

# The Private Training Market in the UK

IFLL Sector Paper 2



Lindsey Simpson



**promoting adult learning**

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(England and Wales)

21 De Montfort Street

Leicester

LE1 7GE

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## Foreword

This is the second of the Sector Papers to be published from the Inquiry into the Future for Lifelong Learning (IFLL). The Sector Papers will discuss the implications of lifelong learning for each of the sectors involved in providing learning opportunities: early childhood, schools, family learning, further education, higher education, private training providers, voluntary and community organisations, local authorities, learning cities, cultural organisations, and local learning ecologies. The goal here is to encourage innovative thinking on how these parts do or do not fit together, as part of a systemic approach to lifelong learning.

The Inquiry was established in September 2007 and will produce its main report in September 2009. It is sponsored by the National Institute for Adult and Continuing Education (NIACE), with an independent Board of Commissioners under the chairmanship of Sir David Watson. Full details of the Inquiry can be found at [www.niace.org.uk/lifelonglearninginquiry](http://www.niace.org.uk/lifelonglearninginquiry).

The overall goal of the Inquiry is to offer **an authoritative and coherent strategic framework for lifelong learning in the UK**. This will involve:

- articulating a broad rationale for public and private investment in lifelong learning;
- a re-appraisal of the social and cultural value attached to it by policy-makers and the public;
- developing new perspectives on policy and practice.

### IFLL: principal strands

The Sector Papers are complemented by several other strands of IFLL work:

- *Thematic Papers*. These relate nine broad themes, such as demography, technology or migration, to lifelong learning. Each one reviews evidence submitted to the Inquiry, and then draws together strands from the debate into a synthesis of the issues, with key messages.
- *Expenditure Papers*. These will provide a broad overall picture of expenditure on all forms of lifelong learning: by government, across all departments; by employers, public and private; by the third sector; and by individuals and households. The goal is to provide a benchmark for mapping future trends.
- *Public Value Papers*. These will look, from different angles and using a variety of techniques, at the 'social productivity' of lifelong learning, i.e. what effects it has on areas such as health, civic activity or crime. The goal is both to provide evidence on these effects, and to stimulate a broader debate on how such effects can be measured and analysed.

- *Learning Infrastructures*. Unlike the others, this strand consists not of a series of papers but a set of scenarios, designed to promote debate and imagination on what the infrastructure for learning might look like in the future. This challenges us to integrate the physical environments of learning, the virtual environments or learning technologies, and people's competences and behaviour.

Published papers are available from the IFLL website: <http://www.niace.org.uk/lifelonglearninginquiry/Publishedpapers.htm>

Periodic updates on IFLL progress are to be found in our Bulletin:  
<http://www.niace.org.uk/lifelonglearninginquiry/docs/IFFLBulletin4.pdf>



Professor Tom Schuller  
Director, IFLL



Sir David Watson  
Chair, IFLL Commissioners

## Introduction

This report examines the nature of the private training market in the UK. It focuses on training purchased by employers rather than by individuals. Whilst there is a body of statistical and other evidence in relation to publicly funded training aimed at employers, there is lower awareness among policy-makers of the nature of the private sector market and how it operates. The report examines the market dynamics and the implications for learning and skills policy in the UK.

This report has been commissioned by the Inquiry into the Future for Lifelong Learning (IFLL). The Inquiry is examining the implications of a shift in national education and training policy from the current focus on initial learning up to labour market entry, to a system that supports learning throughout the lifetime of individual citizens.

As part of this work, the Inquiry team were keen to understand the nature and scale of the private sector training industry, in recognition of the fact that most publicly funded research into, and evaluation of, skills and training activities is focused on publicly funded provision. This report therefore analyses the supply and demand side of the private sector training market, briefly examines future trends, and concludes with some of the implications for lifelong learning policy, employers and private sector training providers.

For the purposes of this paper, the private sector training market is defined as the training that employers buy and which they fund entirely themselves; i.e. training that is not publicly funded. The focus of this paper is on training purchased from private providers rather than the training that employers deliver using their own internal resources, although it includes the training that external providers deliver on employers' premises. This report also focuses on employer demand and supply rather than on that part of the market that is driven by individual demand for commercially provided learning, although it is not always possible to distinguish between the two.

The research on which this report is based drew on a number of sources and used a variety of secondary research methods to obtain an analysis of the private training market in the absence of major primary research data. It included:

- an examination of official business statistics;
- secondary research using commercial market reports and other published sources;
- searches of sources of commercial data, such as membership organisations, provider databases and company websites.

Whilst none of these approaches can provide the definitive data and evidence that could be drawn from a major primary research exercise supplemented with detailed analysis of company accounts, for example, it has been possible to draw some broad conclusions on the private training market in the UK.

### Executive summary

- There are approximately 12,300 private training providers in the UK operating above the VAT threshold.
- Different types of organisation operate as private training providers, and training is often one of a number of services that these organisations supply.
- A wide range of types of training is on offer, which often overlaps with areas such as personal development, meaning that training providers may not define themselves as such.
- The boundaries between different types of delivery are being eroded by the use of technology and blended learning approaches.
- The market is very fragmented with many small businesses and freelancers. Only 1 per cent of training providers have over 250 employees.
- There are signs of consolidation at the top end of the market, and there are a small number of large global training corporations.
- There has been substantial growth in the provider base, which almost doubled between 2000 and 2008.
- This growth in the private training provider base has not been matched by a corresponding growth in the size and value of market demand, which appears to be static.
- Evidence suggests that the market is oversupplied with training providers, many of whom may be operating below the margins of sustainable viability.
- The private training market (i.e. the market for training that employers go out and buy) is worth less than £2.95 billion and is a small part of employers' total training expenditure, the majority of which is accounted for by employers' own training delivery.
- The number of hybrid training organisations operating in both the public and private sectors is difficult to determine due to a lack of appropriate data; however, it could be quite small, because the two markets are very different and private training providers have a distinct ethos and corporate identity.
- Publicly funded training provision aims primarily to raise the qualifications of the workforce (albeit in an increasingly employer-responsive way through such programmes as Train to Gain), whereas private provision offers training for employees so that businesses can improve their competitiveness; i.e. it improves the *functionality* of employees; as a result, comparatively little private sector provision is qualifications based.

