9-502-009
REV: OCTOBER 16, 2002

JOHN DEIGHTON

Centra Software

In April 2001, Steve Lesser, Vice President of Worldwide Sales for Centra Software, received the first sign that his decision to augment his sales force with a telephone-based sales division would not be trouble-free. It came in the form of a call from the field sales representative who ran the Ford Motor Company account in Detroit for Centra. She had just found out that a member of Centra's telesales team had made a sale to one of Ford's divisions. "Steve, how could you let this happen to me? Ford is my customer. How can I pull off the big-ticket sale if there's a telemarketer selling a stripped-down version of our software behind my back?"

Centra was a pioneer in "eLearning" and "eMeetings," products that let firms train employees and conduct meetings over the Internet. It was off to a very strong start. Revenues had doubled each year since the founding of the company four years earlier, and Centra was now larger than all its eLearning competitors combined. However Lesser faced pressure to grow sales even faster, to make Centra the undisputed industry standard. He had noticed the success of Webex, a new competitor in the eMeetings market, selling exclusively over the telephone, and in response he had installed a telesales operation to complement the field sales force.

Telesales had barely taken off, contributing only 8% to revenues in its first quarter. Even so, the field sales force had begun to view it with alarm. Leon Navickas, founder and CEO of Centra, asked Lesser and Chris Reed, Centra's Vice President of Corporate Strategy, for their views on how to fit telesales more harmoniously into Centra's go-to-market strategy. Navickas posed the issue this way, "I like what our sales force is doing for us, but I like what telesales is doing for Webex. How can I have the best of both worlds with none of the friction?"

Lesser was enthusiastic about telesales. "It's efficient, inexpensive, a lot less painful to manage, and right on strategy. We tell corporations they spend too much on face-to-face meetings, and so every time we demonstrate our product over the phone and close a sale, we validate that idea. To get rid of the friction between them we just have to draw a sharp line between them. Let's agree that we use the telesales team to sell the eMeeting product to prospects under $200 million annual sales, and the field sales force to sell the big-ticket eLearning product to Global 2000 firms."

Reed was no less enthusiastic about telesales, but disagreed with Lesser's plan. "We say we want Centra to be the industry standard for eLearning in Global 200 enterprises. Don't be distracted from that vision. Focus everything on capturing a dominant position with Global 2000 customers. I say use telesales to make the first sale into a Global 2000 firm, and then use field sales to sell to other

---

Research Associate Laetitia Pouliquen and Professor John Deighton prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

departments in the firm. Penetrate then disseminate, that's the principle. What you call friction, that's just the sales force complaining because a cheaper sales tool beat them to the easy sale."

The Market for Corporate eLearning and eMeetings

At the turn of the century most corporate learning and teaching happened face-to-face in a room, led by an instructor or presenter. In 1999 this activity, sometimes called synchronous learning, made up 70% of total U.S. corporate training expenditures. And expenditures were large - U.S. corporations spent $17 billion on training in 1999, according to an IDC report. They spent on items like premises, instructors, training materials and the staffs of corporate training directors, sales managers and other administrators of the various training centers in corporations. The total did not include travel and accommodation costs, or the salary costs of employees in training. These items were borne by the budgets of the line managers who employed the trainees.

The scope of teaching was broad. Firms trained their employees to improve job skills, culture and morale, they briefed sales forces and customers about new products, and they ran conferences, seminars and workshops to market to prospects, to educate customers and vendors, and to motivate distributors.

The 30% of teaching that was not face-to-face was made up of self-paced learning, sometimes called asynchronous learning, using books, audiotapes, videotapes, and CD-Roms. Although not generally counted among training expenditures, corporations also spent substantial sums on brochures, manuals, instruction books, trade shows, Intranets, Extranets and public Websites.

The Web promised to cut the cost of synchronous learning. It made possible the 'virtual auditorium,' offering some of the advantages of face-to-face learning without the need to relocate participants. Using dial-up or broadband access to the Internet and software tools, a student could join an online real-time class, view an instructor's presentation, and interact with the instructor and other audience members. Similar technology was being used to run meetings. Where once the choices had been between a face-to-face meeting or a telephone conference call, now teams could talk, see each other and share documents across multiple locations with the help of networked computers. IDC's report estimated that eLearning accounted for $1.1 billion of the $ 17 billion spent in 1999, and projected that it would grow to $11 billion in five years.

Industry Structure

In 2001 the eLearning and eMeeting industries were in their infancy. A large number of startups, as many as 100 by some counts, as well as some large companies like IBM and Oracle, had begun to market training-specific software delivered over the Web during the mid-1990s. There were no sharp segments discernable in the features and functionalities offered by these many vendors. However analysts tended to distinguish between firms that sold to corporations and those that sold to universities. Reputations did not seem to cross between the sectors. Indeed Centra's Chris Reed argued that "success in the university sector is the kiss of death in the corporate market." Within the corporate market, analysts often distinguished among firms selling content, delivery platforms and learning management systems, although some firms made acquisitions that crossed these boundaries, claiming to provide "end-to-end eLearning solutions." See **Exhibit 1** for a list of competitors.

