

Five trends to watch in the edtech industry

Par M. Thirapounnho – GOAT LEARNING® Co-founding Partner



The adult edtech sector is evolving as quickly as it is growing. Significant changes are taking place in M&A opportunities, geographic hotspots, user demands, and the enterprise market.

Over the past couple of years, we've seen rapid growth in the education-to-employment segment of the edtech sector that serves adult learners. Valuations for these education-to-employment edtech firms have had a roller-coaster ride, as existing companies attract a huge influx of capital, thousands of new players enter the field, and investors question what scalable and profitable business models look like in the space. There are now **dozens of edtech “unicorn”** start-ups with valuations of more than \$1 billion.

Here are five things we see happening in edtech that sector players may want to consider as they plan their next moves:

I. Capital inflows are higher than ever

Thanks to **rapid technological change** and enterprise digitization, many companies are looking to continuously **upskill their workforce**. At the same time, broadband access has become more affordable, and distance-education technologies have become more advanced. These developments have helped the **edtech sector boom**; venture capitalists (VCs) invested \$20.8 billion in the edtech sector globally in 2021. That's more than 40 times the amount they invested in 2010.

- While public valuations have recently cooled, private companies are still raising capital at double-digit revenue multiples. VCs continue to flock to edtech because professors, administrators, students, and employees have grown more comfortable with education technology during the pandemic. We believe these habits are here to stay and that online education is becoming the new normal.

II. Edtech players are merging and partnering to achieve scale/efficiency

Edtech companies want the lifetime value of their customers to **exceed the cost of acquiring them**. Financial statements show that sales and marketing costs at several of the largest edtech firms have ranged from 20 to 60 percent of revenue in recent years. As they seek sustainable ways to drive down the industry-wide problem with high **customer acquisition costs** (CAC), some edtech firms are turning to M&A in hopes of reaching economies of scale. In June 2021, 2U announced an \$800 million acquisition of edX, a nonprofit run by Harvard and MIT. This acquisition gives 2U access to a strong customer-facing brand, approximately 40 million registered users, and hundreds of university partners. These assets give 2U a significant **presence in growth markets** outside the United States and could **help reduce CAC** while it builds out its free-to-degree model. There have been other recent major mergers and acquisitions in the edtech sector. For example, Anthology and Blackboard agreed to a \$3 billion merger. All these mergers and acquisitions have been enabled by plentiful capital. But once companies have signed the contract, they face the challenge of integrating their respective operations to realize the promised benefits.

III: Large firms view employee reskilling and upskilling as a necessity

With a near-record number of US jobs going begging, thanks to a **tight labor market**, attracting and retaining talent has become a core challenge for many firms. Large employers like *Amazon*, *Walmart*, *Target*, and *Google* have announced **major investments in workforce education** and development programs to decrease churn and fill talent gaps. Some, like *Walmart*, are dovetailing these programs into their diversity, equity, and inclusion (DEI) initiatives.

- To meet the **demand for upskilling and reskilling**, online-education companies are expanding and emphasizing their enterprise offerings. Among the 15 adult-education companies that received the most funding in 2021, all but one have an enterprise offering (Exhibit 1). Even companies like *Coursera*, which initially focused on consumers, have dramatically increased their revenues from enterprise clients in recent years.
- To succeed in the enterprise space, edtech firms could offer features such as **comprehensive workforce analytics** that appeal to both HR departments and employees. For instance, apps could identify **skill gaps in the workforce**, offer educational content to fill those gaps, and provide coaching and career navigation services to match newly upskilled graduates with positions where they can add the most value.