- The subsectors of the private training market which have performed comparatively well recently and seen above-average growth appear to be IT and financial services training, although whether this is sustainable remains to be seen.
- The IT training subsector was worth between £530 and £661 million in 2006–2007 and has shown recent annual market growth of up to 10 per cent; the IT training market is dominated by 15 training providers, who hold over 50 per cent of the market.
- The geographical distribution of the private training provider base is reasonably even (measured by training providers as a proportion of the overall business population), although Northern Ireland appears to be comparatively poorly served and the West Midlands, Eastern and North West regions and London all have slightly below-average density of training providers.

## Supply-side analysis

This section contains an analysis and assessment of the:

- number and size of training providers in the private training market;
- geographical distribution of private training providers;
- types of organisations involved in the private training market;
- main subject areas of training;
- methods of delivery used, for example technology and business models.

### Background to the supply-side analysis

The private training provider supply side is difficult to assess and quantify accurately due to a number of issues, including both the nature of the market and statistical aspects which are explored in more detail below, but briefly comprise:

- the degree of overlap between training and other services;
- the diversity of organisations involved in training;
- the fact that, for many of these organisations, training is one of a number of activities, rather than their sole function;
- the fact that training providers can and do operate in both public and private markets;
- the fact that customer information tends to be commercially sensitive and not readily available;
- some major definitional and statistical issues and a lack of relevant data.

### Issues

#### Overlap between training and other human resource services

There is substantial overlap between training and other human resource (HR) development services and activities, including: personal development services (for example, assertiveness training); coaching and mentoring; and facilitation, business education and management development services, such as leadership training. Indeed, training websites often offer what may be termed psychotherapeutic services, such as neurolinguistic programming (NLP). Thus many private training providers may not define themselves as such, but see themselves as providers of specific services such as coaching or leadership development.

## **The range of types of organisations providing training**

A wide range of organisations provide training services as all or part of their offer. As well as commercial businesses, these organisations include: trade associations; membership institutions; private colleges and independent educational establishments such as academies; Chambers of Commerce and business membership organisations such as the Institute of Directors (IOD) and the Federation of Small Businesses (FSB); and sector-specific organisations, including Sector Skills Councils (SSCs), trade associations, and arts and cultural bodies.

## **Training as part of a portfolio of services**

For many businesses, training is only one element in a portfolio of commercial activities and is commonly part of an offer, including recruitment and other HR activities, IT services (e.g. hardware supply), publishing, financial services or, in the case of trade associations and business support organisations, membership support functions such as legal advice or insurance.

## **The overlap between public and private sector markets**

Training providers may operate in both public and private sector markets, and it is difficult to assess how much of their turnover comes from each market. However, the numbers which operate in both markets successfully are possibly quite small, because these are very different markets.

Many public sector training providers may like to diversify into private provision, but could find the cultural shift from serving the needs of the Learning and Skills Council as their main customer to meeting businesses' primary needs as their *raison d'être* quite difficult. Put simply, Government provision aims primarily to raise the qualifications of the workforce (albeit in an increasingly employer-responsive way through such programmes as Train to Gain), whereas private provision offers training for employees so that businesses can improve their competitiveness; i.e. it improves the *functionality* of employees.

## **The fragmentation of the training supply side**

The private training supply side includes many small sole traders who are difficult to quantify accurately or precisely. The Trainerbase salary survey<sup>1</sup> suggests 'a proliferation of jobbing and hobby trainers', many of whom do not file company accounts and may operate below the VAT threshold. The large numbers of sole traders and intense

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<sup>1</sup> Trainerbase, the trade association for learning practitioners, conducts an annual survey into the rates charged by independent learning and development providers.

competition lead to high rates of turnover among small training businesses in an increasingly crowded marketplace.

### **Statistical definitions and data issues**

The various official sources of business data do not agree, and the classifications used do not precisely align with the private training sector (see below).

## **The number of private training providers in the UK**

Business data available nationally is based on the Standard Industry Classification (SIC) codes. The SIC codes do not distinguish between private and public sector providers, but do give an indication of the sector overall. The relevant SIC code (2003) is 80.42: 'Adult and other education not elsewhere classified'<sup>2</sup>. The most recent figures from Nomis<sup>3</sup> indicate the following:

- 17,764 providers in Great Britain in 2006 (Annual Business Inquiry – ABI<sup>4</sup> – 2007);
- 19,565 providers in Great Britain (Interdepartmental Business Register (IDBR)<sup>5</sup> 2008);
- 12,360 providers in the UK at the beginning of 2008 (Department for Business, Enterprise and Regulatory Reform – DBERR – VAT statistics).

The VAT statistics usually give a lower figure than the ABI and IDBR, because not all businesses are registered for VAT<sup>6</sup>. The IDBR combines PAYE (Pay As You Earn) and VAT data to give a more complete picture, and covers the UK. ABI is survey based, counts establishments rather than businesses and covers Great Britain.

A major drawback of both IDBR and ABI is that they include both public and private sector training providers, whereas the focus of this report is the private sector market. The VAT statistics, although they do not capture the smaller operators, are unlikely to include training providers operating exclusively in the public sector, because organisations providing education<sup>7</sup> and publicly funded training are exempt from VAT. It is unlikely that many training providers operating in the private sector market would be in this VAT-exempt category, because the main criterion for deciding exemption is whether the organisation receives payment (rather than grant funding) for services.

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<sup>2</sup> See Appendix A for a detailed description.

<sup>3</sup> Key Note's most recent market report on the industry, *Training Market Report 2007*, notes that there were 9,935 private training providers in 2006, based on Office for National Statistics (ONS) data, but it is unclear which dataset was used, and this figure seems somewhat low.

<sup>4</sup> ABI is survey-based and a workplace (rather than business) analysis.

<sup>5</sup> IDBR uses a combination of VAT and PAYE data.

<sup>6</sup> DBERR estimates are that out of 4.7 million businesses nationally, only just over 2 million are registered for VAT.

<sup>7</sup> Education provided through direct funding from Government (through grants) is outside the scope of VAT. This includes vocational training provided through the LSC. Sole traders and partnerships are also exempt if they are 'teachers' providing subjects regularly taught in schools or universities.