1. **Content Providers** A number of vendors sold digital content for eLearning. DigitalThink and SmartForce, for instance, dominated the market for information technology (IT) courses delivered on the Web to IT professionals. SkillSoft touted the largest library of non-IT titles in the

market. Some products were distinguished by extensive use of simulation and multimedia. Some vendors offered authoring tools with which firms could create their own content, some sold the courses of in-house authors, and some used a model similar to book publishers to sell content produced by third parties. Click2Learn offered all three.

Content for self-paced learning needed no other software, but content designed to be presented by an instructor to students in a virtual classroom required a delivery platform.

2. **Delivery platforms** This term referred to software to host a virtual gathering, whether it be a virtual classroom, a web conference or an online meeting. About twenty vendors competed with a variety of technologies. Delivery platforms ranged from the simple to the complex and multifunctional.

At the simple end, they were known as eMeeting products. California-based WebEx was the largest player in this market, with an installed base of 3,300 firms. WebEx sold its platform to run internal meetings, as a way for technical support staff to resolve customer problems, and as a sales tool. In a typical application, a dispersed team of five to ten people could talk to one another, share data and graphics, and if necessary see video images of each other as they worked on a group project. WebEx was founded in 1995 and began selling its primary product in February 1999. Revenues grew from $2.6 million in calendar 1999 to $25.4 million in calendar 2000, driven by a sales force that operated almost entirely over the telephone. The company's calendar 2000 results showed a $80 million loss, explained partly by sales and marketing spending of $51 million.

At the sophisticated end of the market, the platforms contained the more elaborate functionality required to support virtual classrooms. Centra was market leader in this segment, having held about 50% share of revenues for the past three years, ahead of IBM's Lotus Learning Space, Mentergy's LearnLinc and Interwise.

3. **Learning Management Systems (LMS)** LMS referred to the administrative element of eLearning. The term covered software to set knowledge and competency goals, assess the learning needs of individual learners and organizations, allow the learners to select online and off-line learning materials, measure and track a learner's progress, and manage enterprise-wide learning progress.

LMS had become a catchphrase for enterprise-wide commitment to eLearning, much as Customer Relationship Management (CRM) had come to signify enterprise commitment to software systems for a range of customer management tasks. While content providers sold discrete packages to meet a particular department's training needs (disparaged as 'point solutions' by LMS vendors), LMS firms pursued the grander goal of selling the whole enterprise on the power of an eLearning system. The price of an LMS serving 20,000 users might run to $500,000 or more. In 2001 many Fortune 500 companies were evaluating the need for an LMS, and Docent and Saba Software were the vendors most likely to be competing. An LMS firm typically led such a sale, in partnership with a systems integrator like Accenture or Price Waterhouse Coopers (PWC). If the client became interested, the client would initiate a search for content providers and a delivery platform vendor. Making the bundle work was difficult, and LMS implementations were often protracted and sometimes fraught with frustrations.

Four major software vendors, Oracle, SAP, Siebel and IBM, had each announced single-source eLearning systems in 2001 to compete with these 'best-of-breed' bundles (LMS vendor, delivery platform, content provider and systems integrator). Siebel, for example, offered eLearning as an element within what it called Employee Relationship Management (ERM). The appeal of single-source solutions seemed, at least initially, to be limited to these vendors' existing clients, and even they continued to show interest in 'best of breed' offerings.

Most observers agreed that the industry was evolving in the direction of integration. Firms with reputations for point solutions broadened their range of skills by acquiring other capabilities, but cautiously, so as not to interfere with opportunities to collaborate on enterprise sales. For example, DigitalThink was beta-testing LMS, but only in application service provider (ASP)[1] mode. Click2Learn began to offer learning management and hosting, but also claimed to be 'vendor-neutral' in partnering. Centra had recently acquired a firm offering capabilities that overlapped with some of its LMS partners, MindLever, but announced the acquisition in the following carefully worded terms:

> Classified in the emerging category of Learning Content Management Systems (LCMS), MindLever functionality is highly complementary to the value delivered to organizations by Learning Management Systems (LMS).

An investment analyst, WR Hambrecht and Co., disagreed, contending that by this acquisition Centra had "enter(ed) the competitive domain of many of its so-called 'ecosystem partners,' including Saba, Docent, Click2Learn and others."

