

A Strategic Assessment of ITIL Training Industry:
Applying the Porter's Five Forces for Industry Analysis to
understand the attractiveness of ITIL Training industry

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Abstract:

The Indian ITIL Training industry has grown and changed significantly over the past three years with training providers offering courses based on the latest edition of ITIL (ITIL 2011). During the years 2004 through 2008 there were very few ITIL training providers offering ITILV2 Foundation, Practitioner and Manager Courses, most of them first movers, who continue to lead the industry even today. With IT Service provider organizations making it compulsory for all IT support personnel to have ITIL certification the demand for ITIL training and certification is growing every day. The industry in India today has more than 100 training providers, including Accredited Training organizations and their affiliates, many of them who have sprung up during the last three years. IT Service provider organizations are spending to get their Support personnel trained, making them volume buyers of the ITIL exams. With over 100 ITIL training vendors the competition is intensive today, forcing training providers to offer huge discounts in an effort to acquire customers. This is an unregulated industry with about 50% of the training vendors from unorganized sector. Despite the fact that there are over 100 ITIL training companies the new entrants continue to enter the industry with little or no understanding of the attractiveness and profitability of the industry. The purpose of this paper is to analyze the attractiveness of the industry for new entrants using Michael Porter's Five Forces Model *from a theoretical standpoint*.

Paper type - View Point

Keywords - IT Training industry, ITIL Certification, Business Strategy, Porters Five Forces, Vocational Skills, Competitive advantage.

Michael Porters pioneering work in the year 1979 when he published his first paper on “How competitive forces shape strategy” changed the way organizations thought about competitive strategy. In his subsequent paper “The five competitive forces that shape strategy” published in 2008 in Harvard Business Review he updates his classical work and also gives more comprehensive view of the framework.