The VAT statistics are therefore highly useful in that they tend to filter out the purely public sector providers and cover the whole of the UK, but on the other hand, they fail to capture private training providers operating below the VAT threshold. The VAT statistics can also be used to measure changes in business stock over time; i.e. growth or decline. In conclusion, the VAT statistics probably provide the best indication of the baseline position for the number of commercially viable private training providers in the UK; i.e. circa 13,000, although ABI and IDBR figures are also useful because they are broken down by size and geographical distribution as well as by SIC code. Therefore a combination of VAT, ABI and IDBR figures is used in the analysis below.

Other sources of data include various databases of training providers. The most useful commercial database is probably the Yellow Pages, which lists 10,342 training providers – listed separately from further education (FE) colleges – and provides some useful subcategories which are outlined below. However, the Yellow Pages only includes paying advertisers and therefore is incomplete, and again does not distinguish between public and private sector training providers.

A number of other databases are available from membership organisations, but these are unlikely to be complete and tend to focus on individuals – i.e. the training workforce rather than organisation. For example, the Trainerbase (Association of Learning Practitioners) database has 6,000 members, and the Chartered Institute of Personal Development (CIPD) has 133,000 individual members, although this covers the spectrum of HR occupations, not just trainers. In addition to these, a wide range of bodies provide membership and representation for trainers and HR professionals, so workforce analysis is problematic<sup>8</sup>.

### **Growth and sustainability in the provider base**

Recent years have seen a steady growth in the number of VAT-registered training providers, which has almost doubled since 2000 from a base of 6,775 to the current figure of 12,630 (see Figure 1).

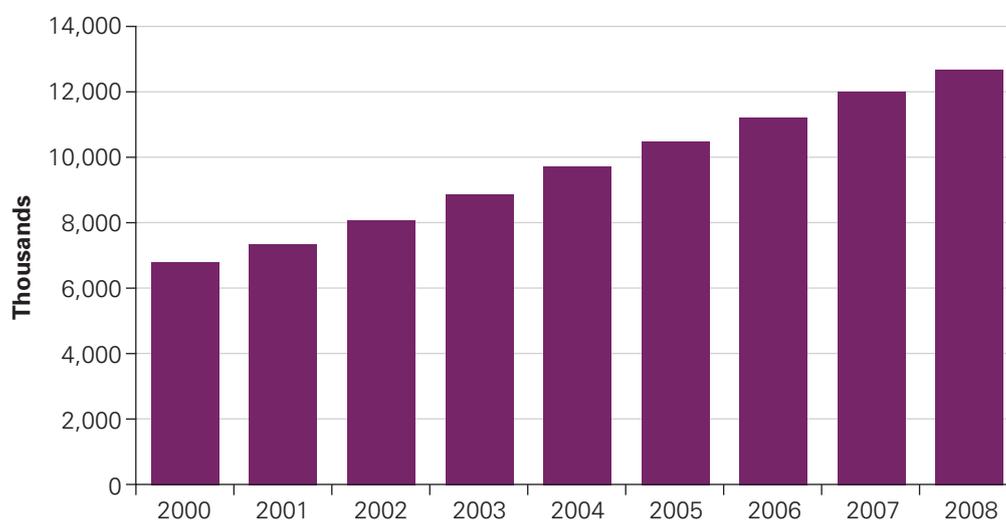
Whether this growth is sustainable, given the prevailing economic conditions and forecasts of declining training expenditure following a period of relatively static market demand (see the section on *Demand-side analysis*), remains to be seen. Key Note<sup>9</sup> remarks that the UK training market is 'vastly over supplied and because of this, it is extremely competitive'. For example, in the IT training subsector of over 1,300 companies, 15 hold around half of the market between them. Entry into the training market is comparatively easy because there are no legal entry requirements and there is no single professional entry route; rather there is a plethora of qualifications, trade bodies and institutes, and accreditation standards. However, competition is intense. As a result, there is downward pressure on prices and much of the supplier base may be relatively unstable.

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<sup>8</sup> SIC codes do not allow a distinction to be drawn between public and private sector employees.

<sup>9</sup> Key Note Publications (2007b).

Figure 1: Number of VAT-registered training providers, 2000–2008



Source: DBERR: VAT statistics 2008

The Key Note<sup>10</sup> analysis suggests that many providers operate below the margins of reliable or sustainable profitability. An analysis of 646 training companies (i.e. not sole traders) divided them into three bands – upper, middle and lower – on the basis of turnover and profitability:

- The upper band had a median turnover of £3.5 million and a median gross profit margin of 10.96 per cent.
- The middle band had a median turnover of £1.4 million and a median gross profit margin of 2.88 per cent.
- The lower band had a median turnover of £729,000 and a median gross profit margin of 2.75 per cent.

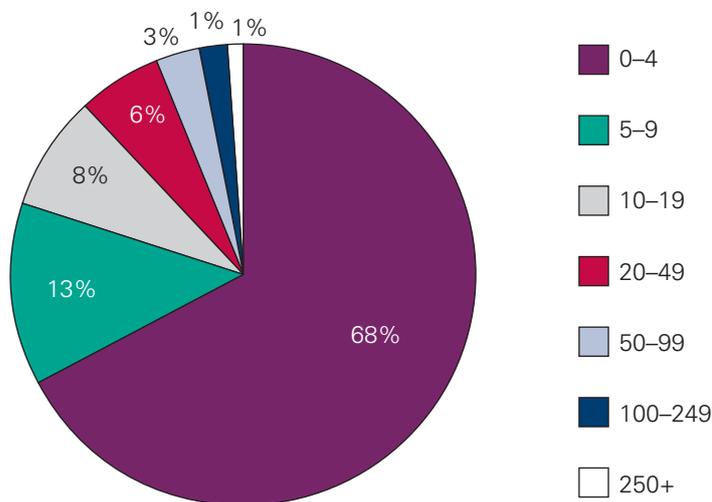
Only those in the first category with a median gross profit margin of nearly 11 per cent could be said to be operating successfully; those with gross profit margins of below 3 per cent are on the margins of viability.

### Size distribution of companies

The majority of training providers are small, with over two-thirds (68 per cent) having fewer than five employees and only 5 per cent having more than 50 staff, as Figure 2 demonstrates. Indeed, the number of training providers with more than 250 staff is very small; IDBR estimates that there were just 90 organisations in this size band in 2008, and this figure includes both private and public sector providers.

