

A child in a blue patterned jacket is blowing a stream of large, iridescent bubbles. The bubbles are in sharp focus in the foreground, while the child and other people in the background are blurred. The scene is set outdoors at night or in low light, with some lights visible in the background.

# WHAT IT TAKES TO BE SUCCESSFUL IN K-12 EDTECH

The Australian K-12 education sector trails behind other sectors in the adoption of digital resources. We believe this is about to change. But like the e-commerce companies of the dotcom era, not all of today's EdTech companies will be winners.

November 2020

## About Greenwich

Since 2016, Greenwich has been a leading partner to emerging Australian businesses, a market under-served, under-capitalised and under-discovered but enriched with hidden growth potential. Working in partnership with owners and managers of those companies, Greenwich applies a combination of expertise and capital to grow and maximise the long-term value of their businesses.

Our executive team each has a minimum of ten years of professional experience with management consulting and capital management skills and expertise.

Greenwich provides proprietary insights into attractive sectors to establish an investment thesis. We partner with emerging and growing businesses in the sector to provide strategic planning and implementation, strategic initiative design and execution, mergers and acquisitions support, capital sourcing, structuring, investment and management to achieve success.

We also work with other investment partners to source capital from family investment offices, independent financial groups and sophisticated private investors who seek exposure to the alternative asset class.

We support our partners across a broad range of objectives:

- Deal generation. We work alongside partners to develop a compelling investment thesis and enhance deal flow by profiling attractive sectors, screening targets and devising a plan to approach targets
- Due diligence. We help support better deal decisions by performing integrated due diligence, assessing revenue-growth and cost-reduction opportunities to determine a target's full potential, and providing a post-acquisition implementation plan
- Immediate post-acquisition. After an acquisition, we partner in the pursuit of accelerated returns by developing strategic agendas for acquired companies and aligning management with strategic priorities and directing focused initiatives

- Ongoing value addition. During the ownership phase, we help increase the value of portfolio companies by supporting revenue-enhancement and cost-reduction initiatives and refreshing companies' value-creation plans
- Exit. We help ensure that investors maximise returns by preparing for exit, identifying the optimal exit strategy, readying the selling documents and prequalifying buyers.

Our responsibility incorporates best practice ESG principles including our direct engagement and voting activities, encouraging our partners we invest alongside to deliver sustainable growth and returns for our shareholders and clients. As a fiduciary to our shareholders and clients we take into account environmental, social and governance issues that have real and quantifiable impacts over the long term for our firm, our people and the communities in which we and our clients live and work. We recognise in our community some are disadvantaged in opportunity and basic rights, including access to education and services. Our commitment is to contribute a % of our revenue each year to make a difference to level the playing field.

## About EduGrowth

EduGrowth is Australia's education technology and innovation industry hub. Through connection and collaboration, they accelerate Australia's EdTech ecosystem globally.

EduGrowth connects a community of education providers, industry participants, and EdTech entrepreneurs, committed to reimagining learning in the digital age. As education transitions to borderless digital delivery, Australia's EdTech ecosystem will impact the future of learning globally from Australia.

EduGrowth's programs and services develop the entire education technology and innovation sector. Through interconnected programs EdTech companies at every stage of their journey obtain support to grow, whilst simultaneously connecting education providers and industry participants into the broader education innovation ecosystem.

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## Letter to the reader

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Dear readers,

It is with great pleasure that I bring you another insightful white paper by Greenwich. “What it takes to be successful in K-12 EdTech” marks our first white paper on the education sector. Since Greenwich’s inception in 2016, the education sector has been a core sector of focus. The transformative impact that education has on individuals cannot be underestimated, and the flow on benefits, both tangible and intangible, to the community and society as a whole are far-reaching.

Over the last ten years, the sector has grown significantly, predominantly driven by the international student market. This growth reflects our reputation globally on delivering high quality research and innovation in education. The publication, “Through Growth to Achievement: Report of the Review to Achieve Educational Excellence in Australian Schools” (commonly referred to as the Gonski Review), noted: “Shifts in technology and jobs are changing the balance, type and proficiency levels of the knowledge, skill and understanding students need to develop through school,” and “ensuring that curriculum, learning and pedagogical models can respond to these changing needs must be a key goal of the Australian education system in the next decade.” As a result, we believe that the EdTech sector plays a critical role in ensuring that schools can adapt to be responsive to changes in technology.