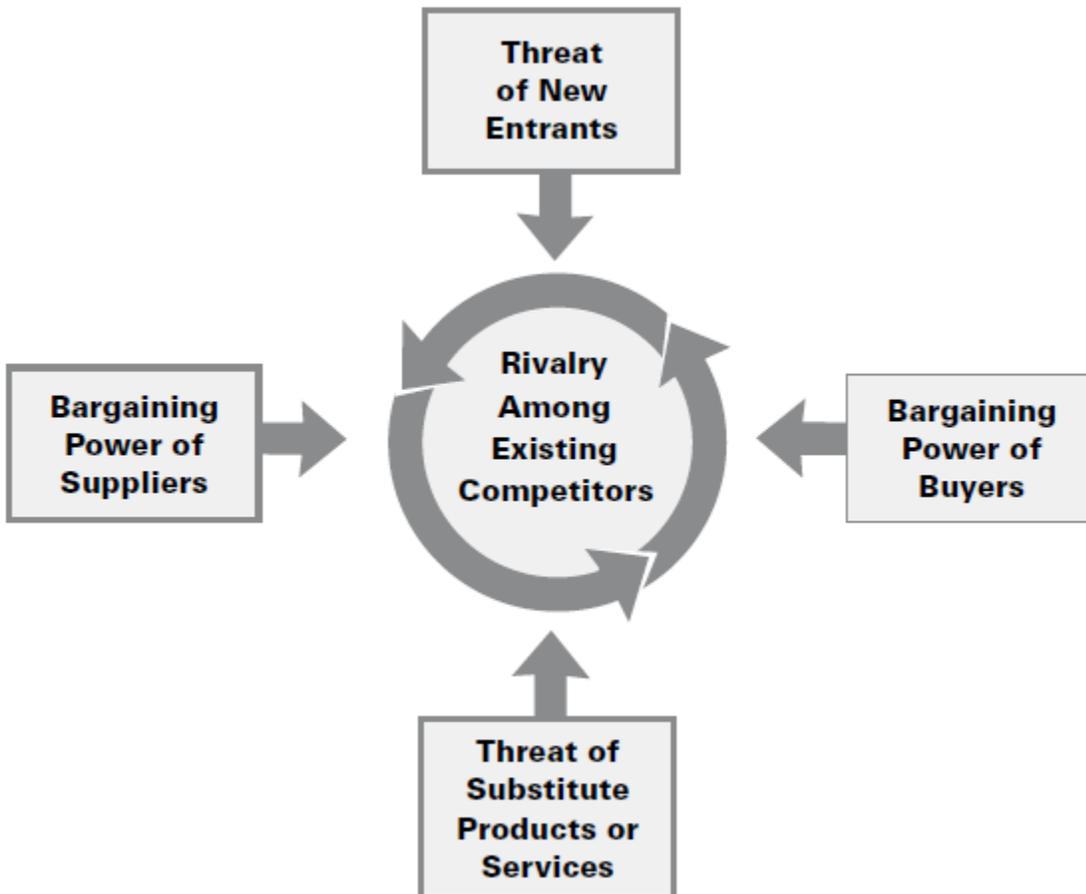


Figure 1: Adapted from the article Five Forces that shape strategy, Michael Porter, HBR, 2008

Porter's Five Forces Analysis:

One of the most widely accepted and used tool for External Assessment (also called External Audit or Industry analysis) is Michael Porters Five Forces Industry Analysis. It is used to perform External Assessment in the strategic formulation process. Porter says that competition in an industry is a combination of these five forces:

- Rivalry among existing competitors
- Threat of New entrants
- Threat of substitute products or services
- Bargaining power of suppliers
- Bargaining power of buyers

All the above five forces are described in brief.

Rivalry among competitors: Rivalry between competitor's increases as the number of companies increase in the industry. Price cutting becomes very common. Customer can also switch brands easily as there is no switching costs. Industry profits decline and there is a possibility of companies exiting the industry.

Potential entry of new competitors: New entrants into the industry increases competition which again results in price wars. However the willingness of new entrants to enter an industry depends on the entry barriers like economies of scale, product differentiation, capital requirements, access to distribution and so on.

Potential of substitute products: Substitute products which will match the needs of the customer like the original product will give the customer an option to switch over. Substitutes become a threat to companies. Too many substitute products will limit the price that companies can charge for the original product.

Bargaining power of suppliers: Bargaining power of suppliers will determine the profitability of the company. If the suppliers have more bargaining power then that makes the company pay the price the supplier wants which in turn reduces profitability. There are different circumstances in which the bargaining power of suppliers is high. An example is it becomes difficult for company to switch suppliers becomes the switching cost is high due to high differentiation of the product which cannot be easily substitutable.

Bargaining power of buyers: Bargaining power of customers is high if there is intense competition based on price and there is no differentiation in products. Customer become powerful when they buy in large quantities, switching costs is low and when they are too many sellers.

Strategic Industry Analysis:

Like in any other industry training industry's profit too is highly influenced by competition. When you have training providers whose products and service does not have any differentiation then it becomes all the more difficult to make profits. Commoditization of these courses are reason where profits crumble, and when buyers cannot differentiate and tend to look at courses from all the providers as similar they will buy the least expensive course.

The way organizations do their strategic positioning largely depends on the understanding that organization has about the industry that it operates, particularly the industry structure. Porter's (2008) statement is important:

"Understanding competitive forces, and their underlying causes, reveals the root of an industry's current profitability while providing a framework for anticipating and influencing competition (and profitability) over time".

Excessive competition and commoditization of services drives down profits leaving organizations looking for differentiators to stay afloat in the business. It is only the strong ones who manage to survive. It is extremely essential for organizations to understand which of the five forces undermines profits. As Ketchen and Short (2011) put it:

"If one of the five forces works to undermine profits in the industry, then the profit potential is very strong. If all the forces work to undermine profits, then the profit potential is very weak. Most

industries lie somewhere in between these extremes. Once executives determine how much profit potential exists in an industry, then they decide what strategic move to make to be successful”.