<sup>10</sup> Key Note Publications (2007b).

Figure 2: Training providers by number of employees

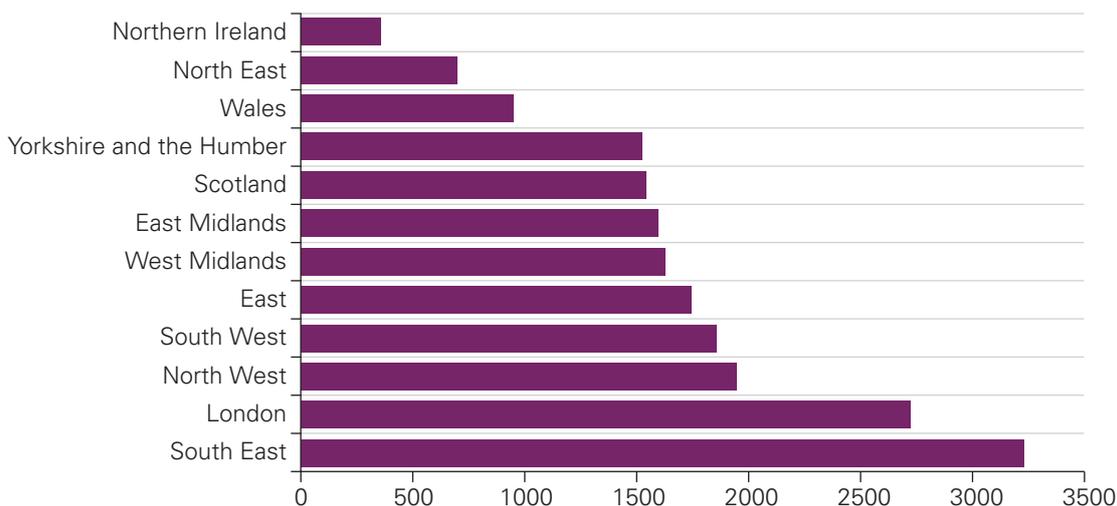


Source: IDBR 2008

### Geographical distribution

Numerically, training providers are heavily concentrated in London and the South East according to IDBR, as Figure 3 below shows.

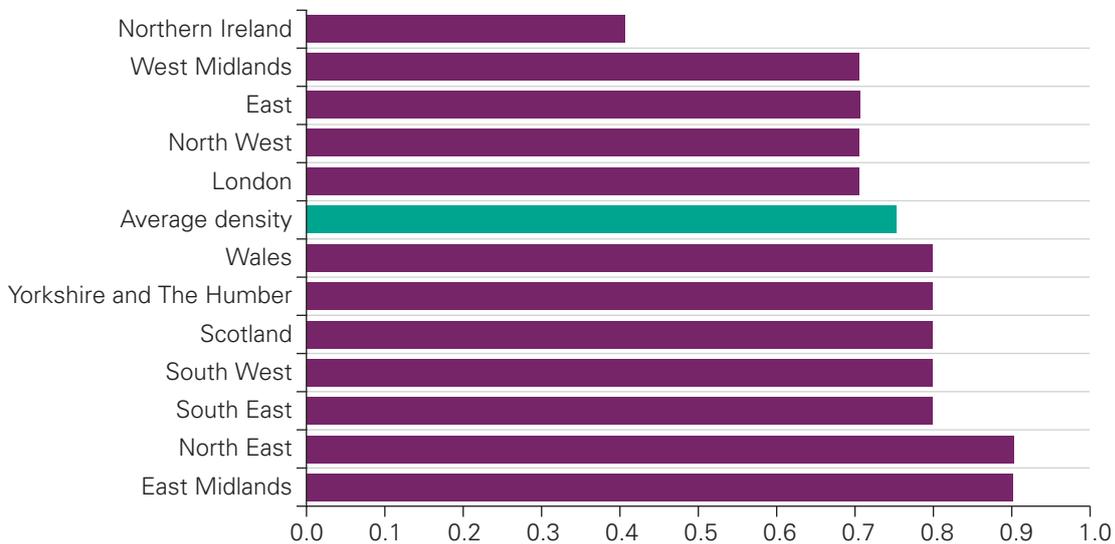
Figure 3: Number of training providers by region and devolved administration



Source: IDBR 2008/Simpson Consulting

However, as a percentage of the business base in the region or devolved administration, training provider density is highest in the East Midlands and North East, and below average density in Northern Ireland, the West Midlands, Eastern Region, North West and London.

Figure 4: Training providers as a percentage of total business population



Source: IDBR 2008/Simpson Consulting

Regional differences may be less relevant in areas where there is a high rate of travel and in or out commuting. For example, training providers in the South East may also serve London and make up for London's slightly below average density of provision, whereas in the South West, where the economic effects of geographic peripherality are evident, location may be more of an issue. It would seem that Northern Ireland could be the least well-served geography by training providers, both numerically and in terms of density.

The relative density of providers is important, because where density is comparatively low, organisations may not be able to find the provision they require, and where it is comparatively high, greater competition may mean the provider base may be less stable.

The supply of publicly funded provision may cause market distortions. For example, where there is a weak or less numerous supplier base, competition between the publicly funded sector and the private sector for training providers with which to contract, may affect the range of provision available. Conversely, where there is crowded marketplace in terms of private training supply, increased Government-supported training provision, through Train to Gain for example, may provide unhelpful competition to private training provision and destabilise the market.

## Types of organisation

It is noted above that the private training sector comprises a wide variety of types of organisation, and there is no such thing as a typical training provider. Training providers

include: management consultants, coaches and personal development specialists; business schools, private colleges and independent educational establishments such as academies; trade associations and membership institutions, including Chambers of Commerce and employer representative bodies such as SSCs; arts and cultural bodies; IT companies; publishers; and corporate universities. The sector includes a high number of independent trainers as well as small and medium enterprises and a few big corporate entities. Trainers offer a range of often quite disparate services and disciplines or areas of expertise.

A simple classification follows:

### **Independent training providers**

These companies have training as their main activity, although providers could include charitable and voluntary organisations as well as commercial businesses. Independent training providers often have a core/periphery model, according to Key Note's market report,<sup>11</sup> with a small core of professional staff and a range of associates. Rates are often as low as £300 per day for associates, depending on the market and region, according to the Trainerbase salary survey 2008.