The Company

History

Leon Navickas founded Centra Software in 1995, after 12 years at Lotus Development Corporation. His work as general manager of Advanced Research and Development on the Lotus Notes groupware product was the foundation for his vision of a dynamic, Web-centric group collaboration system. With funding from North Bridge Venture Partners, Burr Eagan Deleage and Company, and several individuals, Centra grew from four employees working on the product prototype to 40 employees with the launch of its flagship product Symposium in 1997. Symposium's first customers included Bay Networks, AT&T, Motorola, Wall Data, Rational Software, and Stanford University. To drive the launch, Navickas hired Christopher Reed to be vice president of corporate strategy. Reed had been director of Notes' product marketing and later its market development, and had been a key contributor to its success. Steve Lesser had been recruited to the company at the beginning of 1999 to drive the development of a worldwide sales organization. Steve had come from Marcam, a leading ERP player, where he had played a key role in increasing the market value of the firm over 10-fold during the mid-1990s.

In 2000 Centra's revenues reached $23 million, with 210 employees and 10 sales offices, in North America, Europe and Asia. (For the organization chart, see **Exhibit 2**.) The customer base numbered 440 corporations. They included Accenture, Domino's Pizza, Gartner Group, Pfizer, Sysco, Toshiba, Hewlett Packard, American Express, Platinum, Kronos and NEC. It served 1.2 million end-users. (See **Exhibit 3** for income statement.)

[1] System software could be delivered to a customer's network by a server owned and managed by the customer, or by a third party ASP, who rented access to the software to the customer from the ASP's servers.

Centra's Products

Centra offered three products:

The **eMeeting** product let firms run virtual meetings for an internal or external audience of up to 100 (but typically 4-6) participants. Its features were a subset of Symposium's, including simultaneous slide import and mark-up, yes/no polling, multiple choice surveys, private/public text chats, co-presenters and raise-hand buttons.

The **Conference** product delivered interactive seminars and corporate briefings to a dispersed audience of up to 1,000 (but typically 100-150) participants over intranets, extranets, or the Internet. Its features were also a subset of Symposium's, geared to presentation to a large audience.

The flagship, **Symposium**, provided a virtual classroom experience for hands-on training and interactive team collaboration for up to 250 (but typically 10-30) participants. Symposium could be used for anything from employee training for a product launch or a new-hire orientation, to customer or partner training or software application training. With live, multi-point video capability, the user could see the leader and any other participant. A full duplex audio feature allowed up to four participants to speak at a time. Participants could raise their hand to ask a question, give an instant yes/no response and feedback, take part in text chats, break out in smaller sessions, and answer spontaneous polling and evaluation questions. The instructor could monitor the level of interaction as the training session unfolded. Live application sharing and whiteboard features were used to enhance interactivity. Application-display, streaming slide presentations and markup, attendee tracking and panel presentation capabilities were available. Symposium had an optional recording and playback capability, so that content presented during a live event could be viewed or reviewed after the session. Thus an event leader could record a live session, including presentations, multipart discussions, displays of shared applications and surveys, so that users who had been unable to attend the live event could play the transcript back later.

Technology

Centra's products were available in "product" and "ASP" packages. When a customer bought a product package, it installed the software on its own server running Windows NT behind its 'firewall' (a term for the barrier denying unauthorized users access to its corporate network). An average of 5 days was needed to install the software and train the trainer and the IT department. When customers bought the ASP package, they rented access to the software on a server hosted by a third party and located outside their firewall, reducing the installation time to about 2 days.

Each of the customer's users needed a Windows desktop or laptop computer, a Web browser, a 28.8 kbps or faster modem, and software downloaded from the Web. Users could connect over intranets, extranets, or the Internet. Each participant could hear others and speak to them through their computer speakers and microphone or headset, using voice-over IP technology[2], without the need to schedule an audio-conference.

Pricing

Centra offered all of its products as both ASP services hosted off of Centra's systems or as software licenses that corporations could install on their network. Centra software prices comprised

---

[2] Voice Over IP: Voice transmitted by the Internet

a per-user charge and a server charge. The price for a Symposium server product license was $35,000 and the per-user charge was $2000 per concurrent[3] user or $200 per named user, in each case for unlimited use into perpetuity. For 18% of the purchase price annually, the product package buyer could buy a support contract that covered bug fixes, upgrades and helpdesk support. The Conference product package installation fee was $15,000 and the per-concurrent-user charge was $600. The eMeeting product package had no installation fee and a per-concurrent-user charge of $1,000. Pricing and terms of ASP services also varied by application. eMeeting was available only for concurrent users, priced at $100 per month per user for unlimited use, Conference was priced at $50 per user for a single event, and Symposium was offered at $25 per user per hour. Education programs were offered to the customers at additional cost. (See **Exhibit 4** for year 2000 U.S. revenues by product.)

