What's the difference? Indelta and UKeU\Sun Microsystems LMS fall while Blackboard boasts early IPO success

This news story contrasts recent announcements concerning Learning Management Systems (LMS) in higher education across three countries. In recent news, Australia's University of Southern Queensland (USQ) made public their losses on Indelta, a home grown LMS initiative that went commercial and is now in liquidation. In the UK, the collapse of the UK eUniversity (UKeU) has prompted a fire sale on their Sun Microsystems LMS product, but on 18 June it was announced that no acceptable offers had been received. These two failures are in line with a trend towards a shrinking commercial LMS market, where only the biggest companies may survive. But are even the big LMS players secure? After years of hinting at the possibility of going public Blackboard has finally taken the plunge. Despite Blackboard posting impressive first week stock price gains there is still doubt as to whether the education technology marketplace has fully recovered from the IT bust. The real test of Blackboard's health remains in the hands of a select few investors, and the company's ability to generate confidence through strong financial results in the coming year. What are the key elements of success in the LMS market? Why have WebCT and Blackboard emerged on top and is their success likely to be sustainable?

Indelta Pty. Ltd. was a wholly owned commercial initiative of USQ, a mid-sized Australian institution with strengths in distance education and e-learning (USQ Online offers many full degree programs online and throughout the world). In 1998 USQ funded a $110,000 AUS ($66,990 USD in 1998 dollars) project to develop an LMS for their e-learning operations. The end product was judged to be a success, and a commercial arm of USQ, Indelta, was founded to market this product. USQ's foray into the LMS market was based on their leading position in e-learning at the time. In 1999 the International Council for Open and Distance Learning (ICDE) voted USQ 'best dual-mode university in the world for its global education initiatives and expertise in providing flexible learning opportunities to the world', supporting the belief that this innovative edge could be translated into economic return. The LMS was marketed to the international academic and business community as part of a 'total eLearning Solution' with additional services in the form of a fully hosted technical environment, professional support for interoperability, and online course development strategy. There were also claims about the 'constructivist' nature of the platform, compared to supposedly more rigid/ teacher-led mainstream equivalents. (For more information on Indelta and the LMS product, see the Observatory's 20 March 2003 article). Before the dotcom crash Indelta secured clients such as the Royal Brisbane Hospital, Russo Institute of Technology, and many others in higher education and the private sector. Indelta offered a portal service, whereby partner universities could use the platform to either mount their own programmes online for domestic consumption, or market abroad. Such portal arrangements were established in South Korea, India, Nigeria, Malaysia, and Thailand. University of Derby in the UK was a partner in the project and rumours circulated about University of Middlesex and University of Oxford joining. NextEd, the now Australia-based education broker and technology firm, was also involved.

This relative success attracted a consortium of investors to buy shares in Indelta, amounting to a 50% stake in the company (in line with dotcom enthusiasm, valued at $5 million AUD). This amount appeared in USQ accounts as profit on the sale of an investment, but no cash actually transferred. Competition in the LMS marketplace proved fierce. Details are hard to come by, but it would appear that the Indelta LMS did not benefit from adequate ongoing investment, and many clients were lured away by products offered by larger companies such as Blackboard and WebCT. The company was revalued in early 2003, leaving USQ's 50% share, originally valued at $5 million AUD, at $3.5 million AUD. Due to the continued poor performance of the company overall, USQ recently chose to abandon its involvement, and

Indelta is now in liquidation. USQ, which reported a $723,000 AUD profit for 2002, has declared a loss of $4.622 million AUD for 2003, a direct result of their Indelta relationship. (It should be emphasised that this is a paper, not a cash loss).

In the UK, the general public is still watching the smoke settle from the UKeU's collapse (for background information, please see the Observatory's 23 April 2004 article). In an effort to recoup some of the losses, the Higher Education Funding Council of England (HEFCE), which has taken control of the remaining UKeU operations, is attempting to sell what they deem to be UKeU's assets. Placed on the auction block in April 2004 the LMS has remained unsaleable, attracting no acceptable bids by the closing date of June 11th, 2004. Sun Microsystems, a 'strategic partner' in the UKeU project, was awarded a £20 million GBP ($36.26 million USD) contract to develop the e-learning platform for UKeU. Existing commercial LMS products were spurned. The venture stated its desire for a cutting-edge product, in line with its goal to offer the best of UK higher education online, and overcoming what were seen as the pedagogical/ administrative deficiencies of other options. Initially based on Sun's platform LearnTone, various enthusiastic but vague claims were made about the emerging LMS, but its track record was never proven. Indeed, there is evidence that the platform was never finally finished. A mere 215 of the total 900 UKeU students ever used it. Through private correspondence, the Observatory has learned that a small but significant player in the US LMS market expressed interest in purchasing the platform. However, after performance analysis, the company chose not to place an offer given what it saw as the product's limited capabilities compared to leading commercial rivals. Finding technical support for the product will be difficult. Sun Microsystems may prefer to distance themselves from the project, and very few staff worldwide will have any working knowledge of the code and application.