### **IT companies**

IT trainers form a large element of the training provider supply side, with an estimated 1,300 specialist IT training providers<sup>12</sup>, because of the relatively large scale of IT training and, until recently, buoyant demand for it (see *Demand-side analysis* section). However, this part of the sector is consolidating as more companies seek to outsource their IT training to a smaller number of training providers. Many IT companies also have IT training arms; IBM was one of the first to enter this market, but now most software companies also provide training in software applications in order to be competitive.

### **Professional institutes**

Most professional institutes offer training; for example the Chartered Management Institute, the Chartered Institute of Personnel and Development, the Chartered Institute of Marketing, the Royal Institute of British Architects, and the Institute of Directors.

### **Management consultancies**

It is difficult to draw a definitive line between management consulting and management education and training. Management consultants often use training

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<sup>11</sup> Key Note Publications (2007b).

<sup>12</sup> Key Note Publications (2007a).

tools and techniques – for example, the Six Thinking Hats – to achieve business improvement, or encourage the development of a range of leadership styles and competencies to improve business performance.

The introduction of new processes and systems usually necessitates training and development for personnel in client organisations. Training may be offered as a separate support service or included in the overall approach by organisations providing process or systems development services.

### **Business publishers**

Business publishers supply information, and therefore training in how to use this is an obvious complementary service offer. For example, financial publishers may offer financial training, for example Pearson, which owns the Financial Times Group, offers a range of training.

### **Commercial education establishments**

Commercial education establishments include business schools that regard themselves as commercial operators, such as Cranfield and Henley Management College, as well as an estimated 3,000 lesser-known commercial colleges, many of which sell to companies as well as to individuals<sup>13</sup>.

### **Sole practitioners**

As previously noted, the market is highly attractive to sole practitioners due to low entry costs and the lack of regulation, as well as the wide range of demand for different types of training and development. However, many sole practitioners may operate at the margins of viability or use training to supplement other income.

## **Types of training offered**

According to Key Note's market report<sup>14</sup>, most training bought by employers falls into the following broad categories:

- **Training for school leavers and graduates:** for example, for employability and job readiness.
- **Professional and technical training:** for example, law, medicine, architecture, engineering and finance, and where initial training has usually been provided through the education system. Almost all professional institutes provide this.
- **Functional training:** for example, financial management, HR management, project management, quality assurance, and sales and marketing.

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<sup>13</sup> See British Association of Colleges.

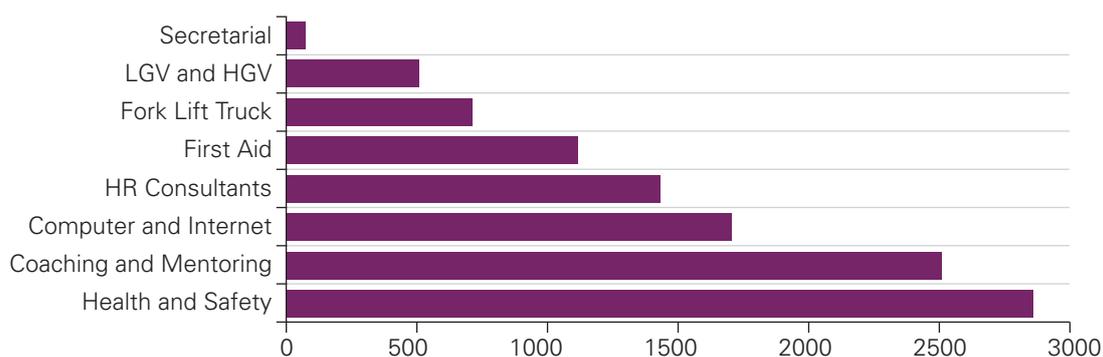
<sup>14</sup> Key Note Publications (2007b).

- **Management and organisational development:** for example, general management, leadership, strategic planning, and business process improvement.
- **HR and personal development:** for example, team working, communication skills, stress management, and assertiveness. Outdoor training is a small but significant high-value subsector of the HR and personal development training market.

To this list might be added IT training, which accounts for a major element of the supply of private training, and is dealt with in more detail in the *Demand-side analysis* section.

The Yellow Pages database, although it lists only advertisers and is therefore not complete, provides a useful numerical breakdown by type of training offered of the 10,342 providers listed (see Figure 5). (Note: the numbers do not add up, because of overlap between providers offering more than one service.)

**Figure 5: Types of training providers**



Source: Yellow Pages database

The Yellow Pages database should not be taken as definitive, because it contains only those organisations that choose this method of advertising and who classify themselves as primarily training providers. Nevertheless, it provides an interesting insight into the breakdown of training services by subject matter; for example, the high numbers of coaching and mentoring and health and safety trainers outstrip, in numerical terms, IT training providers. (However, it should be noted that there are over 24,000 IT companies on the database, many of which also provide training and advice.)

It is difficult to assess, in the absence of primary data, the extent to which this segmentation is determined by demand or supply-side characteristics. It could be that there is a very strong demand for coaching and mentoring, for example, or that it is easy to enter this market as a training provider.

## Market leaders

**Professional and technical training:** Almost all professional institutes supply this; for example, the Royal Institute of British Architects (RIBA), Financial Services Authority (FSA), Royal Institution of Chartered Surveyors (RICS) and Chartered Institute of Marketing (CIM).

**Management and organisational development:** Market leaders include Cegos, Hemsley Fraser Group, John Matchet Ltd, Structured Training Ltd and TACK International Ltd. Other organisations include Ashridge and Cranfield, Chartered Institute of Personnel and Development (CIPD), Institute of Directors (IOD) and London Business School.

**Functional training:** Market leaders vary by specialism but include:

- **Quality assurance:** Bywater PLC, BSI Business Solutions, Lloyd's Register Quality Assurance, Pera International and Smallpeice Enterprises.
- **Accountancy and finance:** Market leaders include, for accountancy, BPP Holdings PLC, the Financial Training Company Ltd (Wolters, Accountancy Tuition Courses BNB Resources Ltd); and for finance, Euromoney Institutional Investor PLC, FT Knowledge, Adkins Matchett and Toy, and Meridian Consulting Ltd.
- **Sales and marketing:** Cegos, Hemsley Fraser Group Ltd, Huthwaite Research Group, John Matchet Ltd, Structured Training Ltd and TACK International Ltd.
- **Project management:** Cegos, ABT International Ltd. Hemsley Fraser Group Ltd, Project Management Professional Ltd, Xansa Plc, Smallpiece Enterprises, and KnowledgePool Group Plc. The major IT training companies also tend to provide project management, because IT systems and project management processes are strongly related.