Go-to-Market Strategy

Centra's leaders believed that they were in a race to dominate the enterprise eLearning market over the next year or two. They subscribed to the view, generally attributed to author Geoffrey Moore[4], that the maturing of new enterprise-wide software markets occurred in two steps. At first, many startups competed in an early market for the attention of a group of relatively visionary customers who would show tolerance for product imperfections. Later a mainstream market emerged, as the more pragmatic, less indulgent customers joined the visionaries to support the market-leading vendor, securing the benefits of a dominant technology standard and robust product performance. According to this view, only two or three of the early stage competitors ever survived, and the market leader commanded most of the industry profits. The thrust of Centra's marketing program was to win the broadest installed base in the least time so as to be, or be integrated into, the dominant survivor.

Target Market

Centra faced what it termed an ocean of opportunity, where the only question was: Who to serve first? At one extreme, it could compete with WebEx, which last year served 3,300 customers willing to spend an average of $7,000 each over the telephone. At the other extreme it could take on Lotus, which had had found one customer (General Electric) willing to spend $5 million after an extensive courtship.

In its four years of operation, Centra had concentrated on serving the larger end of this spectrum. Of its installed base of 440 firms, approximately 200 were Global 2000 corporations, 100 mid-sized firms and 140 had annual sales of less than $200 million.

Typically Centra's target customers were divisional line managers and human resources managers. Most of Centra's transactions last year had been to individual divisions of large corporations, in the range of $30,000 to $150,000 each. Transactions of over $500,000, though numerically few, contributed 30% of total revenues.

---

[3] A concurrent user is a seat that can be used by a number of people using the same profile.

[4] Geoffrey Moore, Inside the Tornado. New York, NY: HarperBusiness, 1997

Value Proposition

Lesser coached his sales force to frame a business case to line managers in terms of return on investment. He cited many examples to support the claim that eLearning could cover its deployment cost in well under a year. A division of a large financial services firm, for example, had purchased Symposium at a cost of $300,000 and had realized savings of nearly $3 million in the first year in travel, salary opportunity costs and overhead expenses. Nortel Networks found that it could compress the time it took to introduce a new product to its sales force and distribution channels from three months to three weeks. The faster time to market amply repaid the cost of deploying Centra's product.

Reed wanted them to appeal to top managers. "I subscribe to the 'Rule of 5.' We have to frame our appeal to one of the top 5 priorities of the CEO. For example we can tap the 'business velocity' priority. In industries where product life cycles are short, CEOs know that if you can accelerate the process of knowledge capture and use, you have a competitive edge. A lot of knowledge is created in the field. If an organization can use Centra's systems to bring insights back to headquarters, build them into new products and get them out again faster than its rivals, shortening the 'time to get it,' the firm can build a competitive advantage worth many millions of dollars."

Distribution

Centra had three ways to reach customers: a field sales force, a telesales force and a number of alliance partners. A customer relationship management system, Pivotal, was used to capture and share customer contact information.

1. Field sales Centra employed 40 field sales representatives in North America and Europe. They tended to operate in relative isolation from one another, managing their own sales cycles and negotiating as needed for the central technical resources required to close a deal. They were supported by an outbound telemarketing group of 4 people in Boston (distinct from the Telesales group) who made calls to qualify inquiries and called into target companies at the request of reps to identify key decision makers and set up appointments.

2. Telesales In September 2000, to broaden Centra's market coverage, Lesser set up a telesales department with a staff of two that expanded to eight by April 2001. He placed the team under the supervision of Cathy Considine, who also supervised the telemarketing group. Lesser anticipated that 12% of the $50 million revenue forecast for 2001 would come from telesales.

Lesser explained the rationale for Telesales: "We need field selling to get access to the top-tier organizations. But for every million dollars that we sell over the phone as opposed to selling with a field sales representative, we save about $100,000 in travel costs, higher commission rates, salaries, etc. That's 10 cents on the sales dollar." (See **Exhibit 5** for sales force productivity.)

3. Alliance Partners: Centra operated within what it called an "ecosystem' of partners to achieve wider market coverage. Eight of its 40 salespeople were dedicated to working with partners. There were three kinds of partner. First, Centra worked with firms selling infrastructure hardware and software like Microsoft, Cisco and Lotus. Second, Centra worked with systems integrators like PWC and Accenture. Third, Centra tried to work with LMS vendors.

3.1 Infrastructure Partners: An example of a productive infrastructure partner was Cisco Systems. Cisco, as a vendor of networking equipment, actively promoted eLearning to its customers for IT training. It had recommended Centra as the preferred live eLearning system. Lesser explained:

> Cisco believes eLearning will increase the customer's need for bandwidth, so it brings us in on many enterprise-level discussions. For example, it brought our Dallas rep into Raytheon. Similarly, at Unilever, Cisco estimates that by selling an eLearning strategy, they can drive $75 million worth of equipment upgrade next year. They introduced field sales to the director of distance learning, responsible for 85,000 people, and next thing they are putting out a request for proposals. We are delighted about that Cisco relationship: they have 10,000 sales representatives, I have 40.

