The Future of Blackboard

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As a Gartner research director and previously a faculty member and administrator at three different universities, Marti Harris has been monitoring the higher education software and services segment for a long time. She isn't much surprised by the recently announced acquisition of Blackboard by private equity firm Providence Equity Partners. After all, she pointed out in this interview, Blackboard is the leader in the commercial learning management system space and continually reports strong growth not just in the LMS space but increasingly in multiple areas--collaboration, commerce, notification, and, most recently, services. "They were looking really attractive for this type of acquisition anyway," she noted.

Prior to publication of her own "First Take" briefing on the acquisition, to be published by Gartner shortly, Harris spoke to Campus Technology to share her current thinking on the acquisition of Blackboard and what it means for the future of the company and its many customers.

Dian Schaffhauser: You've seen a lot of acquisition activity happen in the education sector. This one involves an investment group. What can the customers expect in the short term and then in the long term after the deal is approved?

Marti Harris: In the short-term I don't think we'll see a big change. I think through the rest of this year certainly, they'll stay on course for their current strategy and pricing and those types of things. I don't think there's anything that will be of any magnitude of change through the rest of this year.

What will be important to watch is if there's going to be changes in leadership within Blackboard. I don't expect that to be the case. In this case I'm expecting the team to stay at Blackboard for one reason: This team has caused them to be the type of company that this particular equity group wants to acquire. I think they see them as performing well. Certainly Ray [Henderson, president of Blackboard's teaching and learning division] is very important for Blackboard.

Going forward I think moving from being publicly traded to being part of a private equity firm is going to allow Blackboard to perhaps move a little faster on innovation and to remain competitive not only in their core areas, but in additional areas in higher education.

When you see the acquisition of iStrategy and the announcement on Blackboard Collaborate, we can certainly see their positioning to be not just servicing Blackboard Learn customers. So I think they'll be able to do more things like that going forward. The obvious example of that is with Collaborate. They bought Wimba and Elluminate, brought in customers running those products with other learning [management systems]. Collaborate is really going to be a platform on its own, integrated...
into other learning systems and for other purposes. And I can certainly see that as they build their K-12 and corporate spaces as well, these types of products will sit in there nicely.

I think the difference now with the acquisition from a private equity is that it's going to allow things to be agile going forward. We'll see things being developed and brought forward to the customer base and to a new customer base in ways they just couldn't do in the past as a publicly traded company.

Schaffhauser: Why do you think there's going to be a substantive difference between the kinds of activities they can undertake as a privately held firm versus as a public company? What has been holding them back?

Harris: A difference there is when it's publicly traded, of course, they are answerable to the stockholders. Every quarter there are expectations. Any major decisions would certainly need to have agreement with all of those involved in it.

You might wonder, will that be the same for the equity partners? I think the difference is if an equity firm sees a longer term success, there's the potential that they would invest, looking for the longer term results of that investment.

Schaffhauser: You mentioned areas of expansions beyond learning products. Care to conjecture about what some of those might be?

Harris: The acquisition of iStrategy certainly is putting them in with student system environments as a popular choice for being the analytics piece for [SunGard's Banner, Datatel, and other student systems. Through that acquisition, they are already acquiring customers who may not have any other Blackboard applications but will be using the analytics.

Another example was their acquisition of Presidium, [a higher ed-focused support and services firm]. I really expect to see them making strides in the student services area.

Schaffhauser: You alluded to being more agile. Why did Blackboard do this now? Have you seen indicators that Blackboard is losing marketshare in its flagship product area? Is there something else coming that the company needed time to tackle?

Harris: I don't know that it was so much that they had been planning to seek out a deal like this. I know, in fact, that for several years now they have been a company that has performed consistently well and that is dominant in the education market. And those are the types of companies, of course, that equity partners would be interested in. So for that reason, I don't know that it was that they were out there trying to sell the company to an equity firm. I think they've become very attractive because of their steady growth, how big they are in the market, and the results they've been able to post. They were looking really attractive for this type of acquisition anyway.

When I talk about being a bit more agile, by that, I'm not talking about how this acquisition will allow them to roll something out three months from now--not that kind of change. But I think if they have ideas and want to do some innovative things, they'll have funding to do them--to move those products forward. I can see that as a positive result of this acquisition.
I'm very interested in CourseSites, which is advertised by Blackboard as this free service for educators. But what I see as the potential there is Blackboard Learn and Blackboard Collaborate in the cloud. So I really think that's one of the areas where over the next year we'll see some increased interest from both their customers and other institutions that are [shopping for a learning management system].