**HR and personal development:** Market leaders include John Matchett Ltd, Cegos, Hemsley Fraser Group, GBS Corporate Training and TACK International Ltd.

**Outdoor training:** Market leaders include: Impact Development Training Ltd, Brathay Hall Trust, Dove Nest Management Training and Development Ltd and John Ridgeway School of Adventure.

**IT Training:** Market leaders, including a number of global companies, are Microsoft, IBM Training, Global Knowledge, RedTray, Assima, PPI, Learning Tree and Cegos.

## Types of delivery

Key Note's report<sup>15</sup> categorises the types of private training delivery as:

- tailored or bespoke courses delivered on a wide variety of premises, including purpose-built centres, hired premises and the employer's premises, and available either as 'open', publicly available courses or 'closed' courses for a particular customer;
- off-the-peg courses delivered as above;
- distance e-learning courses, for example those delivered by learndirect's business arm;
- intranet-based courses; i.e. within an organisation's workforce and using technology as the primary mode of delivery.

<sup>15</sup> Key Note Publications (2007b).

The evidence suggests, however, that the growth in the use of technology in training delivery (i.e. e-learning), means that the boundaries between these types of delivery are increasingly blurred. The most recent CIPD survey<sup>16</sup> showed that 49 per cent of private sector organisations now use e-learning, although the public sector figure is significantly higher at 80 per cent, indicating that there is still considerable scope for private sector market development. e-skills UK forecast in 2007<sup>17</sup> that employers would spend up to 30 per cent of their training budgets on e-learning by 2010.

The use of technology extends not just to the delivery of learning content and the use of electronic diagnosis and assessment, but also to the management of the relationship between learner and tutor. This can include meetings being replaced by emails, text messages and learning delivery methods such as 'webinars' for groups of learners in a virtual learning environment, whilst Web 2.0 technologies such as social networking are opening up opportunities for informal learning and are beginning to be used by companies, for example as part of induction training.

For organisations with sufficient capacity, outsourcing (where an external supplier takes management responsibility for the training function) or partnerships with a learning provider, rather than ad hoc purchasing of training, are growth areas. KnowledgePool specialises in providing 'managed learning services' to large corporate organisations such as Merrill Lynch, Fujitsu Services, British Airways and the Home Office, and estimates that the outsourced market is currently worth about £140 million, but is growing at the rate of 8.7 per cent per annum.

A further distinction among outsourced or managed service training providers (MSPs) can be drawn between proprietary and vendor-independent suppliers.

Typically, proprietary providers have developed expertise in the delivery of a catalogue of courses, provided either on their own premises as open or public courses or as closed courses on an employer's site. Examples include training relating to management and leadership, IT and technical or professional knowledge. The advantages to employers of using proprietary MSPs include high-quality delivery from experts, flexible resources (pay for what you use), access to advice and expertise from the MSP, and the fact that the MSP undertakes the research and development of new courses and learning materials.

Vendor-independent MSPs operate on a different business model: they draw on a wide range of suppliers to meet customers' needs, and often use a broad mix of training methodologies. The advantages for employers of using vendor-independent MSPs are that they provide the supplier management and usually have up-to-date technology, content and delivery methodologies. This model also allows the buying organisation to develop a strategic relationship with the provider, who may often provide expert consultancy advice and enable learning to be integrated more effectively into business strategy and planning.

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<sup>16</sup> CIPD (2008).

<sup>17</sup> e-skills UK (2007).

The partnership approach is becoming an increasingly popular model in the area of e-learning. According to e-skills UK's research, partnership with an e-learning vendor is the second most popular approach in the area of e-learning, preferred by 47 per cent of respondents. The most popular approach of buying in commercial e-learning products is used by 55 per cent of respondents.

Clearly, this sort of outsourced provision is costly and out of the reach of many small and medium-sized enterprises (SMEs) and micro businesses; however, at its best, it provides an aspirational model for the Train to Gain service.

### **Ethos**

Finally in this supply side analysis of the private training market, it is worth noting that the ethos and business models of the organisations operating in this market are very different to those of the public sector in several respects. The general characteristics of the private supply side are as follows:

- Qualifications are only a small part of the offer, not the overarching structure, and are hardly ever presented as NVQs, even though some may be NVQ equivalent.
- Where qualifications are offered, they are often either vendor-derived, for example Adobe and Apple, or specialist qualifications such as in accountancy.
- Corporate presentation is primarily business-orientated, information is simple to access, and the promotional tools, which are primarily online, do not use public sector language. [www.thecourselocator.co.uk](http://www.thecourselocator.co.uk) provides a typical example of a portal used by a major private training provider – in this case, Business Training Partnership – of over 10,000 courses divided into just three main categories: technical courses (IT-vendor-driven courses, in the main), qualifications (ITIL, MSP, ISEB, PRINCE2)<sup>18</sup> and business skills (e.g. communications).
- The prices of training are competitive and there is widespread availability.
- Add-on services are often available; for example managed service provision, advice and consultancy.
- Marketing is targeted and uses business-to-business channels. The main promotional methods include direct mail, targeted advertising in specialist magazines, and exhibitions. There is little or no national mass marketing beside directory listings, and public presence is limited in relation to even the largest training providers.

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<sup>18</sup> Information Technology Infrastructure Library (ITIL); Managing Successful Programmes (MSP); Information Systems Examinations Board (ISEB); PRjects IN Controlled Environments (PRINCE2).

## Demand-side analysis

This section analyses the:

- scale and nature of demand for private training provision;
- characteristics of the customer and consumer base, including main market segments.

### The scale and nature of demand for private training

Key Note's market report<sup>19</sup> estimates that, in 2006–2007, employer expenditure on off-the-job training amounted to £18.4 billion, a decrease of 0.2 per cent on 2005–2006, a figure which it is assumed is drawn from the LSC/NESS<sup>20</sup> data. The report points out that the majority of this expenditure is accounted for by internal training, and that UK employers spend around £2.95 billion annually on external trainers; it is assumed that this figure is drawn from NESS analysis (2005), although the report does not explicitly say so.