3.2 Systems Integrator Partners: The systems integration (SI) divisions of consulting firms like PWC and Accenture were a vital element in Centra's go-to-market program because every SI engagement generated a need for post-implementation client training. In return, Centra offered the SIs client training efficiencies, improved training quality, and the prospect of a training annuity income. The SIs were a source of many leads, but they did not give Centra the kind of support they gave to LMS vendors. Reed's explanation was, "LMSs require $4 or more of integration services for every dollar of software purchased. Installation of Centra generates only $0.50." Reed believed also that Centra's efficiency promises were a mixed blessing. "We suspect many of the SI integration project managers choose not to include Centra in application software training bids because we actually reduce the amount their client spends with them on training services."

3.3 LMS Vendor Partners: Centra had the least success at partnering with LMS vendors. Rarely did an LMS see value in inviting anyone besides a systems integrator to join it in a bid because enterprise customers preferred to make their own 'best-of-breed' choices for content and platform vendor. Typically Centra had to independently sell itself to the customer and prove compatibility with the LMS.

The Centra Sales Process

As indicated in **Exhibit 6,** most Centra sales followed one of three paths, depending on the dollar value of the sale.

The field sales process: Some field sales resulted from introductions from alliance partners like Cisco or Accenture. Others began with an inquiry picked up at a tradeshow, off the web, from a direct mailing, e-mail, a Web seminar, an ad campaign, or a joint seminar with a SI partner. An inquiry went to the telemarketing team to be 'qualified,' which entailed finding out how serious was the inquiry and the size of the inquirer's budget. The qualified lead went to Cathy Considine, who passed it either to the appropriate field sales person or to telesales if the potential looked small.

The average field sale cycle averaged about four months from first contact to closing, and ranged from two weeks to a year. Lesser urged reps to see their role as consultative to the buyer, and to build credibility as domain experts. Most field sales transactions were in the range of $30,000 to $150,000 and typically involved both the training or HR department as well as a business sponsor such as a sales executive. Most sales were to new customers, but Lesser was encouraged to see that about 30% of sales were to existing customers last year. Few of these sales were to the same department. More often they were lateral sales to other departments within the corporation. He pointed to a large Boston investment company as an early example of lateral expansion, where the Boston rep had had success selling one-by-one into several of the 80 business units despite no enterprise-level commitment.

Most sales reps reported that the sale to a second division took more of their time than the first sale. "There's a lot of low-hanging fruit out there," explained one. "I sell where the demand is, and usually that's not in a corporation that's already a user. I like to sell to that visionary department manager willing to take the lead and try something new. The second department manager is usually more cautious and then IT makes a project out of it and the whole thing bogs down in meetings and specs." The Philadelphia rep disagreed. "If I take the time to build the groundwork and get to the higher levels of the organization then perhaps the first sale takes longer, but the second sale is easier."

The telesales process: The telesales team concentrated on sales of the eMeetings product in the ASP package. Most telesales began with a call to a name on a list of companies with annual sales under $200 million, purchased from a broker. Experience had shown that lists of sales executives and professional services project managers performed best. Before calling into a company, the telesales staff was expected to use the Pivotal system to check for evidence of a field sales contact. If a field rep had registered that they were active in the company, telesales was asked to get the rep's approval before proceeding.

The telesales staff followed scripts, probing for aspects of the respondent's job that could benefit from Centra's least expensive product, eMeeting, in ASP form. If the lead showed interest, the telesales person would invite them, by using their web browser, to visit a virtual demo room and try the product in the course of the initial phone call. CentraNow[5] was the name given to the demonstration software that introduced prospects and trainees to Centra's features over a combination of phone and Internet.

If the lead wanted features beyond the scope of eMeeting, the telesales rep would pass the call to the supervisor, Cathy Considine, who would introduce the appropriate field rep.

The enterprise sales process: On several occasions a Global 2000 corporation had made an enterprise-wide investment in eLearning. The delivery system component of these transactions exceeded $1 million. In Centra's limited experience (five such deals in four years), enterprise deals did not originate with the salesforce. In each case the client had become interested in eLearning independent of Centra, and had included Centra on its request for proposals because of the firm's relative prominence among delivery platform providers.

These deals were big enough and rare enough to warrant special attention. When, for example, Procter and Gamble decided to make an investment in eLearning, Centra put together a strike force comprising its senior officers and went after the business. After prolonged investigation Procter and Gamble solicited bids from a number of delivery and LMS vendors including Centra, finally choosing Centra and Saba.

