

SumTotal/Pathlore Deal Shows New Phase in E-Learning Market

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Acquiring Pathlore Software will provide SumTotal Systems with greater economies of scale and improve its competitiveness. But expect some of the larger software vendors to increasingly encroach on this market.

NEWS ANALYSIS

Event

On 3 August 2005, SumTotal announced plans to acquire Pathlore for approximately \$48 million. The companies expect to complete the transaction by November 2005.

Analysis

This deal is yet another sign that the e-learning software market is entering a new era of change, which includes consolidation among the pure-play vendors. SumTotal is a product of this trend, having formed when Docent and Click2learn merged in March 2004. Another significant deal took place in May 2005, when Saba purchased Thinq Learning Solutions. Moreover, major software vendors, such as IBM, Oracle and SAP, continue to add e-learning functionality to their software stacks. As a result, most e-learning vendors today will not have the financial strength to keep up. The larger players will catch up to the incumbents by 2007 (0.8 probability), as they can offer tight integration with many enterprises' application and software infrastructures.

SumTotal has increased its market share and brand awareness since its formation. Acquiring Pathlore will provide SumTotal with greater economies of scale and improve its long-term competitiveness. This deal will also provide SumTotal with a larger customer base and an extended reach into the small and midsize business, state and local government and healthcare markets, where Pathlore has a large number of accounts. However, most of the vendors' offerings overlap in areas such as:

- Learning management systems
- Learning content management systems
- Analytics, performance management and professional services

SumTotal has indicated that it plans to continue support for Pathlore products. However, Gartner does not believe that the combined company can afford to fund research and development for two Windows-based product lines. We believe that SumTotal will eventually incorporate the best attributes of Pathlore products — such as content integration — into a single product.

Recommendations

Pathlore prospects: Verify the road map for the combined product sets through 2008. Confirm prices and costs and how the combined company will assist with any migration to evaluate whether you should deploy SumTotal or a competitive e-learning solution. If you aim to sign purchasing contracts in the short term with Pathlore, ensure that the contract includes comprehensive protective clauses, particularly in areas such as support, upgrades, migration and services.

Current Pathlore customers: Request written guarantees of continuing product support (including major bug fixes) and solution costs (including upgrades). Also ask about any plans, incentives and benefits the company might offer customers when they migrate to the SumTotal platform.

Analytical Sources: Waldir Arevalo and James Lundy, Gartner Research

Recommended Reading and Related Research

- "Vendor Rating: SumTotal Systems" — The merger of two top e-learning vendors created a stronger new player, SumTotal Systems. **By Waldir Arevalo and others**
- "Hype Cycle for E-Learning, 2005" — Understanding the drivers and inhibitors of e-learning technologies will help organizations to mitigate risks and generate greater rewards for their e-learning strategies. **By Waldir Arevalo and others**

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