More recently, the pandemic has accelerated the adoption of technology, such as online learning, as the industry adapts to the restrictions. It is too early to tell what the structural changes to the education sector may be over the long term; however, it is clear that some segments, such as EdTech, will stand to benefit.

With that in mind, our insights are generated from the extensive interviews with providers that are focused on combining an evidence-based approach in improving education quality with innovation and the use of technology. The clear and consistent message is to focus on building a differentiated product with this focus that can then be scaled globally.

We are highly appreciative of the valuable contributions from the participants and would like to extend a sincere thank you. Further this White Paper would not be possible without the valuable partnership with EduGrowth, which we are deeply grateful for. Here at Greenwich, we seek to support the sector both directly, in the form of investments and indirectly, through pledging a portion of our revenue to the Country Education Foundation.

We wish you a stimulating and enjoyable read into education technology and its prospects for the future.

Yours sincerely,



**Jonathan Warrand**  
Managing Director  
Greenwich Capital Partners

# Executive summary

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EdTech is defined as the use of technology and innovation to support learners across the education continuum. We believe that the goal of EdTech is to support teachers in the delivery of 21st century skills in a way that aligns with learning objectives and captures the attention of the next generation of student.

## Roadmap to the report

The big questions we wanted to answer through this report are:

- Why is now the time to invest into the Australian K-12 EdTech sector?
- How can EdTech companies win market share and create a sustainable business model during times of rapid growth?

As this report is catered to both investors and EdTech companies, we have split out the main takeaways accordingly.

## Highlights for investors

- K-12 schools across the globe are still in the early stages of digital adoption. It is fair to say that the K-12 EdTech sector has yet to realise its full potential.
- K-12 schools need to change right now, because technology in schools will enable a future-ready workforce and meet the evolving expectations of parents and students.
- COVID-19 accelerated pre-existing education sector trends, such as the adoption of technology in schools, the rollout of infrastructure to enable that technology, and the growth of the B2C model.
- The net result of these factors suggests that EdTech access is moving from the early-adopters towards the mass market. The global EdTech market is estimated to grow at an average rate of 12.2% over the next five years, reaching \$404 billion in total expenditure.<sup>1</sup>

- Australia is well positioned to take advantage of this growth because of its rigorous use of evidence-driven strategies and stable government funding.

## Recommendations for EdTech companies

- The number of EdTech companies that target K-12 schools has doubled over the past five years to 240. The increase in the number of companies, combined with the emergence of Big Tech in the classroom, means that the competitive landscape is changing rapidly.
- EdTech companies need to focus on building a differentiated product that encompasses data privacy, learning analytics, and implementation support.
- To break through the challenges with selling to schools, it is crucial to have a sophisticated sales and marketing model that uses sales technology, dedicated sales professionals, and teachers as advisers.
- To expand the addressable market, EdTech companies need to be deliberate about which international markets to enter and how to compete.
- Overlaying these recommendations is the potential for a consolidation play in the sector. A roll-up company will improve sales productivity, guard against external threats, take advantage of enterprise sales opportunities, and compete for the best talent.

## The way forward

- The Australian K-12 EdTech sector is primed for considerable value creation. Capturing this opportunity will require EdTech companies to act fast on their strategic roadmap.

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<sup>1</sup> HolonIQ. (2020). Referenced at <https://www.holoniq.com/notes/global-education-technology-market-to-reach-404b-by-2025/>.

# A global phenomenon

Education has long been identified as a global imperative because of its contributions to social, economic, and financial prosperity. Education has the power to not only improve individual earning potential, but also enhance societal outcomes, such as reduced poverty and long-term economic growth. The value of education is also increasing; education will determine whether modern society creates opportunity for the most disadvantaged.<sup>2</sup>

Primary and secondary schools (“K-12”) play a critical role in the education system. It is during these school years that we are preparing students to fill the jobs of the future. As we will discuss, the changing nature of the future workforce means that the role of K-12 schools has never been more important.

Over the past two decades, rapid advancements in technology have disrupted nearly all aspects of our lives. The products and services that we use as consumers and businesses have fundamentally changed. For example, we purchase music and movies differently, we communicate differently, and we work differently. Entirely new products have been created and some of the incumbent products have ceased to exist. Despite these changes, education is still relatively the same in most parts, especially in K-12 education. But we believe this is about to change. K-12 education is not immune to digital disruption.