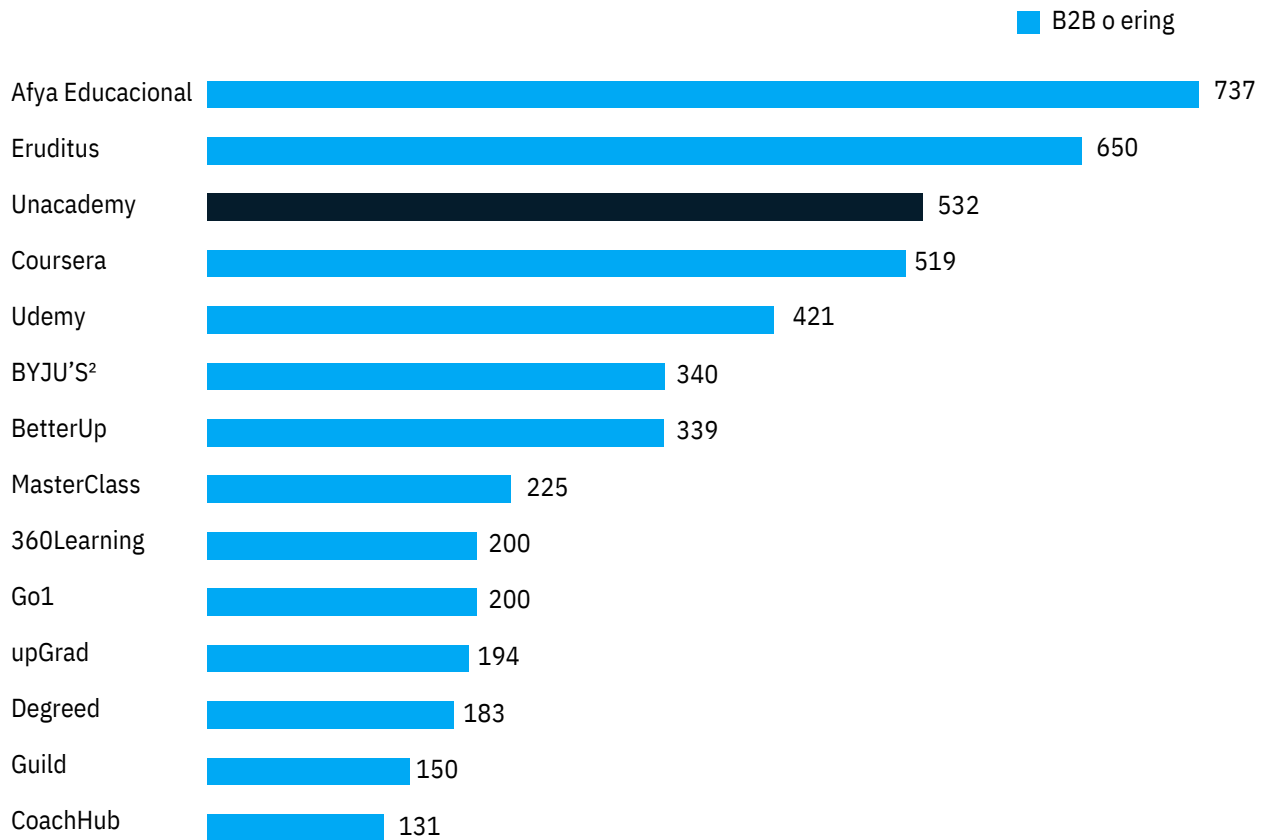
IV. India becomes a leader in the edtech race with global aspirations

In 2010, the United States attracted nearly three-quarters of global edtech VC funding. A decade later, investors turned their attention to India (Exhibit 2). With increasing regulatory headwinds buffeting the Chinese edtech industry, prominent edtech players—including Udacity, Coursera, and edX—have turned their investment focus to the enormous Indian market. While the Chinese market accounted for 63 percent of edtech funding in 2020, that dropped to less than 13 percent in 2021. **In India, edtech funding has grown from \$0.2 billion five years ago to \$3.8 billion and 18 percent of global investments in 2021.** Since English is widely spoken in India, international edtech firms may be able to achieve rapid success there even without translating much of their content. At the same time, locally grown Indian edtech players like *Emeritus* have reached billion-dollar valuations and begun acquiring companies in the US market. To thrive amid global competition, edtech firms can tailor a **growth strategy** for each target country while protecting their home market.

Exhibit 1

Almost all the adult-education companies that attracted the most funding in 2021 have B2B offerings.

Largest global adult edtech funding deals in 2021,¹ \$ million



¹Excludes non-adult-education edtech companies, debt funding, and acquisitions; includes major secondary deals.

