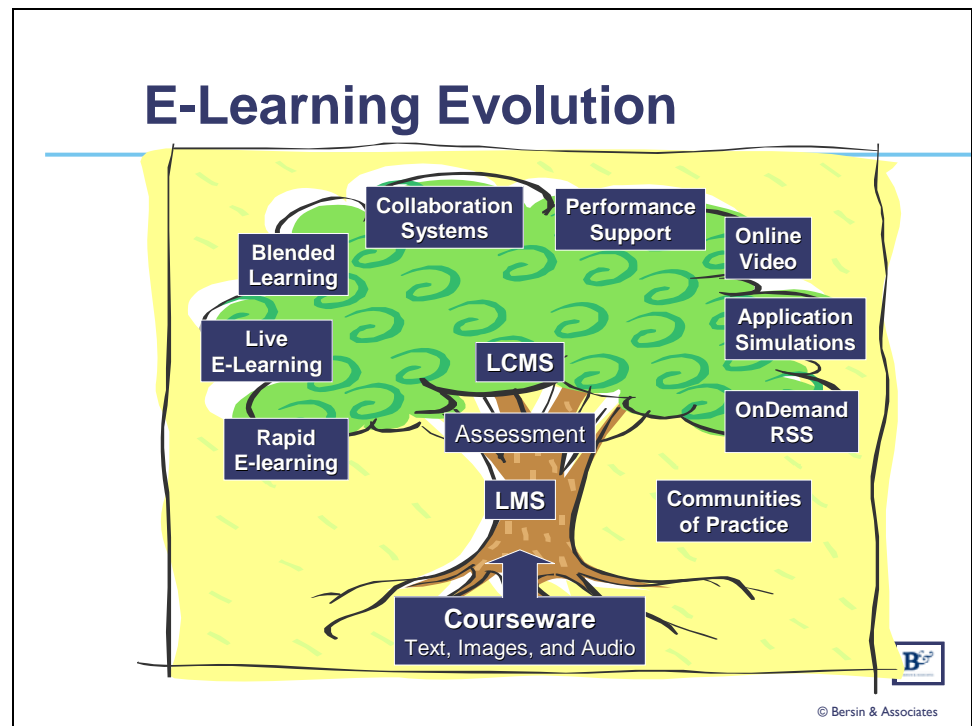


Figure 7: Evolution of E-Learning Approaches

As the figure above shows, the root of the e-learning tree was Web-based courseware. Now we see branches shooting off in many different directions. Dynamic media, such as video, audio, and simulations, which were nearly impossible to deploy efficiently a few years ago, have become common.

Big changes that took place in 2005 include:

- Widespread adoption of blended learning. More than 30% of courseware now is included in blended programs.
- Tremendous growth in rapid e-learning as an approach: Many forms of rapid e-learning are used today. We will discuss these in our predictions for 2006. Rapid e-learning has changed the way content development groups are organized.
- Major growth in the LCMS market. Most organizations in stage 2 and 3 (Figure 6) find themselves struggling with the issues of managing many courses of many kinds. Almost 40% of mature LMS buyers now are looking at LCMS solutions.

- The birth of on-demand learning, led by RSS<sup>3</sup> technology, enables learners to subscribe to content and podcasts. This includes the deployment of communities of practice – an area of research we will study in 2006.
- A realization that e-learning requires an extensible environment, with communities of practice, collaboration, and support by subject matter experts. As the following example shows, enterprise e-learning is now a learning environment, not a course.

