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The Acid Test for e-Learning

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Like many larger e-Learning companys, SumTotal Systems have been a key player in the e-Learning markets' consolidation phase. In the recent past, both Docent and Pathlore have been brought under their wing and SumTotal has grown sales substantially as a result. But they are not the only ones active in the market, with SABA buying Centra, BlackBoard buying WebCT, and SkillSoft buying Smartforce (and now NETg in the near future).

The headline figures for these acquisitions look great. Just the other day, SumTotal again announced increasing revenues (this time up by 46%), whilst BlackBoard have shown revenue up 40% and SABA , 70%. If we look at the sales figures, these deals have been very successful.

Moving beyond the sales figures though, we see the knock on effect - profitability is being pushed further into the future. Acquisition related costs such as write-offs, exceptional charges and amortisation (which are the result of things like duplication, restructuring, accounting for goodwill, etc.) take what meagre profits these companies have, and all too often, turn the bottom line into negative figures.

So at the same time as increasing revenue by 46%, SumTotal reported that they moved from a net profit to a net loss for the quarter ($2.7m on $27m turnover). Likewise, Blackboard reported a net loss of $4.7m on $50m turnover and SABA, a net loss of $2.6m on $23m turnover.

With a little effort, we could describe these figures as some sort of acquisition related indigestion, a short term price to be paid for the longer term benefits that each will gain. And with millions in cash on their balance sheets, we can probably assume they will do reasonably well in the longer term.

However, looking a little further into the balance sheet (that's beyond the cash and cash equivalents line), things don't look so rosy.

Here's what the balance sheets tell us about our three companys' level of current assets compared to current liabilities:

	Current Assets		Current Liabilities		
SumTotal	$44m	-	$45m	=	-$1m
Saba	$46m	-	$48m	=	-$2m
Blackboard	$129	-	$141m	=	-$12m

On a worst case scenario, these three e-Learning beasts will not be able to pay their current liabilities. The reality though, is that things aren't that bleak as they all have shareholders and longer term assets to fall back on.

The three companies have bucket loads of long term assets shown on their balance sheets, but at Just Learn we are starting to wonder about the quality of some of these “assets”, especially those falling under the headings of “goodwill” and “intangibles”.

The bulk of the “goodwill” and “intangible” assets in their balance sheets have been created as a direct result of their recent market acquisitions. But what often happens with goodwill and intangible assets created via market acquisitions, is that at some point, they get written down (amortization or depreciation). At this stage, the asset (or the impact of the asset) starts to reduce the Companys' profitability.

So what do each of our companies hold in total assets, and how much are classed as goodwill and intangibles:

	Total Assets	Goodwill	Intangibles
SumTotal	$132m	$62m	$19m
Saba	$106m	$38m	$19m
Blackboard	$319m	$102m	$61m

Not all of these acquisition related assets will be written off, but a large proportion of them probably will be. For instance, going back to the recent statement from Blackboard, we see they have already charged $12m against profit in the year to date for the amortization of acquired intangibles, with a further $5m expected in the final quarter. This is a pattern which could continue for another few years yet.

The e-Learning market is a busy place and is still in its' infancy. And being honest, there are probably still too many companies chasing too few clients with budget to spend. As the market evolves, we see further consolidation as inevitable.

For the e-learning market to have any hope of a long term future, we need to find sustainable business models that do not rely on a section of stakeholders subsiding the remainder. We're not clear which model will become the dominant one in the future (bespoke software providers charging licence fees, open source providers supplying additional services costed on top, or development being done in house), but looking at the recent results of the market consolidation activity, we do have to ask if what the “big boys" are chasing is sustainable in the longer term.

About :e-LearningNow:

: e-LearningNow : is the UKs e-learning resource. It brings together the key information you will need to successfully implement and use e-learning within your training and development strategy.

We have a passionate belief that e-Learning can revolutionise the way we deliver training and learning experiences, however we also see that there are still large numbers of people who are uncomfortable with the idea of technology replacing the personal touch. But for us, the technology offers far more opportunities than just replacing what is currently done.

At the end of the day, the purpose of **: e-LearningNow :** is to get more people using the tools and technology associated with e-Learning.

Our aims for this particular site are to:

- cater for all people who have an interest in using e-Learning, and
- to build a community where all e-Learning practitioners feel like valued members.

So whether your background is in education, the public sector, the private sector or you are a supplier to the market, we want **: e-LearningNow :** to help you and your organisation to use e-Learning.