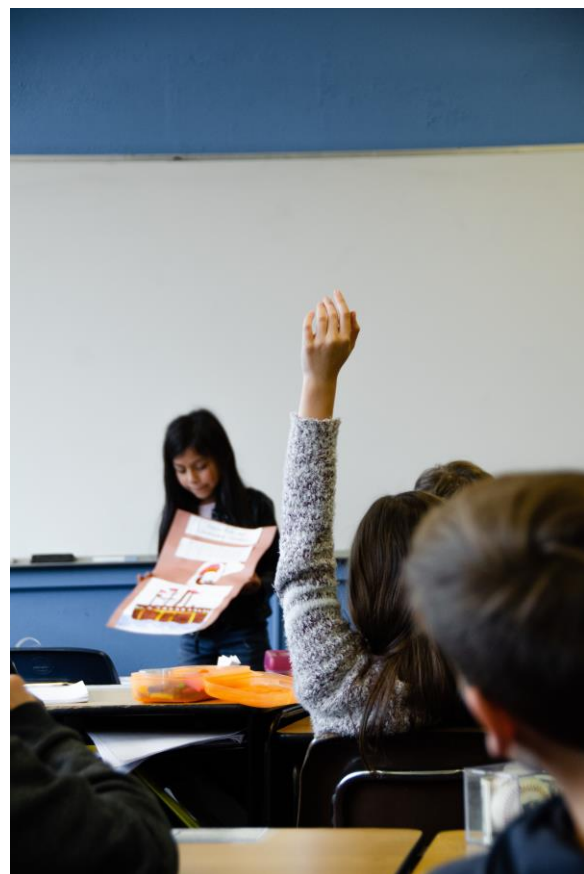
## Challenges

The main challenges K-12 education faces are:

- 1) addressing the skills gap for the future workforce,
- 2) teaching a new generation of tech-savvy students, and
- 3) updating education systems that are slow to react to change.

## The skills gap for the future workforce

Technological advancements in areas such as robotics and artificial intelligence have already begun to automate many routine tasks that were previously performed by humans. As a result, workers need a different mix of skills today than in the past. Skilled jobs are increasingly based on human-centred tasks, such as collaboration, creativity, problem solving, and on the ability to work alongside technology. While the foundational skills of literacy and numeracy are still relevant, new skills are required to meet future demand. By one estimate, 65% of students in K-12 education today will end up working in jobs that do not yet exist.<sup>3</sup> This directly impacts the content and pedagogy in K-12 education, as well as the knowledge required of teachers to deliver this content.



<sup>2</sup> Barclays. (2019). *Education Technology: Out with the Old School*

<sup>3</sup> World Economic Forum. (2016). *The Future of Jobs: Employment, Skills and Workforce Strategy for the Fourth Industrial Revolution*

## New generation of parents and students

Parent and student preferences are evolving to a digital-first mindset and they expect education to be delivered in methods that are seamless, personalised, and integrated. Mobile devices, such as smartphones, mean that students can now consume information anytime, anywhere. Students also expect that learning can be delivered in real time. Digital services, such as Netflix and Amazon Prime, offer highly personalised experiences by learning about their users, and so parents could similarly expect individual learning pathways that quickly identify their child's strengths and weaknesses. However, there is often a gap between the adoption of technology in schools and student needs. The size of the gap varies widely among schools, often driven by the availability of funding. When we consider the digital divide between countries, this gap is even greater.

## Traditional education systems

Traditional education systems are slow to react to change. Policy makers may argue that this is a good thing. Any change to an education system must be carefully considered on its impact to student learning outcomes.

Decisions to invest in education systems are often based on evidence that takes significant time to collect and analyse. However, if there is insufficient investment into updating education systems there is a growing fear that students will be left behind. This is why organisations including the World Economic Forum have outlined multi-year initiatives to highlight the urgent changes required in K-12 education.<sup>4</sup>

## Impact of COVID-19

An analysis of the global education landscape cannot be complete without considering the impact of the COVID-19 pandemic — without a doubt, one of the most disruptive events to have ever occurred in the education sector. According to UNESCO, in April 2020, there were over 1.5 billion students in 191 countries that were impacted by school closures, representing over 90% of the world's student population.<sup>5</sup> During this time, school teachers were forced to quickly adapt to online channels, such as Zoom and Google Meet, to teach their classes.

While it will be sometime before we understand the full impact on learning outcomes, the pandemic has highlighted pre-existing issues. It is clear that some schools have much to do to ensure that students achieve positive outcomes via online learning tools.