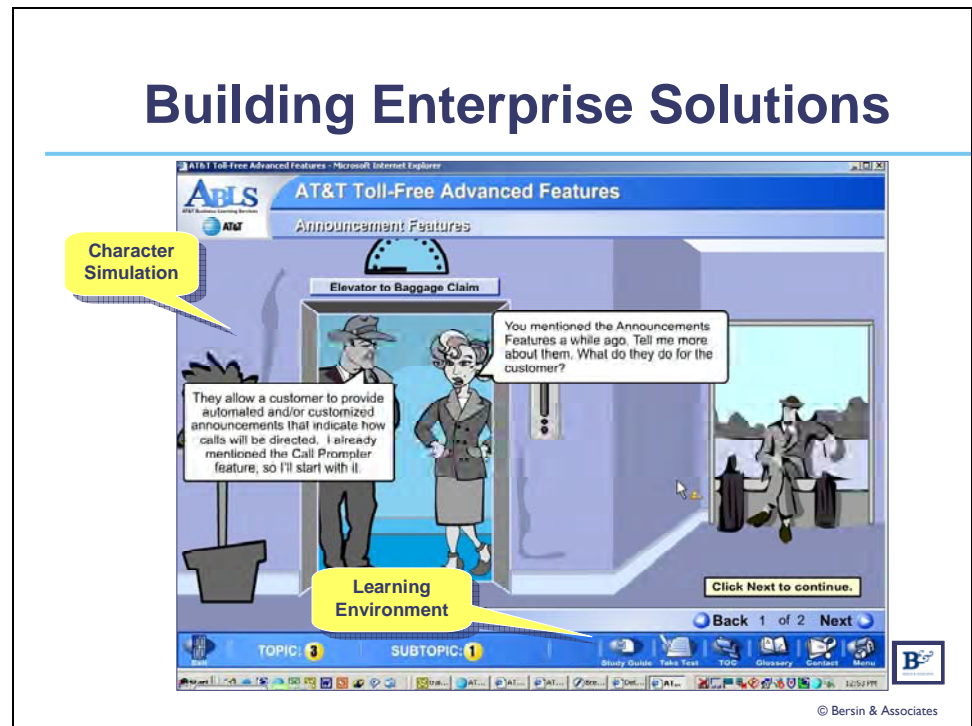


Figure 8: Enterprise E-Learning Environments

<sup>3</sup> RSS or "Really Simple Syndication" is a simple technology which enables users to subscribe to any web page or web document for easy notification when it changes or a new document appears. Podcasts use RSS feeds, for example.

## 6. The LMS market grows rapidly and starts to consolidate

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Interestingly enough, as our LMS 2006 report will detail, the LMS market has grown significantly in 2005. In fact, we expect it to grow even faster in 2006. Learning management systems now are well established enterprise applications and all major corporations are buying and consolidating their LMS investments.

This is not to say that learning management systems are easy to purchase and implement. Most of our benchmarking data shows that organizations spend 2-3 years or longer fully implementing their LMS – and the cost of implementation is going up not down. The reason for the increase in cost is not software cost, but rather the greater role that LMS play in the world of HR and training.

Consolidation in the U.S. market has been unrelenting. Oracle bought PeopleSoft. Saba purchased THINQ and Centra. SumTotal purchased Pathlore. KnowledgePlanet purchased KnowledgeImpact. We expect to see more consolidation in 2006.

Despite the consolidation, however, most vendors are growing. Every focused LMS vendor grew in 2005: CornerstoneOnDemand, GeoLearning, Learn.com, NetDimensions, PeopleSoft, Plateau, Oracle, and SAP all saw significant growth. We expect that to continue in 2006. Although 30-40% of large enterprises have one or more LMSs, most still are consolidating and switching, and the mid-market is read hot<sup>4</sup>.

As we will describe in the next section, the LMS market is changing quickly and new initiatives (critical talent management, performance management, and competency-based learning) are starting to drive the market.

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<sup>4</sup> Read our upcoming LMS 2006 report for all the details (<http://www.berzin.com/lms>).

## Predictions for 2006

### 1. Rapid e-learning will evolve

We originally defined the rapid e-learning market back in 2003. The goal in a rapid e-learning program is to develop informational content quickly and efficiently by using materials developed by subject matter experts. This approach is driven by time-critical training and information needs, not mastery programs.

The first stages of Rapid E-Learning used PowerPoint to Flash conversion tools (Macromedia Breeze, Articulate, and others). In our rapid e-learning research, we see many applications of this model focused primarily on information distribution and critical information transfer applications. (For more information on the *Four Types of E-Learning*, please read, *The Blended Learning Book*<sup>5</sup> or *Rapid E-Learning: What Works*<sup>6</sup>.)