There is a huge demand for ITIL and other IT Best Practice courses. There are two types of potential customers in this ITIL training industry: Individual customer (Retail) and corporate customer. Majority of the Individuals are IT professionals who pursue training and certification with an aim to move to better jobs or shift careers. Training requirements of IT Companies are driven by their clients. Most of the IT companies send their employees for ITIL training either for having giving assurance to their prospective clients that they have ITSM certified professionals or mandated by their contract with existing clients. Here in this article we have examined the strength of each of the competitive forces from the perspective of an incumbent or a company already present in the industry for some time.

Rivalry among existing competitors: There is an intense competition between ITIL Training providers. Price cutting, heavy discounts, exam pass warranties, free second attempt and other offers are frequently visible in the advertisements and corporate quotations. Price competition happens when companies offer prices much less than their competition which in turn largely depends on the company's ability to reduce their production costs (Campbell et al, 2011). ITIL training companies are reducing prices to acquire customers. For some training company's customer acquisition is more important than profitability. The competition is intense because there are large number of smaller players located in one city, and who try to acquire customers from other cities by offering discount and undercutting prices. This intense rivalry has reduced the market share of a few major training providers who were early movers.

Threat of new entrants: The threat of a new ITIL Training provider entering the industry depends on the entry barriers. There are absolutely no entry barriers for new entrants. The incumbents do not have any advantages compared to new entrants. The threat of new entrants is very high. There are couple of sources (entry barriers) we discuss here.

- a) **Customer switching costs:** These are the costs that customer face when they switch from one training provider to another. It is easy for either a corporate or individual customer to change ITIL training vendor with absolutely no switching costs. For example, an individual who has completed two ITIL Intermediate modules and exam with one training provider can easily decide and change to another training provider to pursue other modules to complete his ITIL expert certification. Individual customers who switch training providers for 500 Rupees less fee is a common sight in this industry.
- b) **Capital Requirements:** It is mandatory for all ITIL Training providers to become Accredited Training Organization (ATO) by any of the Examination Institutes (EIs). The cost of acquiring accreditation is not high, making it easy for any new entrant to get accreditation in a few weeks. Most of the ITIL training providers outsource the key resources and facilities on need basis, particularly in the course delivery areas thereby eliminating the need for high upfront and fixed capital requirements. There is a need for developing courseware, and the development costs for courseware is reasonable.

Existing training providers may have some advantages such as large customer base but this cannot be a competitive edge in a price sensitive market.

The cost of capital to start an ITIL training company is very low. This is an industry where training companies earn profits which is highly in excess of the cost of capital. The IT Best Practices training industry will attract more new comers in the years to come. This is an industry which will continue to remain fragmented.

There could be potential entrants who are there in related industries. This should be assessed. One ITIL training provider who entered this business space was already in a related training business. Expected retaliation by the incumbents to the newcomers is almost negligible. The only expected retaliation is by the Incumbents who were there in the ITIL training industry since the past 8 years have cut prices to retain some of their customers.

Bargaining power of suppliers: The ITIL training provider have three types of suppliers: Human, Intellectual and Physical. We talk about these three in detail.

Human: The most important human resource is the Trainer. Majority of the small training providers outsource training delivery to freelance trainers. Freelance trainers are available in abundance. As there are large pool of freelance trainers the bargaining power of this supply is low.

Intellectual: Exams being the intellectual property of EI (through Axelos) is considered as Intellectual resource procured by the training providers. Training providers have three EIs in India from whom they can procure exams. The bargaining power of the supplier depends on volume of exams procured by the training provider. EIs bargaining power is low when the training provider procures high volume of exams in one month or quarter. EIs are relatively powerful as there are only three EIs operating in India.

Physical: Training providers lease the classroom space in either hotels or training centers. Hotels and training centers are abundantly available in all cities, therefore bargaining power of hotels and training centers is low. Switching cost of changing classroom providers is zero. Hotels offer discounts to training providers who lease rooms on regular basis.