Survey data from Australia suggests that prior to the pandemic, only 30% of teachers had received specific training to deliver classes remotely and only 50% of teachers felt confident using the various technologies. Research also shows that effective online learning requires more than simply knowing how to use technology. Online learning requires altered pedagogies, institutional support and new models of engaging students.<sup>6</sup>

The global challenges to education systems are important in understanding the emergence of Education Technology ("EdTech") and its relevance in the Australian context.

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<sup>4</sup> World Economic Forum. (2020). *Schools of the Future, Defining New Models of Education for the Fourth Industrial Revolution*

<sup>5</sup> UNESCO. (2020). Data retrieved from <https://en.unesco.org/covid19/educationresponse>

<sup>6</sup> Dr Alan Finkel, Australia's Chief Scientist. (2020). *Differential Learning Outcomes for Online Versus In-Class Education*



# Enter EdTech

EdTech has been identified as part of the solution to these global challenges facing education. EdTech is the use of technology and innovation to support learners across the education continuum. EdTech products deliver new administration, student management, learning management and learning content, which engage with users through schools or directly.

We believe that the goal of EdTech is to support teachers in the delivery of 21st century skills in a way that aligns with learning objectives and captures the attention of the next generation of student.

K-12 schools across the globe are still in the early stages of technology adoption. It is fair to say that the K-12 EdTech sector has yet to realise its full potential. However, even before we recognise the impact of the COVID-19 pandemic, a number of factors are creating tailwinds in the market. These factors can be categorised into two groups: innovation-led and infrastructure-led.

## Innovation tailwinds

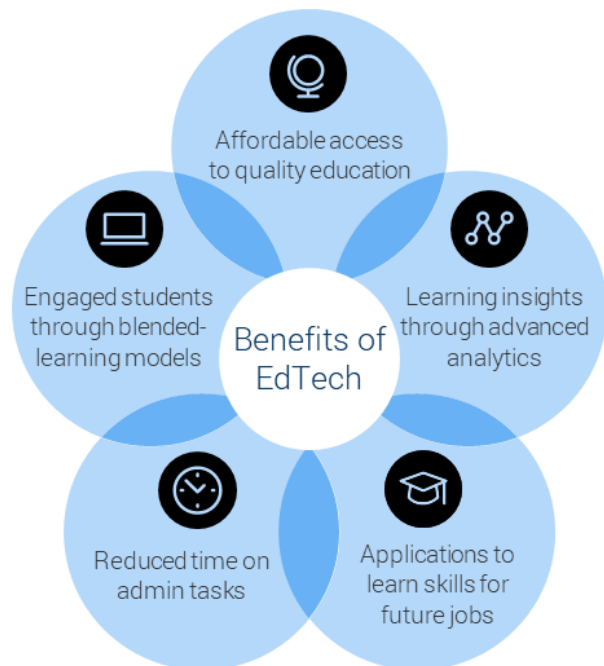
An EdTech company's solution requires time to be implemented in schools and input from multiple stakeholders, including school administrators, teachers and students. As such, for innovation to occur, all of these stakeholders need to collaborate effectively. If there is an absence of a feedback loop between educators and entrepreneurs then the product will fail to become an innovative solution that improves teaching and learning.<sup>7</sup>

Our analysis of the EdTech products in the market suggests that entrepreneurs are utilising innovative technologies such as artificial intelligence, cloud-based platforms, and data analytics to create solutions that are truly valuable for K-12 schools.

To demonstrate how these technologies are applied, here are some useful examples:

- Adaptive learning applications utilise artificial intelligence to tailor the learning experience based on a student's level and rate of progress
- Digital collaboration tools utilise cloud software to provide curriculum-aligned resources that can be accessed anytime and anywhere
- Student and learning management systems utilise data analytics to proactively monitor a student's performance across subjects

Figure 1: Benefits of EdTech



## Infrastructure tailwinds

The other factor creating tailwinds is the improvement in digital infrastructure. The rollout of broadband networks (e.g. NBN) has provided access to faster internet connections across the globe. Mobile broadband penetration rates among Organisation for Economic Co-operation

<sup>7</sup> Kurshan et al. *Breaking Down Silos, Advancing Innovation: Innovation Ecosystems in Education Technology*

and Development (OECD) member countries have increased by over 20% in the past three years.<sup>8</sup> Furthermore, the reduction in costs to data-enabled smart devices has increased the affordability of EdTech solutions in schools with constrained budgets.

As a result, many schools have been utilising this infrastructure in their own digital transformation agendas, upgrading legacy systems that were slow and cumbersome to operate.