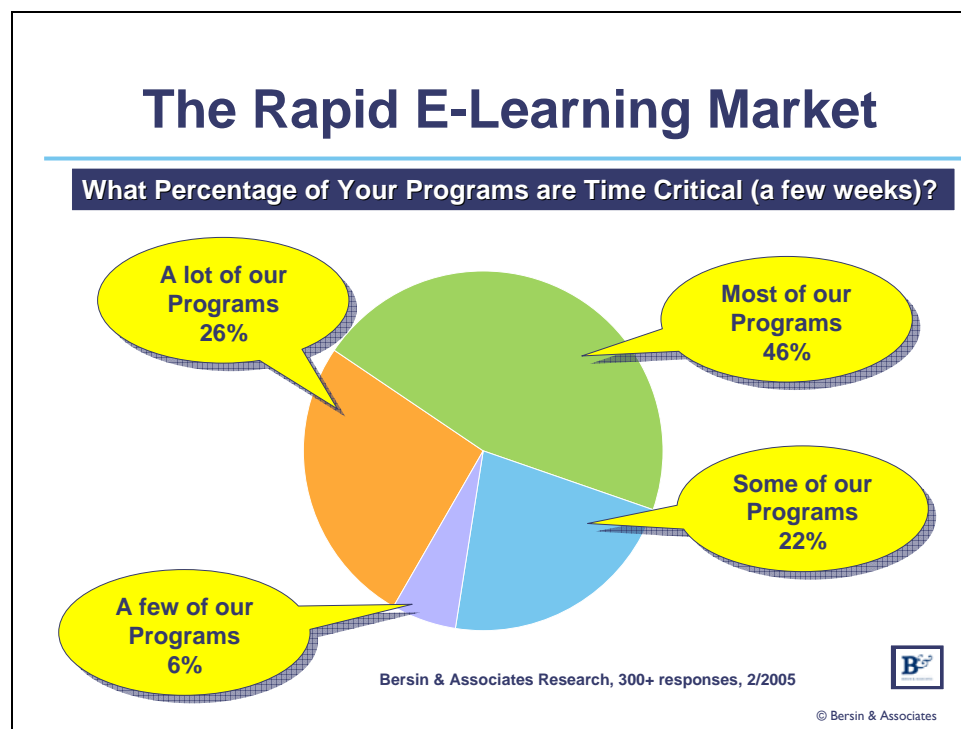


Figure 9: Demand for Rapid E-learning Programs

<sup>5</sup> *The Blended Learning Book*, by Josh Bersin, available at Amazon.com or at [http://www.bersin.com/research/blended\\_book.asp](http://www.bersin.com/research/blended_book.asp).

<sup>6</sup> *Rapid E-Learning: What Works*,<sup>®</sup> Industry Study, available at <http://www.bersin.com/rapid>.

The early approaches have changed. What started as an approach using PowerPoint to Flash has expanded in three new directions:

1. **Rapid Simulations:** Using tools such as Macromedia Captivate and Camtasia, it is now as easy to build application simulations as it is to build PowerPoint-based learning. Many of our research clients tell us they are mixing simulation activities with their PowerPoint-based programs.

Unfortunately, these simulation tools are still not ready for soft-skills (e.g., management topics, coaching, etc.) so rapid simulations are primarily used for systems training, application training and visually appealing compliance programs.

2. **Collaborative Rapid E-Learning:** Once an organization starts to use PowerPoint-based e-learning tools for online training (live or self-study), the need for collaboration starts to emerge. The simplest form is usually the use of a graphic designer or template designer to build a template or edit a program developed by an SME. This demand has created a market for rapid e-learning tools with collaboration features.

3. **Video-based Solutions:** Only a few years ago, IT departments would ban the use of video for online instructional programs. Those days are largely over in most large organizations: with bandwidth and standard video players available in most companies, it is possible to distribute a “talking head” program without inflaming the IT department.

Many of the clients we talk with now are moving back toward video to distribute key management updates, operational training programs, and important company announcements through a rapid e-learning process.

*Prediction:* In 2006, most organizations with any e-learning initiative will be evaluating and using rapid e-learning tools and rapid e-learning approaches. Microsoft Vista will offer new rapid e-learning features that will make this approach even more popular with subject matter experts.

## 2. Live e-learning will become bigger

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Each year that we study the enterprise learning market, we see live online events becoming more and more ubiquitous. The live e-learning or collaboration vendors (WebEx, Centra, Interwise, and many more) are all experiencing rapid growth from this trend. SkillSoft and ThomsonNETg, the two largest providers of packaged e-learning content, now have live e-learning solutions. Saba acquired Centra with the intention of providing an integrated live solution. The Microsoft Live Meeting team now realizes that as much as half of its business comes from the training industry. And Macromedia/Adobe, the largest tools provider in the training market, has entered the live e-learning market aggressively with a low-cost solution called Breeze Live.

When we asked companies in 2005 how they were using their off-the-shelf content, more than 30% told us they were blending them with live online events. This blended e-learning model is an excellent way to give students instructor-access without the cost and complexity of classroom training.

Many training departments still struggle with the application issues: When do I use live collaboration technologies? How do I get instructors trained? How long should programs be? How much should I charge? These issues are being addressed by a wide variety of experts and tools that get easier and easier to use every day. If you are not yet using live e-learning tools, the time is now.