NESS (2007)<sup>21</sup> provides a figure of £1.893 billion in fees to external providers for the provision of courses, and a further £0.736 billion in fees for other types of training provision, giving an overall sum of £2.629 billion. However, NESS does not distinguish between public and private sector provision, although elsewhere NESS notes that just over half (51 per cent) of respondents who provided training used external providers other than FE colleges. It would, however, not be appropriate to attribute public and private expenditure on this basis, because it is not known how much of the LSC budget goes to non-FE providers.

Key Note forecasts that UK employer expenditure on training will grow by between 0.3 and 0.4 per cent year on year to 2011–2012, and thus the market is fairly static. However, this estimate was made before the economic downturn.

Better figures are available for the IT training market, largely because of the activities of IT Skills Research, a specialist training market analyst, which estimates that in 2007 the UK IT training market was worth over £530 million, an increase of over 10.6 per cent since 2006<sup>22</sup>. The analysis includes training provided by employers to their staff, and excludes training provided by universities and colleges or purchased by private individuals. It is based on a survey of IT training providers, supported by company financial data, and therefore does not include training provided in house.

Key Note's specialist market report on IT training<sup>23</sup> estimates that the market was worth £661 million in 2006. It notes a shift in training from IT technical or professional

<sup>19</sup> Key Note Publications (2007b).

<sup>20</sup> National Employer Skills Survey (2005).

<sup>21</sup> National Employer Skills Survey (2007).

<sup>22</sup> IT Skills Research (2007).

<sup>23</sup> Key Note Publications (2007a).

training to IT user training as the importance of IT in the workplace continues to grow and IT user skills needs continue to rise. However, the report notes that companies are consolidating their purchasing among a small number of vendors, particularly as learning outsourcing continues to grow; although the market remains fragmented, the leading 15 providers share 50 per cent of the market.

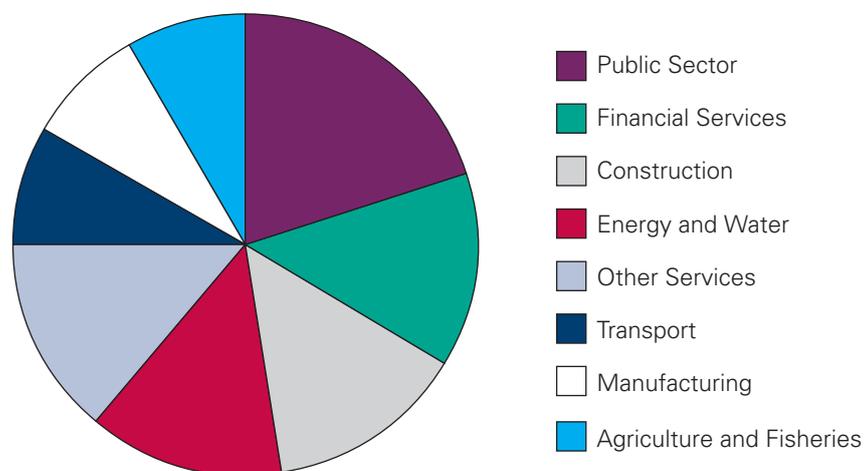
The Key Note report forecasts steady growth in the IT sector between 2008 and 2012, with blended and managed learning performing particularly well. The fact that there are two IT training companies in the Deloitte 2008 Technology Fast 50 Index, namely RedTray and Assima, tends to bear this out in spite of the economic downturn. However, the Key Note report also forecasts increased competition from the higher education (HE) sector as Government encourages it to play a greater role in the provision of high-level IT skills.

### The characteristics of the customer and consumer base

According to NESS, the sectors that spend the most on training, in terms of value, are tourism and hospitality, retail and construction, whilst those that have shown the greatest increase are the audiovisual industries, education and training sector, and process industries. These figures are drawn from SSC research, however, and do not distinguish between public and private provision.

The Key Note report uses a different classification and a different source – which it refers to as ‘DfES statistics’, although these are not identified further – to identify the sectors which carry out the most training: the public sector, the financial services industry, construction, energy and water, and other services (see Figure 6).

Figure 6: Percentage of private training by broad industrial sector



Source: Key Note Publications (2007b)

### **Market segmentation**

According to Key Note, the private training sector segments its market according to types of organisation, as follows:

- SMEs;
- Local and Central Government;
- charities and the third sector;
- educational institutions and medical centres;
- professional practices.

These main market segments have specialist needs which also have a distinct sectoral dimension, according to SSC research. For example, although most SSCs highlight the need for improved management and leadership, this provision is very different in nature across the sectors. This tends to encourage training providers to be niche operators.

Generic aspects of demand include the need for more modular learning as time pressures increase, a growth in demand for e-learning and blended learning as downward pressure on costs continues, and an increased need to integrate training into the business strategy.

## Future trends, conclusions and key messages

This section contains:

- key trends and the implications for private sector training provision;
- conclusions and recommendations.

### Key trends and their implications

As the economy continues to slow and training budgets come under increasing pressure, the market consolidation is likely to continue, with fewer larger training providers dominating the market. However, there will always be a place for smaller niche operators who can undercut the larger corporate operators.

Large companies seeking to cut costs will drive the growth in demand for outsourced HR functions, including training, favouring larger training providers and those that can operate globally to match their clients' business models; for example those serving global IT companies.

The use of technology in learning will continue to grow as part of the solution to deliver key benefits such as cost reduction and standardised modular learning. This will favour training providers with up-to-date technology, and knowledge of how to apply it.

At the same time, the growth in the use of technology in the workplace will continue to pervade all sectors and most occupations, giving rise to the need to deliver technology skills as part of the training offer, not a stand-alone subject. For example, e-skills UK, the SSC for the IT and telecoms industries, points to the need for IT professionals with business skills, who are able to deliver business solutions through the expert application and exploitation of technology. Skillset, the SSC for the audiovisual industries, points to a similar need for hybrid creative, technologically skilled, business-aware individuals.

Training will increasingly need to be integrated into the business strategy as all businesses come under greater competitive pressure. This will provide an advantage to those training providers seen to be offering business solutions instead of just ad hoc training services.