Decisions

In April 2001 Reed and Lesser sat down to refine Centra's go-to-market strategy for the coming year. They anticipated sales in 2001 of $50 million, and as a starting point for the discussion Lesser sketched the following distribution of sales by channel:

[5] Visit www.centraNow.com for a live demonstration

	Number of Transactions	Total Revenue	Revenue per transaction
Enterprise sales	4	$ 6,000,000	$1,500,000
Field sales	400	$38,000,000	$95,000
Telesales	600	$6,000,000	$10,000

Reed opened with this observation:

> The numbers are fine. The issue is where are the customers behind the numbers? Will telesales make 600 sales to divisions of large enterprises, or will some come from small businesses? Also, how many of the transactions should be first-time orders and how many repeat orders? We need a breakdown – a penetration target and a dissemination target, and you know my view, no sales to anyone outside the Global 2000.
>
> The breakdown will make us decide where to use our resources, to get first-time sales or to dig deeper into existing accounts. Penetrate or disseminate. I say we've got to be more aggressive at dissemination. The field sales force is out there banging away at deals with new customers worth tens of thousands of dollars, with a few hundred thousand dollar deals sprinkled in. I don't mind if we hand off the small deals to partners or migrate them to teleselling. I do mind that we have such low levels of dissemination within our Global 2000 customer accounts. In the typical enterprise customer we've tapped barely one tenth of the potential. That's because our field sales force hunts down the small deal in the corporate training department and then walks on to the next deal in the next company.

Lesser responded:

> Is that so bad? Would you rather work to improve the 10% dissemination rate within our Global 2000 customers or do something about the fact that we have penetrated only 10% of them? I don't know how to make that choice from where I sit. I say let the field sales force choose: they are closest to the market opportunities.

Reed:

> I don't like letting the sales force choose. By temperament they're hunters, not farmers. They hardly ever choose dissemination. One thing that they don't understand is that dissemination sales help us defend our turf. We can't say that we've sold a corporation just because it has Centra products running in one of its operating units. If another vendor convinces the CEO that eLearning can advance one of the top priorities of the enterprise, say knowledge management or time-to-market compression, we are out and they are in. Remember General Electric. We had presented at a CIO forum to all 29 divisions and our GE field sales rep was following up on serious interest from several divisions. Then IBM did a deal at the enterprise level that included a $5 million license for its Lotus LearningSpace product. Overnight we were frozen out.

Lesser:

> I'm not so sure we are shut out of General Electric. When you sell on an enterprise basis, typically somebody at the top has bought in but they haven't necessarily gotten the troops involved. There's no ownership at the department level to get the product used. The GE rep

> tells me that we may yet make a sale or two at General Electric. That's my point – trust the sales force. They know when to pursue a dissemination opportunity and when to go after a new account.

Reed:

> But telesales is a much cheaper way to win new accounts. Anyway, can we agree to refocus telesales away from the under-$200 million market? Make telesales our primary penetration tool in the hunt for new Global 2000 customers, planting seeds for field sales to harvest. We'll do less well against WebEx in the eMeetings market, but we'll be able to use both our channels to reach the market that really matters in the long run.

Lesser grimaced. If Reed had his way, Lesser would have to deal with many more problems of the kind posed by Ford. It seemed that a telesales person had cold-called one of Ford's smaller engineering divisions without checking the Pivotal database, and had sold an eMeeting ASP license for use in collaborative design. The field sales rep had been furious. Lesser felt that there was merit in the rep's position: the telesales rep should not have been calling a company the size of Ford. Perhaps this customer had been undersold. There might have been the potential for a Symposium sale

And was it a good idea to take pressure off WebEx? Lesser pointed to a headline in his Wall Street Journal, "Meetings in Cyberspace May Soon Be as Routine as the Conference Call." The report told of a small WebEx customer whose business involved doing software development from offices on both coasts. Where once bi-coastal collaboration had been awkward and inefficient, now "they simply jump into a WebEx meeting room and throw their code up on the screen, where everyone can start tinkering with it." He remarked with a smile to Reed, "You strategists make things so complicated. The market's hot. We want to be the industry standard. So let's fish where the fish are biting."