*Prediction:* In 2006, live e-learning will continue to grow. Integration of such systems with LMS and other platforms will become easier and easier. Trainers should develop a methodology and program plan for using live online events as a regular delivery type to leverage this proven approach.

### 3. The LMS market will grow and mature

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As we finalize our LMS 2006 industry study,<sup>7</sup> we are thinking about the LMS market. It continues to grow at an increasingly rapid pace. In fact, in 2006 we believe organizations will no longer question why they need an LMS but rather when and how they will adopt such a system.

A few key trends in 2006:

- **LMS Consolidation is a Driver:** More and more companies are adopting the enterprise-wide LMS approach. As we discuss in our research, a single LMS often is difficult to implement primarily for organizational reasons. Yet the benefits are well proven. In our *High Impact Learning Organization* research, we found that companies with enterprise learning management systems have significantly higher training efficiency and effectiveness in all of the 11 study areas.
- **On-demand LMSs Explode:** Mid-sized companies and small enterprises have proven the success of the on-demand (ASP) LMS approach. Focused companies, like CornerstoneOnDemand, GeoLearning, and Learn.com, have proven the on-demand approach.
- **Integrated Performance Management has Arrived:** We spent many hours in 2005 studying the growing market for integrated talent management solutions<sup>8</sup>. In Q1 2006, we will publish our report on the Performance Management market. Most LMS vendors today are actively building, promoting, and learning about online performance management solutions which, when integrated with learning management, provide the platform for integrated talent management.
- **ERP Vendors Grow but Do Not Dominate:** Both Oracle and SAP now have proven solutions in the LMS market. Yet both are still immature and have shown limited market success. We expect both companies to continue to focus in this area, yet most buyers still choose not to purchase their LMS from the ERP provider.

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<sup>7</sup> *LMS 2006: Trends, Facts, Practical Analysis, and Trends for Corporate Buyers, Vendors, and Consultants*, will be available in January of 2006. To pre-purchase this study, you can purchase the existing report and 100% of your purchase price will be applied toward the price of the 2006 report. Visit <http://www.bersin.com/lms>.

<sup>8</sup> *The Convergence between Learning and Performance Management: Has Talent Management Arrived?*, available at <http://www.bersin.com/convergence>.

*Prediction:* LMS consolidation projects will continue. By the end of 2006, many organizations will start to consider their LMS a consolidated platform for talent management and look closely for solutions for integrated learning and performance management.

## 4. Content management will become a major focus

When we entered the e-learning market, we remember being amazed at the sophistication of the various standards: AICC, LRN, IEEE, ADL/SCORM, and more. Today, we have more advanced standards than ever. Yet content integration continues to be a major headache for most companies.