The way the company introduced CourseSites, it was kind of low-key. It wasn't a huge Educause announcement. Initially, I think they were interested in getting that out there to introduce it perhaps to faculty who are not seeing Blackboard Learn or Collaborate for any of several reasons. At the same time these faculty out there who want to try something else, they can download Moodle and sample it. So I think CourseSites was intended to really introduce Blackboard to the educators again.

When you think back in the history, Blackboard and WebCT, starting out, were really focused on selling to the educators. And they were the ones running these things on servers under their desks. This kind of brings more interest and activity from the actual people who are teaching in higher education.

The other thing is--though this may not be the case in every situation--but some of the institutions that may be running older versions and have not gone up to the next generation, version 9 or 9.1, maybe comparing older versions of Blackboard with brand new products and new versions of other companies' flagship offerings. So really to do that comparison, they need to be comparing the newest product from Blackboard and not assume that the version they're running on is what Blackboard looks like today. Trying out CourseSites would allow the teaching faculty to experience more what next-generation Blackboard really is. But more important to Blackboard's strategy is that CourseSite is in the cloud. New competitors are appearing such as Instructure [Canvas], which offers a cloud-based solution with a SaaS or subscription service. Cloud-based solutions in this space are increasingly important.

**Schaffhauser:** Blackboard is really making some inroads into K-12. How will the acquisition impact their efforts in that segment?

**Harris:** They are well known in the K-12 space--not quite like higher ed, but certainly, I would say they're a recognized player in that space. Both in the K-12 and the corporate side, those markets are ripe for harvest, in a sense--more so K-12, because there aren't as many choices. In the corporate side --corporate training--there are a lot of choices out there. I think K-12 has a great potential for growth; especially in larger contract situations, I think Blackboard would do well.

**Schaffhauser:** Private equity firms have a reputation for changing the character and culture of the companies they purchase to focus on trimming what they often view as the "fat." What sorts of changes do you envision for a few years out--and do you see any potential benefits for customers?

**Harris:** Thinking about acquisitions in the past. I haven't seen a whole lot of change to culture. If you look at Datatel, they went through something like this as did Jenzabar at one point. In those cases I didn't see a real difference in the points you're talking about. Of course, when Blackboard acquires a company, the expectation is that the acquisition become more like Blackboard and its culture; but in this case I don't know if we'd see the Blackboard culture become more like the equity owners.
The question I'm wondering about is, will Blackboard have more acquisitions? I expect they will. They continue to fill out a full range of education-specific types of products and services. That would be something that we may see from this. It's not like Providence is going to give out money, and say, "Now grow." They're going to expect return. They're going to expect it to continue to be profitable.

You asked earlier, are they losing marketshare? Some surveys will say that there has been quite a bit of movement to Moodle, for instance—not necessarily running it as open source but running it out of the box and perhaps with third-party service and support. Definitely in certain tiers of education, there's been some of that going on.

But I think at the same time you would find that they're acquiring new customers through other product areas. I think that's what's keeping them as a profitable company. They're not just depending on forever being the learning system choice of every organization. I think they're very aware that they have new competitors in that space. But the way they're positioned, even if you go with Moodle, you may still be very attracted to a Wimba or Elluminate, which is now offered as Blackboard Collaborate. There are other pieces of this company they could still sell to any institutions running another learning system.

Even looking at Blackboard Transact, [a campus ID and debit card system], that was one of the early acquisitions, I could remember thinking at the time, I wonder why they want a card business? It didn't seem like a match at all at the time. It's just operated as a solution on its own. So when you think about their acquisitions, they went into mass messaging [with Blackboard Connect]; they went into the card business [with Transact]; they acquired Xythos, which continues to operate under the name Xythos, but gave them their content management technology. And of course iStrategy.

So Blackboard has been on a pretty steady course. But because some of these acquisitions have been coming more rapidly or with less time between them, it's becoming more noticeable how they're expanding.

**Schaffhauser: Now the acquirer is being acquired. What do you advise customers to do?**

**Harris:** At this point I don't think there should be any knee-jerk reactions. I think this is one of those things that we have to really see what rolls out in the next year. Additionally, any of these applications or services that any of their customers are contracted with are not the types of things you can jump from rapidly. It's one of those things you're going to have to watch and see.

That, and read my Gartner First Take report on this next week for additional customer advice.

About the Author

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