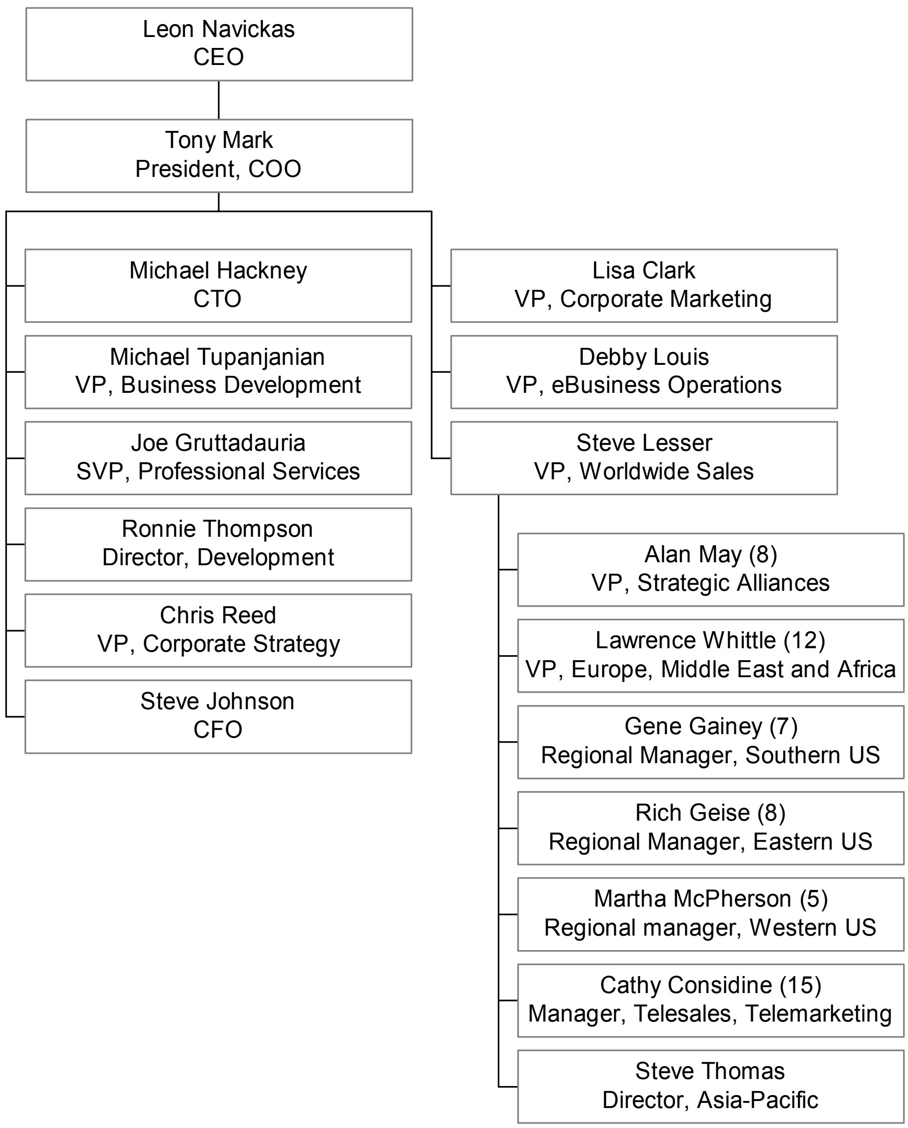
Exhibit 1 Principal Competitors in the eLearning Space

	Revenues (most recent year) ($'000)	Customers	Employees	Salespeople	Market capital-ization ($Million)
Content Providers					
SmartForce	$168,000	2,500	1,500	Not available	Private
Click2Learn	$43,000	300	400	100	$30
DigitalThink	$39,000	350	450	Not available	$250
NetG	$37,000	4,000	617	Not available	Private
Mentergy (LearnLinc excluded)	$8,000	Not available	150	Not available	Private
Skillsoft	$26,000	Not available	200	Not available	$230
Delivery Platforms					
WebEx	$25,000	3,300	Not available	Not available	$780
Centra Software (exc. Mindlever)	$23,000	440	210	40	$360
LearnLinc (Mentergy)	$6,900	Not available	Not available	Not available	Private
Interwise	$6,000	150	Not available	Not available	Private
Lotus LearningSpace Live	$2,200	20	Not available	Not available	Not separately traded
Learning Management Systems					
Saba	$18,000	100	462	39	$500
Docent	$11,000	100	110	Not available	$300
WBT Systems	Not available	60	Not available	Not available	Private
Knowledge Planet	Not available	Not available	Not available	Not available	Private
LearnFrame	Not available	160	Not available	Not available	Private

Source: Centra, company websites, OneSource, and case writer estimates of allocation of sales between company divisions.

Exhibit 2 Centra organizational chart as of February 1, 2001

Centra Organization



Numbers in parentheses after names indicates number of salespeople reporting to that manager.

Source: Centra

Exhibit 3 Centra Income Statement

in $ millions	2000	1999	1998	1997	1996
Total Sales	$23.0	$8.6	$4.2	$0.3	$0.0
Cost of Goods Sold	$3.7	$1.7	$1.1	$0.2	$0.0
SG&A expense	$27.5	$10.5	$6.5	$3.4	$1.1
Research and Development	$8.5	$4.6	$3.1	$3.0	$1.6
Other Operating Expense	$0.9	$0.7	$0.0	$0.0	$0.0
Total Expenses	$40.6	$17.5	$10.7	$6.6	$2.7
Net income before Tax and Interest	($17.6)	($8.9)	($6.5)	($6.3)	($2.7)

Source: Centra published accounts

Exhibit 4 Centra U.S. Revenues in Year 2000 by Product and Licensing Model ($'000)

	U.S. License Revenues ($'000)	Installed Base of Customers at Year End	New Customers Acquired in 2000
Symposium	$14,836	398	220
Symposium ASP	$28		
Conference	$3,450	48	45
Conference ASP	$98		
EMeeting	$201	28	28
Emeeting ASP	$365		
Maintenance	$2,650		
Services (inc. hosting)	$1,186		
Training	$161		
	$18,487	440[a]	263[6]

[a]Does not sum to total because some customers buy multiple products.