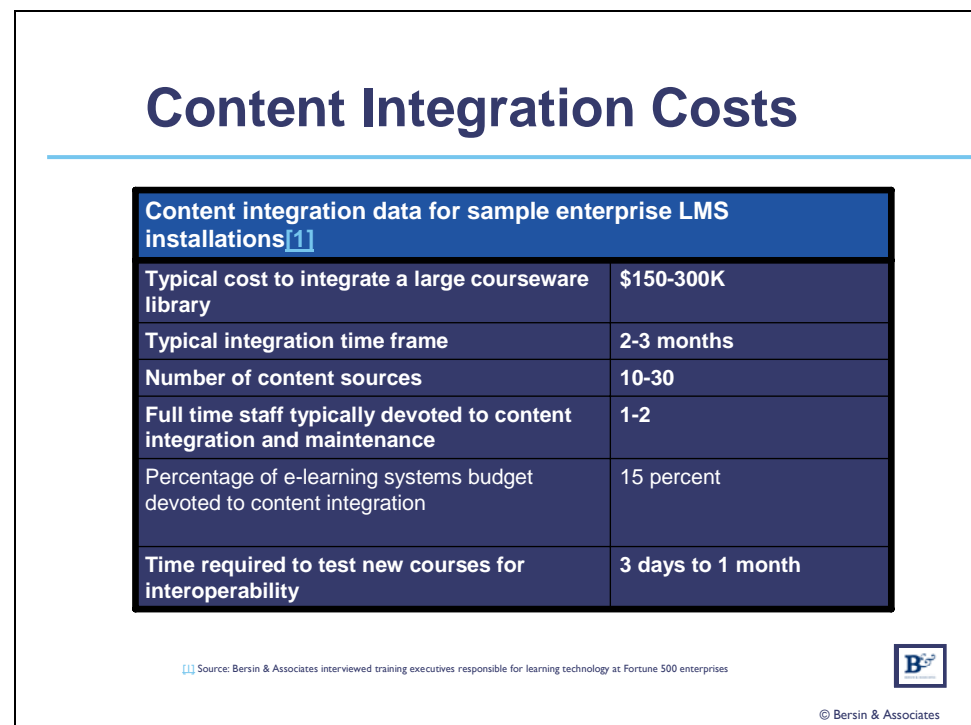


Figure 10: Cost of Content Integration



In 2005, we studied the learning content management in detail and found that more than 40% of mature LMS owners are searching for a content management solution. The typical question we find in stage 3 companies (Figure 6) is this:

*We now have millions of dollars invested in our e-learning content. How do I “unlock” it from individual courses so we can use it for on-demand applications and performance support?*

In 2006, we believe this issue will become vitally important in most training organizations. Key issues that you will need to think about in 2006 include:

- How do I build content so that it can be reused and repurposed?
- What type of content management solution should I use to help my developers collaborate more effectively?
- How do I use my LMS to build an easy-to-use search interface for workers that need referenceware and not just courseware?
- What standards should I adopt to make sure that all the content I build can be repurposed, searched, and maintained easily?

*Prediction:* Learning Content Management will become a mainstream topic in training in 2006. Organizations will continue to use many tools but start to focus heavily on standards, LCMS solutions, search, and tagging of content to make it reusable and available in a personalized form. Personalized learning will be easier than ever.

## 5. Referenceware will become mainstream

Referenceware (online books and reference materials) have now been proven as a highly effective online resource for technical and softskills training. Our most recent research on executive use of information<sup>9</sup> demonstrated that even top managers use the Internet extensively.

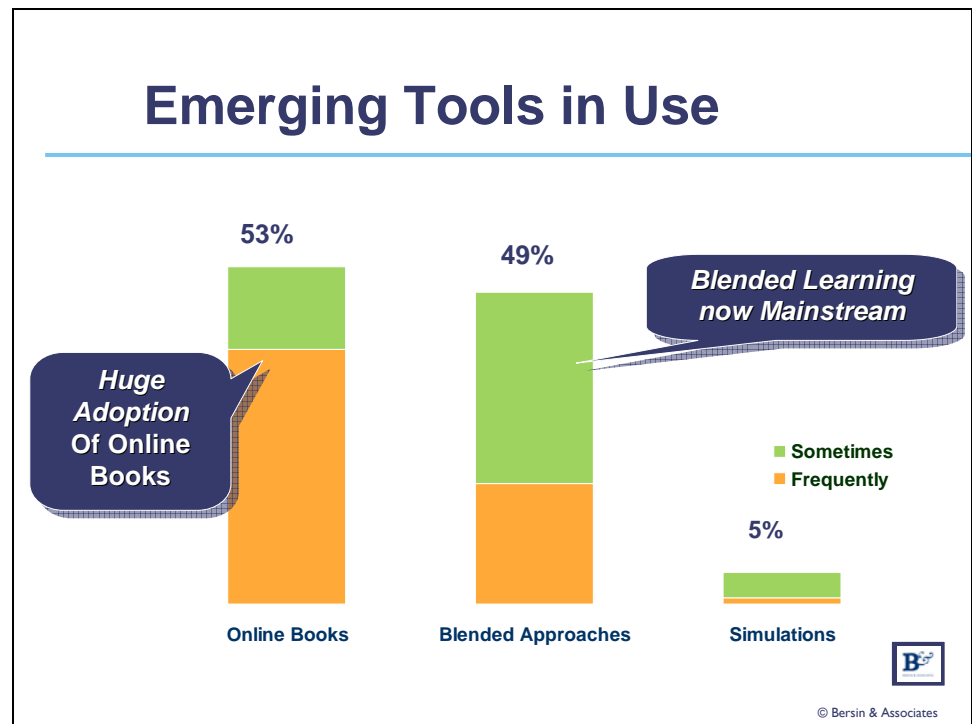


Figure 11: Use of Online Books in Catalog E-Learning Customers

**Prediction:** The market for online books and references will continue to expand, led by SkillSoft's Books 24x7 offering and others from ThomsonNETg, ElementK, and maybe even Google. Management and leadership content developers will start to offer online books and references integrated into their offerings.

<sup>9</sup> *How Executives Search and Use Online Information*, available to Bersin & Associates research members.

