In a move that could have many reverberations in higher education, the publishing giant Pearson announced a deal Monday in which it will purchase eCollege, which offers course management and other services for distance education. Many analysts predict that the move will create a major competitor to Blackboard in course management and some say the sale could presage more consolidation among producers of software and content for higher education.

“It’s like 1999 finally happened,” said Peter Stokes, executive vice president of Eduventures, a consulting company that advises colleges and businesses on technology and other issues. “If we go back in time, these course management systems companies really looked like they were going to be a center of gravity in higher education and publishers in particular were interested in how they would evolve for distribution of electronic course materials, but then many things crashed,” Stokes said.

Now, with many players gone, Pearson is poised to test the idea in a real way, he said. And doing so could make eCollege “a formidable competitor.” Added Stokes: “You now have an 800-pound gorilla at the table,” referring to the publishing giant. (Stokes’ work at Eduventures is primarily with universities, but the company’s division that works with technology companies does business with Blackboard, eCollege and Pearson.)

Pearson is a mammoth publishing company (The Financial Times and Penguin are parts of it) with an education division that sells textbooks and digital materials to students around the world from elementary school through higher education. Pearson’s pockets are deep and Monday’s news showed its willingness to spend on expanding education offerings. The payment for eCollege is $477 million — and that purchase follows a larger one 10 days ago, $950 million to Reed Elsevier for Harcourt Assessment and Harcourt Education International.

eCollege has had something of a roller-coaster history, as has been the case for many technology
companies. Its strength has been offering course management and related software and technology for
distance education programs. eCollege has struggled with some of its expansion plans — most notably with
Datamark, an enrollment management company that eCollege bought and that is being sold in a separate
deal to a group of investors led by Oakleigh Thorne, eCollege’s CEO. eCollege will continue to be run as a
separate division within Pearson and will be led by Matthew Schnittman, who has been president of
eCollege’s eLearning Division.

Industry analysts predicted — and in an interview Schnittman largely agreed — that the purchase could
allow eCollege to substantially broaden its business beyond distance education institutions (a niche that has
led the company to focus on newer institutions, many of them for-profit) into traditional higher education.

Trace A. Urdan, who analyzes the education industry for Signal Hill, an investment group that does not do
work for any of the companies involved, said that the weeks and months ahead could see a significant
change in the competitive landscape for course management. To date, he said, eCollege has “worked out a
détente with Blackboard,” such that eCollege focuses on exclusively distance institutions and Blackboard
has everyone else. eCollege hasn’t had the sales force or financing to go after Blackboard’s business, Urdan
said. “But they are now going to be much bigger and more aggressive,” he said.

Since Blackboard bought out WebCT, Blackboard has dominated the course management market, facing a
few relatively small corporate competitors — and growing interest in open source alternatives. Blackboard
has also faced a messy fight with open source advocates over the company’s patent claims, although those
tensions have lessened somewhat since the company pledged not to use its patent rights to sue open source
projects in higher education.

Urdan said that in this environment, it is natural to expect a major player to challenge Blackboard. “My
sense has been that somebody large would be positioning themselves against Blackboard. Postsecondary
buyers are always worried about a monopoly, so they will welcome a new player,” he said. At the same
time, Urdan stressed that Blackboard “is a tough competitor and isn’t going to roll over.”

Schnittman, in an interview Monday, said that details of eCollege’s plans remain to be worked out, but he
hinted strongly that he would challenge Blackboard in new areas. Without specifically talking about
Blackboard, he said that some “competitive practices” in the course management industry have angered
some colleges, and that has “created opportunities for eCollege.”

He also stressed that while eCollege has focused on distance institutions, that was a decision driven by the
need for a smaller company to focus its strategy. He said that eCollege’s products were applicable to a
range of institutions. Asked if he would be seeking a range of new clients after the Pearson purchase is
finalized, Schnittman noted that Pearson has “700 plus sales reps around the country working in institutions
that we traditionally haven’t worked in” and that “with that much presence across education at large, you’ve
got to imagine we will be introduced in new places.”

In addition, he said that eCollege hoped to gain by collaborating with Pearson in ways that could make some
Pearson services easily available through eCollege’s packages for colleges.

Blackboard put a positive spin on the news, issuing a statement late Monday that said: “While Blackboard
and eCollege have different primary audiences, we believe Pearson’s acquisition of eCollege highlights the
tremendous growth in eLearning overall, and we see it as a positive indicator for the industry, including
Blackboard’s business. Blackboard has strong relationships with all of the publishers, and hopes to continue
deepening its relationship with Pearson.”

Lev Gonick, vice president and chief information officer at Case Western Reserve University (a Blackboard client), said he thought the real significance of Monday’s announcement may be in prompting other combinations of big players in information and course management. With the increased competition, he said that in the next two of three years, “new course management tools are being cooked all over the world, from Kansas to Karachi, so “there is a high probability that we will see a renewed next-generation set of course management software.”

He predicted that other publishers in the academic space, such as McGraw-Hill, will either create their own tools or invest in others’ tools, to “keep up with Pearson.” Gonick also said that a wave of consolidations might prompt companies like Oracle or Microsoft to look more seriously at roles they can play in course management. At the same time, he predicted more activity from newer outfits. “There are likely to be a number of start ups that will quickly mature to support through ASP models the delivery of open-source solutions for course management as an alternative to the monopoly hold that Blackboard has in the market,” he said.

Several experts said Monday that they hoped eCollege would emerge as a strong competitor to Blackboard and said such a development would be helpful to colleges, even those that are quite satisfied with Blackboard products.

Charles Severance, executive director of the Sakai Foundation, which promotes open source course management and which has strongly opposed Blackboard’s patent policies, said he has had little interaction with eCollege and doesn’t know how the company will deal with open source. But he said the colleges’ interests were strengthened by having strong competition in course management as opposed to a dominant player. “Having successful companies is good for everyone, and a diverse market place is a good thing,” Severance said. “When you move to a monoculture in anything, innovation goes away,” he added.

While welcoming the idea of Blackboard getting tougher competition, several educators also cautioned against thinking eCollege would have an easy time of it.

Fred Lokken, associate dean for e-learning at Truckee Meadows Community College, said that many Blackboard (and former WebCT customers) are frustrated by the costs of services. Lokken’s institution was a WebCT client and moved to Angel (another for-profit player in the field) after Blackboard bought WebCT. While that merger was frustrating, he said he thinks colleges will benefit from eCollege becoming part of Pearson because no one is removed from the course management landscape, while one player is strengthened. “When the dust settles, you want choices that are financially stable, places that can do real research and development.”

eCollege has a solid reputation, Lokken said, but may need new pricing models if it wants to broaden its reach. He said that he viewed eCollege’s services as most appropriate for entities trying to set up shop quickly in distance education — places that need a lot of services right away and that will pay for “an out of the box solution.” That may discourage colleges with established programs that want to mix and match (and pay less).

And Stokes noted that colleges are “not huge fans of huge conglomerates.” Indeed Blackboard has been criticized in part for becoming big, and some of the early online criticism of the eCollege deal focused on Pearson’s size.
But Stokes said that colleges are almost sure to benefit — whatever choice they make — if the course management market becomes more competitive. “It’s good for customers when folks are forced to compete for customers,” he said.

— Scott Jaschik

Comments

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