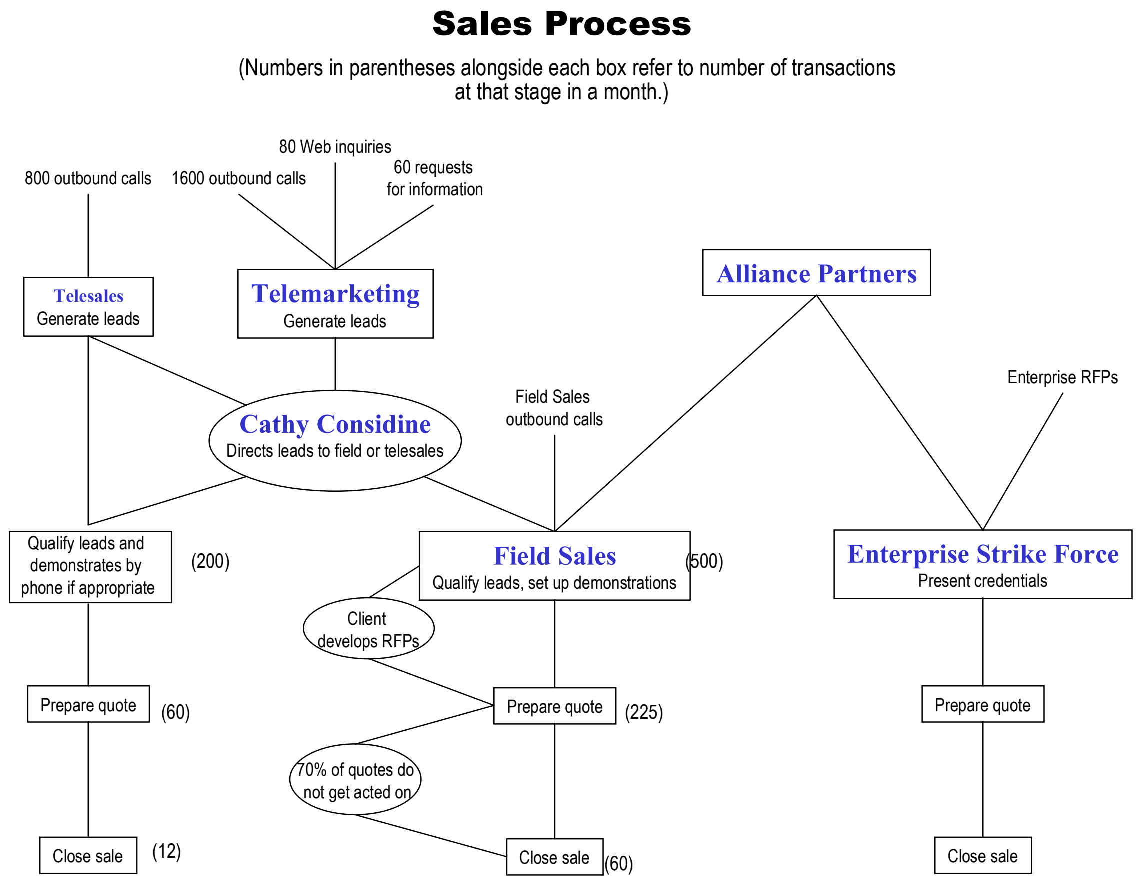
Source: Centra does not disclose revenue splits by product. These splits are estimated by the casewriter and should not be relied on for any purpose other than analysis of this case.

Exhibit 5 U.S. Field Sales versus Telesales Productivity in Quarter 4 of 2000

	Number of Employees	Quarterly Salary and Commission per Employee	Number of Deals	Quarterly Sales Revenue ($'000)
Field sales	25	$46,250	43	$5,440
Telesales	2	$24,000	36	$463

Source: Centra

Exhibit 6 Lead Generation Process and Sales Efficiency in an Average Month Based on Q4 2000



Source: Centra

Endnotes

Page 2: The IDC study referenced in the first and fourth paragraphs is: Michael Brennan and Cushing Anderson, Interactive Training Services, *IDC Bulletin #22818*, vol. 1, August 2000, p. 3.

Page 4: The Hambrecht reference is to: Trace Urdan, "eLearning: Centra's Q1 Strength Bodes Well For Corporate eLearning Industry," W.R. Hambrecht & Co., April 12, 2001.