## 6. The Corporate University model will slowly die

As we described above, the economics of corporate training have been forever changed by e-learning. One of the big impacts of this is the fundamental change in the organization of corporate training. Similar to the way that data processing evolved into IT in the 1980s and 1990s, we believe that the Corporate University is evolving into a model we call Learning Services.

In the Corporate University model, training is viewed as a centralized corporate function. You “go to the university” to be trained.

### *Old:* Corporate University

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- Many offerings
- Program centric
- Optional programs
- Centralized
- Focused on learning and development
- Falling away...

  
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*Figure 12: Old Model: Corporate University*

In the Learning Services model, enterprise learning occurs everywhere. It is available online, at your desk, in your organization, and when you need it. The Learning Services organization, similar to IT, comes to you when you need help. The new organization focuses on performance consulting and business-relevant programs – and it uses shared services and outsourced providers to deliver fast, efficient solutions.

## *New Organization: Learning Services*

- **Process-centric**
- **Measurable**
- **Accountable to Business**
- **Focus on product quality, efficiency, and value**
- **Integrated with operations and HR**
- **“High Impact”**



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*Figure 13: New Model: Learning Services*

For more information on this shift, please read our free research report located at:

[http://www.bersin.com/tips\\_techniques/05\\_nov\\_death\\_cu.asp](http://www.bersin.com/tips_techniques/05_nov_death_cu.asp).

If you would like to better understand how you can adapt to this change, come to one of our **High Impact Learning Organization®** workshops (<http://www.bersin.com/workshop>) in 2006.

*Prediction:* Organizations will struggle and focus on reorganization within corporate training. Those that succeed in becoming High Impact Learning Organizations® will move from a program-centric approach to a process-centric approach, become more business oriented, and implement performance consulting-led services to their clients.

## 7. Learning outsourcing grows, on-demand LMS is hot

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The word outsourcing has become a tremendous buzzword in the training industry. Several large companies have outsourced parts of their training organizations in 2005. Despite the industry hype, however, this is a slow trend and is focused on a small number of companies that have shown limited success. We believe the traditional “out-tasking” will be the major theme: hiring consultants and content providers to deliver solutions in specific areas like leadership development, LMS, and simulations.

By far the biggest trend in outsourcing is the explosive growth of on-demand learning management systems and services. We believe the on-demand model for LMS now is fully proven and mid-sized organizations will adopt on-demand LMS with a high degree of success.

*Prediction:* Outsourcing of the training function will not become a mainstream approach, although some large organizations will adopt this model. The hottest area of outsourcing is the use of the outsourced on-demand hosted LMS, which will prove to be highly successful in mid-sized organizations throughout 2006.

## 8. Performance Management will impact learning organizations

One of the major trends we see taking place in corporate learning is the emergence of online performance management systems and an integrated approach to talent management. Although talent management typically is viewed as an HR-led initiative, it is the biggest and most critical initiative that drives full alignment between HR and Training.

