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There is so much uncertainty and confusion, so opportunistic institutional investors can't be far behind. Recent research reports indicate that PE and venture capital investors continue to be eager to invest in the education segment in India. The factual drivers for this interest are:

1. Very strong consumer demand for education resulting in a \$40B+ market growing at 16% CAGR* over the next five years
2. Public stock markets that seem to be willing to pay a significant premium to companies in this space
3. Large cash outlays in government's education-related initiatives
4. Rapid acceptance by consumers of new distribution channels such as Internet.

As a result, there are tens of companies (some funded, others not) that are addressing a variety of segments in the education space – pre-school, K12, higher education, B-schools, vocational education, test prep, etc.

The pertinent question is that whether any of these institutions (companies) will be creating a huge positive impact on the educational system to generate exceptional financial returns in the process or not. Based on the existing companies and deals being funded, it is believed that quite a few companies will be very successful at delivering financial returns in the education segment in India – but the system may not necessarily change dramatically for the better as a result.

Taking the example of pre-schools, with urban India moving towards nuclear families, there's an incredible demand for pre-schools. There's a lot of investment here, to create national chains of either owned-centers or franchise centers. Then question which arises is that will there be any venture capital and PE investor in India to make a killing on this segment, leading to better education.

Most of these schools do just enough to stay competitive in the market. They may import teaching methods, fancy books and toys from the West, but miss the basic point of what pre-school education should be all about. There's very little incentive for anyone in the value-chain to make it better (other than for competitive reasons), given that they are already profitable and will cash out in an IPO in the next few years.

Quite a few of these companies will make a (relatively) quick buck, there will be consolidation in the industry in six to eight years, and there will be two to three national brands that emerge as

the financial winners. In all of this, query is that how much money is going to be spent on R&D to understand how to improve pre-school education and teaching methods, or how much is going to be invested in teacher education, technology, etc.

A similar story will play out across most of the categories in this space – coaching classes, test prep schools, private schools, etc. There are, obviously, the exceptions of schools that are doing the right things, but again, these are just that – exceptions.

The few business plans that where the focus is on fundamentally improving education has the problem of blurry business models. For example, animated content is perhaps the best way of teaching new concepts to young minds. However, it's extremely difficult to sell such content to schools because schools are looking for complete solutions and not discrete components of the solutions.

Consequently, it becomes difficult for such a company to raise institutional capital because the business model of selling components (although they are the best in class) is very risky and not quite scalable. However, the right combination of a few of these components such as rich content, a learning management system, a classroom management system, etc. have the potential to be the long-term plays that are game changing, creating huge companies in the process.

It's very difficult to integrate such components together, both technically as well as financially, but if a company were to take a long-term approach of radically improving the educational system in India, it can start putting pieces of the puzzle together by creating a framework for integrating various best-of-class components and develop a business model based on that framework, which could be very attractive to institutional investors.

Open source software, as well as content, can have a big role to play here. Complete open source stacks for interactive classrooms and teacher training are available and readily supported by the global community. One can certainly argue that the major problem in the educational system is not tools or content, but processes and people.

However, if the tools and content issue is resolved (from a high-quality education perspective, not necessarily a low-cost perspective), we can focus resources on addressing the people and processes issue, to complement the technology.

There is a unique opportunity today to change the education system in India for the better and to create huge shareholder wealth in the process. Some companies are on the path to doing that, but there still is a huge gap. In addition to the bread-and-butter ones and twos, entrepreneurs should chase the big ideas and venture capitalists should make a rare leap of faith to fund some of these – for how many times in our lives do we get an opportunity to create such a lasting impact as influencing the education system of a Billion people.