Training providers that are likely to be under the least pressure will be organisations operating in sectors:

- that are driven by regulation, for example financial services and hospitality;
- with environmental obligations, for example energy and manufacturing;
- that are driven by technology, for example financial services, IT and the audiovisual industries;
- that are least affected by the economic downturn, for example the public sector.

The training providers that are likely to be under the most pressure during the economic downturn are those operating at the 'soft skills' end of the market, for example personal development, mentoring and coaching, but possibly also customer services, management and leadership, team building, and so on.

### Conclusions and key messages

The private training market is imperfectly understood, and an absence of relevant data makes it difficult to assess and quantify its size and value precisely. Gaps in the data cannot be filled through interrogation of the official business statistics, which do not distinguish between public and private sector training providers and are unlikely to do so in the future, because they are based on SIC codes<sup>24</sup>. NESS could, however, be adapted relatively easily to capture data on employers' expenditure on private sector training, as distinct from publicly funded or subsidised training provision.

Figures for external training fees (public and private), provided by NESS (Section 7, Training Expenditure), show that external training accounts for a very small proportion (approximately 7 per cent) of employers' overall expenditure on training. This expenditure is subdivided into fees to external providers for off-the-job training through courses (5 per cent) and other sorts of training such as seminars (2 per cent). The simplest approach would be to include in the NESS questionnaire two supplementary questions to current questions 4 and 18 on fees to external training providers to determine the proportion paid to private training providers.

#### **We suggest that NESS is revised to capture data on employers' expenditure on private sector training provision.**

A further issue arises through the study of training expenditure figures provided by NESS, which reveals the very high percentage of expenditure that is accounted for by employers' in-house costs including trainee labour costs, training management costs, materials and other associated costs. Together, these costs account for 93 per cent of employers' expenditure, according to NESS.

It would seem that employers may be incentivised to provide their own training by the corporation tax relief system, which allows employers to offset costs, including existing overhead costs such as the wages of those employees managing the training. Whilst this clearly encourages training, it may favour in-house delivery of training to the extent that external training is a less attractive option because it does not provide the same scope for offsetting overheads.

#### **We suggest that further research is undertaken into the effects of the corporation tax relief rules in relation to employers' decisions on training.**

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<sup>24</sup> SIC codes were revised in 2007 and are unlikely to be revised again in the near future.

One of the main conclusions of this piece of work is that the public and private sector training markets operate in parallel, with little overlap between the two. They are driven by different aims: the public sector seeks to increase the stock of workforce skills through stimulating greater investment in training by employers and individuals, whilst the private sector exists to meet the needs of organisations to increase competitiveness and productivity through improving the functionality of employees.

Although the private and public sectors of training supply have different aims and characteristics, this may provide an opportunity for stimulating knowledge transfer between them. Public sector operators could benefit through understanding the more commercial approaches to marketing, delivery and the use of technology that market leaders in the private sector adopt. Private sector suppliers could benefit from partnerships which enable access to public subsidy and open up previously less viable markets, for example SMEs. Innovations in types and models of provision could result, and employers and learners would benefit from greater choice and availability.

**We suggest a scoping study to identify the benefits of a project to transfer knowledge between public and private training providers.**

There are some major hurdles to overcome in bringing the public and private sectors of training provision closer together, most notably the extent to which the publicly funded providers are driven by the necessity of achieving qualifications, whilst qualification-led training makes up only a small part of private provision.

Although qualifications will continue to be the most appropriate way for employers to assess new entrants to the labour market, the evidence strongly suggests that they do not have the same value or meaning to employers in relation to the existing workforce. What are important to employers are the skills and competencies of an individual, acquired as needed, to enable the business to operate competitively. The evidence suggests that employers are more interested in 'certified' provision, kite-marked or delivered to an industry-recognised standard and supplied by trusted providers, than in qualifications (except where these are a legal or regulatory requirement or they are related to clearly defined and regulated professions).

Employers also increasingly require unitised provision in modules that can be delivered flexibly. Units or modules can potentially be combined to create qualifications to suit individual employers' and learners' requirements, particularly as the whole learning process from initial needs analysis through to assessment is becoming increasingly enabled by technology. The decision to start and complete units and qualifications should be determined directly by the market (i.e. the employer or individuals), with a system of credit accumulation over time, enabled by technology. This unitised model with bite-size learning is increasingly essential in sectors and occupations where the pace of change is very fast, for example where IT is involved.

The risks are that, without this, there will continue to be a two-tier system where the public sector provision operates separately, driven by qualifications, and employers continue to invest substantial sums in training and learning delivered by the private sector and which is largely unrecognised by Government.

**We suggest that, in order to achieve greater synergy between public and private provision and hence meet employers' needs more closely, the use of qualifications as targets for publicly funded provision might usefully be reviewed.**

It has also been noted in this report that public sector supply of training potentially competes with private sector supply and could distort the market in the following ways:

- in the provision of skills that are already supplied by the private sector (e.g. commercial IT skills provided through HE);
- through competition for suppliers with which to contract in regions where the supplier base is less numerous;
- through destabilising private sector supply in areas where there is already intense competition or over-supply.

**We suggest that the impact of increases in the public funding of training on the private sector training market is considered.**

## Appendix A: Adult and other education

This group is reserved for specialised training for adults not comparable to the general education in:

- 80.1 to 80.3
  - education can be given in classrooms, by radio or television broadcast, internet or correspondence course.
- 80.41 Driving school activities. This class also *includes*:
  - tuition for flying certificates and ship licences other than for commercial certificates and permits.
- 80.42 Adult and other education not elsewhere classified.
- 80.42/1 Activities of private training providers. This subclass *includes*:
  - the provision of training by The Learning and Skills Council and National Training Organisations (NTOs);
  - private companies advising on training, designing/delivering training courses or involved in the preparation of training materials for people in youth and employment training schemes.
- 80.42/2 This code is no longer in use.
- 80.42/9 Other adult and other education not elsewhere classified. This subclass *includes*:
  - other adult education, i.e. education for people who are not in the main school and university system. Instruction may be given in day or evening classes in schools or in special institutions providing for adults;
  - education which is not definable by level.This subclass *excludes*:
  - higher education cf. 80.30;
  - activities of dance schools cf. 92.34/1;
  - instruction in sport and games cf. 92.62/9.

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