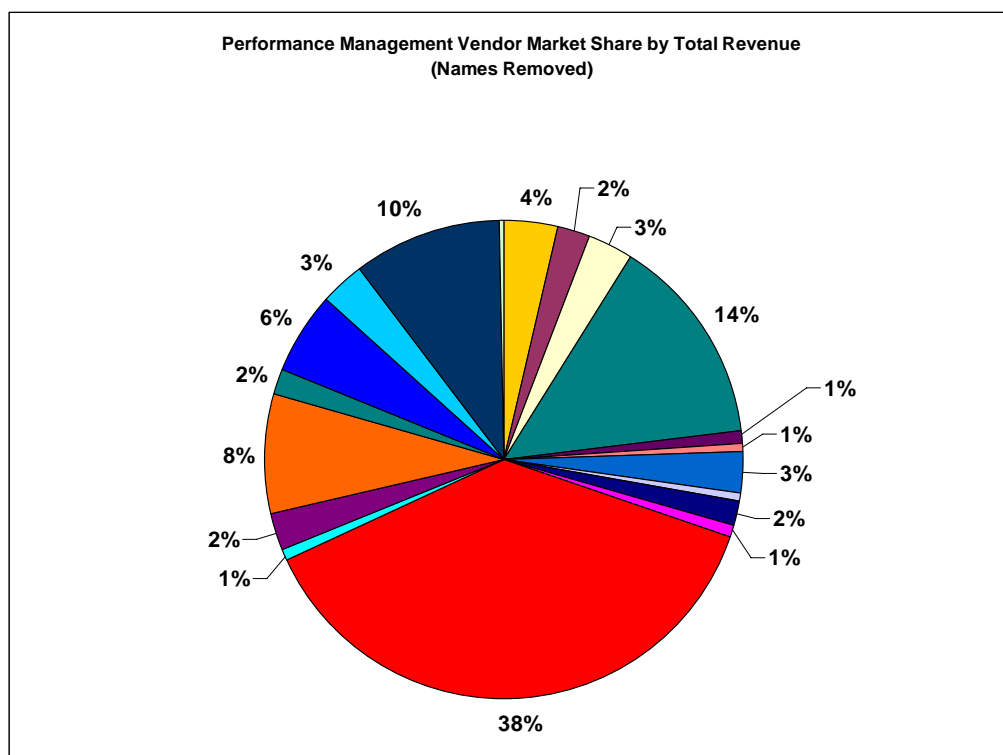


Figure 14: Online Performance Management Market (vendor names removed)

The market for online performance management software is growing rapidly. In Q1 of 2006, we will publish our research report on this market. Today, it is highly fragmented with small providers while LMS vendors, such as CornerstoneOnDemand, Learn.com, Plateau, Saba, and TEDS, are jumping in with both feet. We believe one of the biggest trends in the LMS market is the integration of performance management tools. This combined offering provides the basis for an integrated talent management solution, which we detail in our free report on the convergence between performance and learning management.<sup>8</sup>

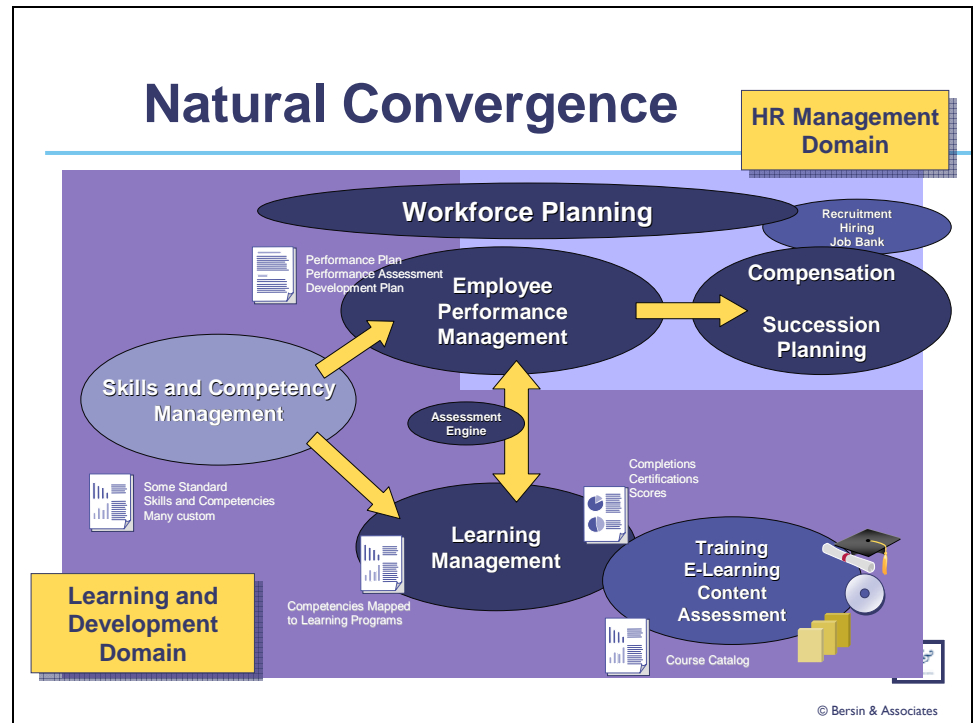


Figure 15: Convergence between Learning and Performance Management

*Prediction:* In 2006, many learning organizations will start to work with HR on the implementation and integration of online performance management. The biggest challenge will be identification of critical skills and competencies and mapping the organization's learning offerings to goals, performance plans, and online development plans.

## 9. Talent management will require HR and training alignment

A new position is being filled in many organizations: Director or VP of Talent Management. We define talent management as the integration of performance management, learning management, and skills and competency management to identify critical skills gaps and put in place a program to fill these gaps.

Although this sounds very difficult and complex, we have identified a step-by-step approach that works. In 2006, we will publish our research in this area, *Critical Talent Management*.

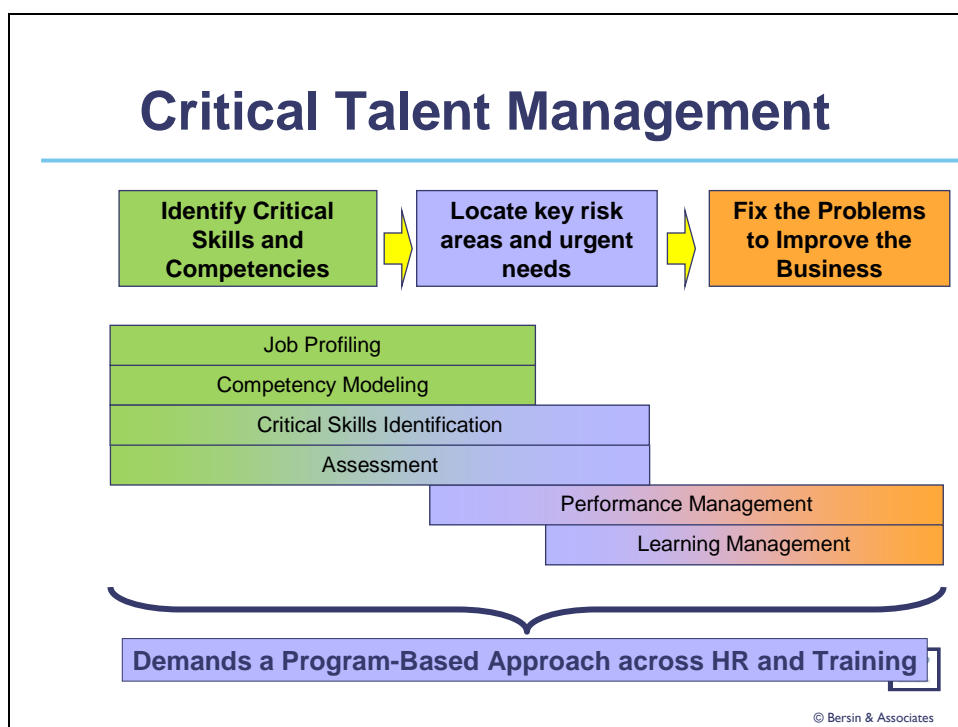


Figure 16: *Critical Talent Management Process*

What does this mean for learning and development? It requires an interdisciplinary team that works across HR Development and training to bridge the green processes with the blue and orange processes in the chart above.

Why is talent management becoming such a hot topic? We believe it is occurring for two reasons. First, learning management systems have made it easier than ever to catalog skills, competencies, and learning offerings into a single system. Second, economic trends have forced organizations to look hard at critical skills.

In many organizations (the U.S. Government in particular), up to 30% of senior positions will retire in the next 5-10 years. Talent



Management initiatives enable organizations to identify the “talent bottlenecks” and put in place training, compensation, hiring, or incentive programs to fill them.

*Prediction:* In 2006, the topic of Talent Management will drive many learning organizations. Program teams, which bridge training with job profiling and skills and competency development, will be formed. Integration of LMS with performance management systems will become a major focus for forward thinking organizations. LMS vendors will start to focus in this area.

## **10. Learning and development will be as exciting as ever**

Bottom line for 2006: Things will be as exciting as ever. New technologies, such as podcasting, online video and rapid simulations, will excite technology fans. LMS will become more important than ever and start the inevitable evolution into talent management platforms. Program developers will focus on management and leadership training, blended learning programs, live online events, and learning on demand. And VPs and CLOs of HR will drive the trend toward the integrated learning services organization to deliver responsive, business-centric, learning solutions.

## Come Meet us in 2006

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We look forward to providing you with more practical, analytic, and actionable research and advisory services than ever. Our research agenda for 2006 is filled with programs to address all the areas in this report, plus more.

We are also starting a major outreach program next year. In addition to regular presentations via Webinars and trade shows, Bersin & Associates will be delivering ten or more workshops in 2006. This integrated workshop program is entitled *Building the High Impact Learning Organization*. These one-day workshops include a detailed Learning Organization Assessment®, an in-depth review of our enterprise learning research, and an action planning process to help you develop a specific action plan to improve the efficiency and effectiveness of your corporate training.

Our senior analysts attend every workshop. It is a perfect opportunity for you to immerse yourself in these topics, learn from others, and come back to your organization refreshed with a clear action plan for improvement. We look forward to meeting with you there.

For more details, please visit <http://www.bersin.com/workshop>.

## How to participate in our research process

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Our monthly newsletter will be expanding in 2006 with even more free research, insights, and analyst perspectives. And we have exciting new delivery approaches, which we will be launching in the next few months.

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## About Us

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## About This Research

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