So with the demise of two ambitious but ill-fated projects what are the movements of the big players? The most recent headline-grabbing announcement concerned Blackboard's highly anticipated IPO. Blackboard went public at US$14 per share on 18 June 2004 and the ensuing flurry of activity saw it rise to over US$20 by day's end. After over a week of trading the stock is holding steady at around US$20, but the real challenges are yet to come. A group of five separate investor companies hold more than 50% of Blackboard between them, and despite the IPO were not permitted to sell any of their 12.5 million shares in the company (due to lockup agreements). When the six month lockup period expires, the companies will be free to sell their shares (potentially up to 50% of the total), opening up the possibility of fluctuation in supply and demand. During the dotcom boom lockup agreement expiration often dampened initial success. It is interesting to note that of 5.5 million shares sold during the IPO about a third were from employees, venture capitalists, and other company insiders. Even the two Blackboard founders sold more than US$1 million of their own shares, leaving them millionaires, but collectively with less than 6% of the overall company stock. It is normal (but perhaps unsettling) that employees are so willing to part with their growing company's stock. The dotcom crash is still fresh in the minds of many investors and this nervous desire to cash in early may not bode well. Benefiting on the one hand from increased cash flows, on the other hand Blackboard must now make public full financial statements and open themselves to the whims of investor fancy. With suspicions of e-learning company success still lingering, many investors may expect quick proof of the company's ability to put together not only occasional profitable quarterly results (as Blackboard did for the first time in the third quarter of 2003; see the Observatory's 13 November 2003 for more information), but profitable annual results. But for the time being Blackboard and WebCT can do no wrong, continuing to build healthy client bases internationally and at the very least not falling behind other companies in terms of innovation and standards compliance. However, neither has ever declared an annual profit. Blackboard's first quarterly results as a public company are eagerly awaited.

Like Indelta, many LMS products began life in a university, most notably the WebCT and Blackboard which originated from University of British Columbia (Canada) and Cornell University (US) respectively. However where WebCT and Blackboard differ from Indelta is their early separation from the parent university, and the massive amounts of venture capital they were able to secure. The long term support of financially secure investors permitted not only survival through the lean dotcom crash years, but sustained growth, with the two firms dominating the higher education market in much of the world. Indelta was always 50% tied to the USQ budget, and compared to the aggressive, long term, private capital investments made in WebCT and Blackboard, Indelta did not secure the necessary financial resources to compete. Notably their product did not seem to provide any local incentives or nation specific solutions to the Australian market, allowing US based WebCT and Blackboard to successfully enter, and now dominate, the Australian higher education LMS market. Product differentiation is also problematic. As previously discussed by the Observatory, many in-house developments began in the early days of the LMS, when commercial options were relatively rudimentary. At that point, in-house development made sense. But within a few years, the leading commercial players had learnt valuable lessons and were able to out-innovate, out-spend and out-market everyone else. This left in-house projects struggling to justify their existence. The much-vaunted claims about the added-value of Indelta and the UKeU platform appear to have never really amounted to anything, or at least any genuine distinctiveness failed to register with the market. Building an in-house LMS may provide a more institution-sensitive option for virtual learning, but the difference between products is not dramatic. That said, there are a number of successful online institutions (e.g. University of Maryland University College and University of Derby) that have developed in-house products that continue to be central to successful online initiatives. USQ is now using WebCT to support its online programmes.

With Blackboard and WebCT now so dominant in the higher education space, where will innovation and competition come from? There are many similar performing LMS on the market. Most LMS are now SCORM compliant, offer a range of add-ons such as video and audio streaming for particular institutional needs, and are including developer communities for IT professionals to offer support to one another across institutions. Indeed, the LMS partly innovates by simply absorbing a host of niche products. There is certainly competition between Blackboard and WebCT. The prospects of securing customers for life due to the difficulties of transferring over from one LMS to another are disappearing as standards compliance has made the process much more efficient. For example, open source LMS Dokeos - a version of Claroline - will soon release a specifically designed Blackboard to Dokeos import tool to allow seamless transfer. In terms of cost-proposition, open source products continue to retain a certain distinctiveness in the market. Open source options are beginning to offer add-ons and products similar to those offered by the commercial LMSs. Increasingly open source initiatives (e.g. Moodle) are starting commercial arms to support LMS development needs, and maintain their own operations. The core product remains free and open source, but associated support and hosting is charged for. This addresses the common institutional concern that any savings made from obtaining an open source product are undermined by the complexities of ongoing installation and maintenance. To achieve profitability, Blackboard and WebCT continue to upgrade their products and raise prices. Assuming the open source players can keep up on the innovation front, the emerging open source plus support model may begin to make headway. As for genuine product differentiation, claim and counter-claim are made, but for the disinterested observer it remains hard to tell the difference. It will be interesting to see whether any firm can challenge Blackboard and WebCT on core product, sell that challenge to the market, and protect its intellectual property. Failing that (or a concerted open source challenge), the market incumbents look unassailable.