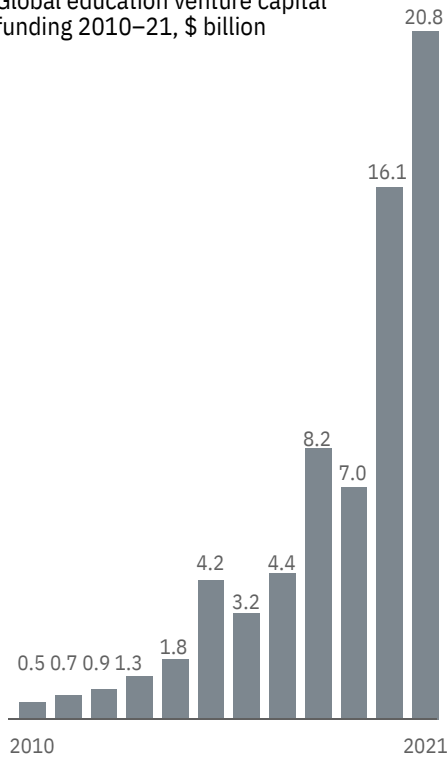
²Adult-education arm: Great Learning.

Source: PitchBook data, March 2022

Exhibit 2

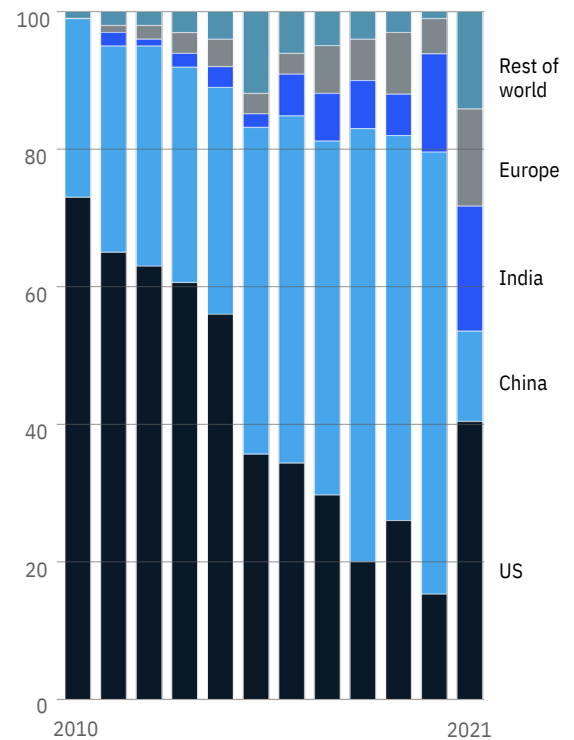
The global race for edtech funding is accelerating, and competition spans across all previous boundaries.

Global education venture capital funding 2010–21, \$ billion



Source: HolonIQ, March 2022

Global education venture capital funding 2010–21, %



Bibliography

2U acquires edX for \$800 million –

<https://www.edsurge.com/news/2021-06-29-2u-to-acquire-edx-for-800-million>

Anthology and Blackboard merge in \$3 billion deal –

<https://www.edsurge.com/news/2021-07-13-blackboard-to-merge-with-anthology>

Venture capital investment in EdTech reached \$20.8B in 2021 – HolonIQ –

<https://www.holoniq.com/notes/edtech-venture-funding-reached-20-8b-in-2021>

HolonIQ Global EdTech 1000 Report (2021) –

<https://www.holoniq.com/edtech-1000/>

PitchBook data on top edtech funding rounds –

<https://pitchbook.com/news/articles/edtech-funding-startups>

Coursera enterprise revenue growth –

<https://investor.coursera.com/>

Emeritus raises \$650M in funding, reaches unicorn status –

<https://techcrunch.com/2021/08/12/emeritus-unicorn-raises-650m/>

India's rise as an EdTech hub –

<https://www.brookings.edu/articles/the-rise-of-indias-edtech-sector/>

Upskilling and reskilling trends among large employers (Walmart, Amazon, Google) –

<https://www.forbes.com/sites/forbeshumanresourcescouncil/2022/03/22/how-walmart-amazon-and-other-major-employers-are-supporting-employee-education/>

Diversity and Inclusion in corporate learning programs –

<https://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters>