

Education Practice

# Five trends to watch in the edtech industry

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.

*by Saurabh Sanghvi and Marius Westhoff*



**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:

### **1. 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.<sup>1</sup> 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.

### **2. Edtech players are merging and partnering to achieve scale and 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.<sup>2</sup>

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.

### **3. 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.<sup>3</sup>

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

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<sup>1</sup> "Global EdTech venture capital report - full year 2021," HolonIQ, January 2, 2022.

<sup>2</sup> From the 10-K filings of 2U, Coursera, and Grand Canyon Education.

<sup>3</sup> Patti Constantakis, "Walmart.org Center for Racial Equity update: Creating career pathways through education," Walmart, October 21, 2021.

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.

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

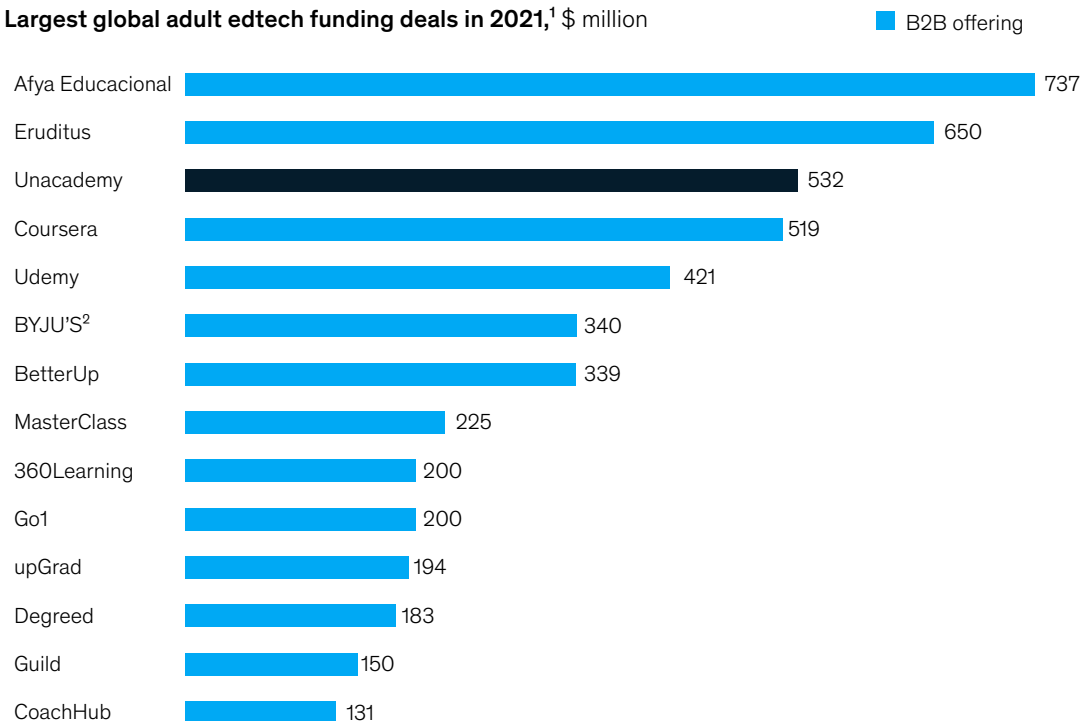
In 2010, the United States attracted nearly three-quarters of global edtech VC funding. A decade later, investors turned their attention to India (Exhibit 2).

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

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,<sup>1</sup> \$ million



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

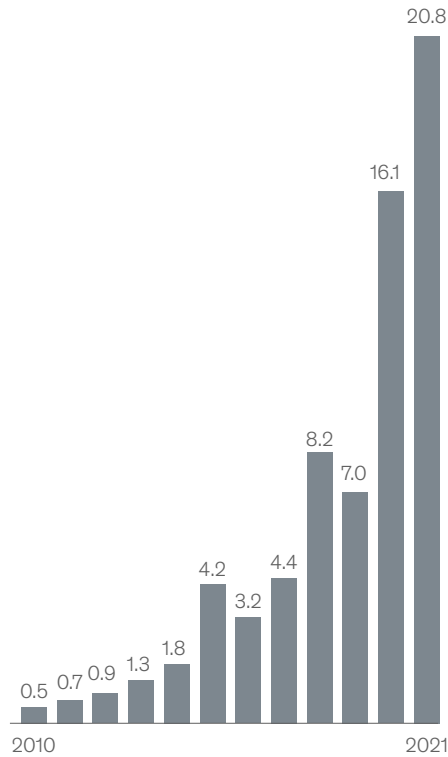
<sup>2</sup>Adult-education arm: Great Learning.

Source: PitchBook data, March 2022

Exhibit 2

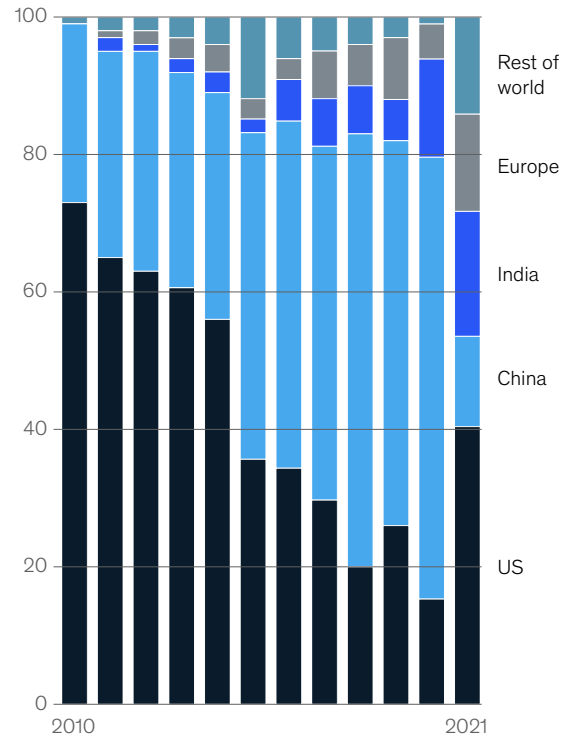
**The global race for edtech funding is accelerating, and competition spans across all previous boundaries.**

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



Source: HoloniQ, March 2022

**Global education venture capital funding 2010–21, %**



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.

**5. Edtech leaders are focusing on supporting career progression**

In 2021, McKinsey surveyed more than 3,500 edtech students. We found that many were motivated by the prospect of jumpstarting their careers and were seeking a sense of community.

New modalities, such as virtual and augmented realities, web3, AI, and machine learning, are making their way into education. However, our findings suggest that edtech providers cannot rely too heavily on technology and content. Learners want value-added services such as personalized mentoring, preparation for interviews, and support in getting a job.

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To deliver more holistic user experiences, some edtech players are building their internal capabilities and making acquisitions. In India, for example, upGrad acquired a recruiting and staffing agency to help its students advance in their careers. In the United States, On Deck built a business model to give students access to a community rather than sell them courses. Arizona State University offers free counseling, mentoring, and crisis intervention support to online- and hybrid-learning students.

Despite a dip in 2019, global investments in edtech have registered an average 45 percent CAGR for the past five years and still grew 30 percent from 2020 to 2021. It's an exciting sector to be in, but players may want to keep a close eye on how it develops.

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