



Ed tech investment hits record high

A record amount of cash was poured into ed tech firms last year globally, but solid business models remain elusive, finds **Daniel Thomas**

Global investment in ed tech showed no signs of slowing down in 2014. According to US research firm Ambient Insight, investments into learning technology companies reached a record \$2.34 billion (£1.6 billion) from \$1.64 billion in 2013. That went on everything from Moocs to mobile apps to online learning platforms. The lion's share of the cash was spent in the US – \$1.36 billion, according to separate research from the media portal EdSurge – but there were also big deals in China, Canada and Brazil.

Viewed one way the uptrend is great news. Education remains one of the last industries to be disrupted by the internet, and most agree it's only a matter of time before slow-moving educationalists catch up. Furthermore, for start-ups to keep

going they need growth capital, and not just in their early stages. While most investments in 2014 were less than \$10 million, there was a welcome increase in bigger funding rounds – a sign that ed tech is finally moving out of the starting blocks and towards greater scale (see box).

Examples include Pluralsight, a company that provides online training to technology professionals, which raised \$135 million, and the Minerva Project, an elite online university, which raised \$70 million. The ed tech industry is also seeing a rising number of highly valued private companies; notably both Lynda.com and Pluralsight are now valued near the \$1 billion mark. According to Matthew Wong, an analyst at CB Insights, “While five years ago a lot of activity was at the early stage, investors are now starting to pick winners and put a lot of capital behind them.”

However, there's a flipside to the bullishness: namely that as investors put more cash in they will inevitably want to see returns. Wong says the industry will need to start producing some proper ‘exits’ in 2015 if the VC taps are to keep flowing; and while the technology sector as a whole is no stranger to exits, big acquisitions and IPOs in ed tech are rare by comparison.

Investing in a technology start-up is risky at the best of times, but it is particularly hard in ed tech, something investors surely realise. Profitable business models remain elusive due to market constraints. The root cause is a reluctance among school systems to experiment with novel technologies; bureaucracy around procurement and limited budgets also don't help.

In addition, many of the most used ed tech apps have freemium models which are

notoriously hard to monetise. Companies like Duolingo, the language learning app, have struggled to turn a profit despite having tens of millions of users. Many such services hope to upsell premium services to their users in future, but how well this works remains to be seen.

Fear of these threats is evident in the figures. According to Ambient Insight, there has been an uptick in investment in consumer-facing education products – from \$626 million globally in 2012 to \$903.9 million – as these bypass school regulation by selling direct to

kids and parents.

There is also growing enthusiasm for products with old school subscription models like Pluralsight, which charges \$29 per month to individual users and claims to have brought in \$100 million in sales last year. More straightforward (read less experimental) products are also doing well, as seen with large 2014 funding rounds for TutorGroup, a VoIP tutoring service (\$100 million), and Dude Solutions, a provider of cloud services for schools (\$100 million).

That is not to suggest freemium models

will never work. Amongst most digital savvy youngsters the thought of paying for a digital service is an anathema, and making your app free drives up the user base much faster. More importantly, if investors only back safe cash cows it could stymie innovation, depriving us of potentially game changing products.

Still, as investors put more cash into the sector, they will be keeping a closer eye on what they get out. Firms that have mitigated their risks while creating scalable business models are sure to reap the biggest rewards. ■

AMBIENT INSIGHT REPORT CHART: LEARNING TECHNOLOGY COMPANIES THAT OBTAINED MORE THAN \$150 MILLION IN FUNDING IN 2014

COMPANY NAME	FUNDING AMOUNT	DATE OF FUNDING	PRODUCT TYPE	BASE OPERATING COUNTRY
Pluralsight	\$135,000,000	August 2014	Self-paced eLearning	USA
TutorGroup	\$100,000,000	February 2014	Collaboration-based Learning	China
Desire2Learn	\$85,000,000	August 2014	Self-paced eLearning	Canada
Quora	\$80,000,000	April 2014	Digital Reference-ware	USA
Dxy.com	\$70,000,000	September 2014	Collaboration-based Learning	China
The Minerva Project	\$70,000,000	October 2014	Collaboration-based Learning	USA
Next Education	\$60,000,000	March 2014	Self-paced eLearning	India
Movile	\$56,000,000	August 2014	Mobile Learning	Brazil
51Talk	\$55,000,000	October 2014	Self-paced eLearning	China
Doximity	\$54,000,000	April 2014	Collaboration-based Learning	USA
Chunyu	\$50,000,000	August 2014	Mobile Learning	China
Craftsy	\$50,000,000	November 2014	Self-paced eLearning	USA