There are three Examination Institutes operating in Indian Sub-continent out of the total 5 Strategic EI Partners of Axelos. These EIs are Peoplecert, Exin and APMG. Exams is the major revenue generator for all these Examination Institutes. There is no possibility of backward integration in this industry and therefore reducing input prices (exam) is not possible. Training providers are accredited with more than one EI to be in a position to bargain the input prices (price of exams).

Switching cost is the Actual or perceived cost that a customer incurs when shifting from one service provider to another, it may be tangible or intangible (Campbel et all, 2011). ITIL Training companies do not have any switching costs when they change EIs to procure exams.

Bargaining power of buyers: Powerful buyers will force companies to cut prices, demand better service quality which increases rivalry in the industry and in turn driving down profitability (Porter 2008). Large volume buyers like IT Service organizations may have negotiating leverage and force the companies to bring down prices. Individual customers also have the bargaining power which is forcing training providers offering discounts and certification warranty.

Customers are sure to get choices where to buy when the product or service they want to buy is either standard or differentiated (Henry, 2008). ITIL courses are becoming increasingly commoditized with little or no differentiation between courses offered by training providers.

Customers always have a choice to find the same course from a different training provider. Corporate customer may have more bargaining power compared to the individual customer.

Threat of substitute products: Substitute is a product or service that is same in the functionality of the original product offered, but in a different way (Porter, 2008). In case of a price increase buyers can switch to a substitute (Henry, 2008).

Too many substitutes pose a threat to the industry by limiting the industry's profit potential. It is essential for the training providers to ensure that they keep distance from substitutes by differentiating their courses from substitute through quality. The value that the substitute offer is also of importance to how much it can limit the industry's growth and profitability.

There are few substitutes for ITIL training courses. ITIL E-learning is perhaps the closest substitute for ITIL Classroom courses. There are at least 15 Indian training providers offering ITIL E-learning. There are more than 20 training providers based outside India offering ITIL E-learning. While the Indian based ITIL E-learning is a substitute for the ITIL classroom courses the overseas based E-learning courses are not as the price for their e-learning courses far exceeds the price of the classroom courses. Not all of the E-learning courses are similar to the performance and value offered by ITIL classroom training providers.

Substitute products like ITIL e-learning is a threat to the incumbent ITIL classroom training providers. The inherent advantage of e-learning course like anywhere and anytime learning is perhaps the biggest and unique differentiator that makes this product a strong competitor for the ITIL classroom training courses.

Over all ITIL Training Industry Assessment:

From the perspective of incumbent and new entrants Michael Porter Five Forces Model is invaluable in understanding and creating a strategic plan. Outsiders who plan to make a move into this industry can use this synthesis.

The low barriers to entry are a weak protecting force for this industry. Low bargaining power of supplier is a benefit to industry incumbents and new comers. The availability of cost effective e-learning platforms is enabling e-learning service providers to pose a threat to ITIL Classroom training vendors, therefore the threat of substitute products is high. This is driving the ITIL classroom vendors to supplement their classroom courses with e-learning courses. The bargaining power of buyer is high leading to depleting profit margins for incumbents. The power of buyer as increased at a faster rate than the previous two years with an increase in the ITIL Training organizations by approximately between 25%-35%.

Due to rapid increase in the number of ITIL e-learning service providers there is a high probability of ITIL training to become highly commoditized in the next two years. The increase in adaptation of technology has facilitated the implementation of web proctored exam which resulted in the speedy delivery of certification exams and reduced cost of exam administration process.

The ease of getting ITIL Training Organization Accreditation through the Affiliate route is a cause of concern to the industry with little or no control over quality of training offered by Affiliate organizations. There are also large number of Non-accredited ITIL training providers (who belong to the unorganized sector) who offer these courses with Non-Accredited Trainers and Non-Accredited Course Material. These training providers offer "certification guarantee" ITIL packages

which is resulting in the poor outcomes of the learning objectives and thereby leaving the learners with huge skill gap despite their certification achievement.

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