### Digital acceleration post COVID-19

Following the COVID-19 pandemic, we expect digital transformation in K-12 school systems to accelerate. As many students were forced to attend virtual classes from their homes, parental involvement has increased. Parents concerned with the classroom disruption have been searching the internet for content to supplement remote learning.<sup>9</sup> This creates a new direct-to-consumer (B2C) audience for innovative EdTech products.

Unfortunately, many students do not have the devices or internet access to participate in online learning classes, and to address this disparity, governments and NGOs are likely to accelerate expenditure on digital infrastructure.

### The tipping point

The net result of these factors suggests that EdTech access is moving away from the early-adopters and towards the mass market, including via B2C models. For EdTech companies, this means that the addressable market is expanding. A large addressable market is crucial for Australian EdTech companies to scale their business.

Consequently, we believe that the K-12 EdTech sector is reaching its tipping point. The data published by HolonIQ, an education market intelligence platform, supports this claim.



HolonIQ estimates that the EdTech market will grow at 12.2% CAGR over the next five years, reaching \$404 billion in total global expenditure. Even at this level, digital expenditure on education will only make up 5.2% of the \$7.3 trillion global education market in 2025 (per Figure 2).<sup>10</sup> This digitisation level compares to between 10% to 20% for most other sectors, suggesting further headroom beyond 2025.<sup>11</sup>

To evaluate this global market opportunity, we must first assess the Australian K-12 EdTech sector and its ability to take advantage of this growth. Following this assessment, we will review the specific challenges facing Australian K-12 EdTech companies and outline our recommendations to win market share.

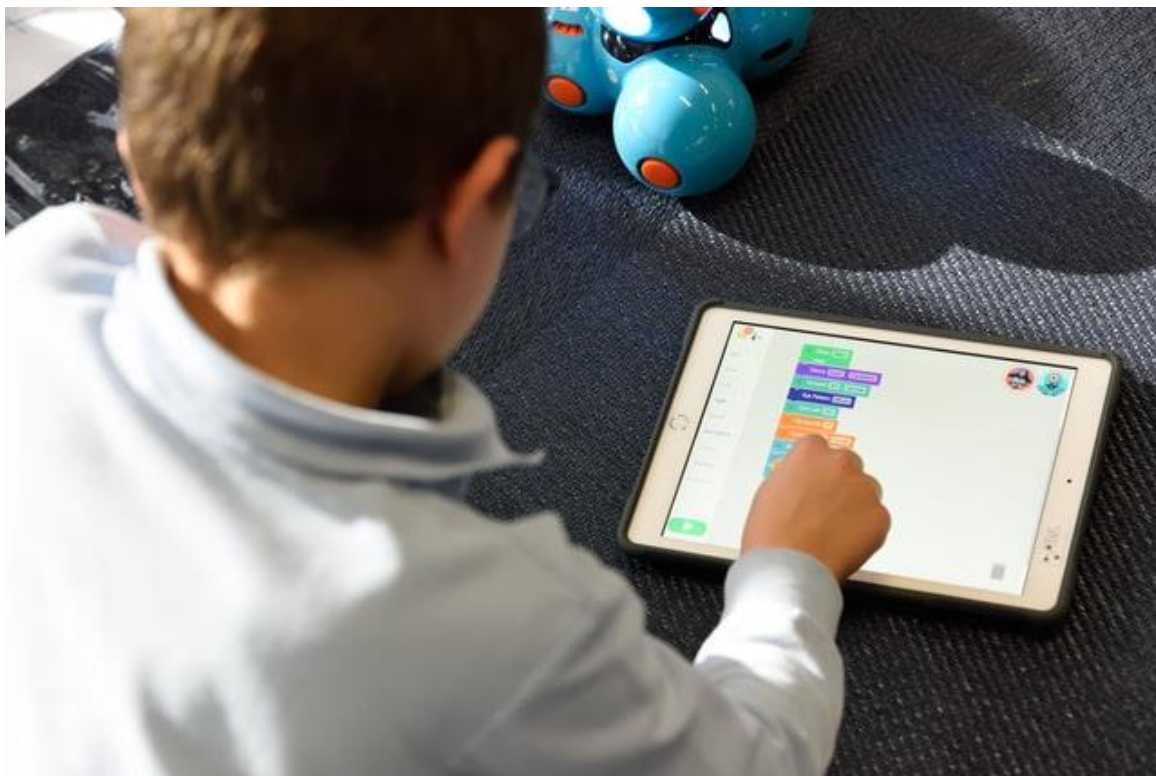
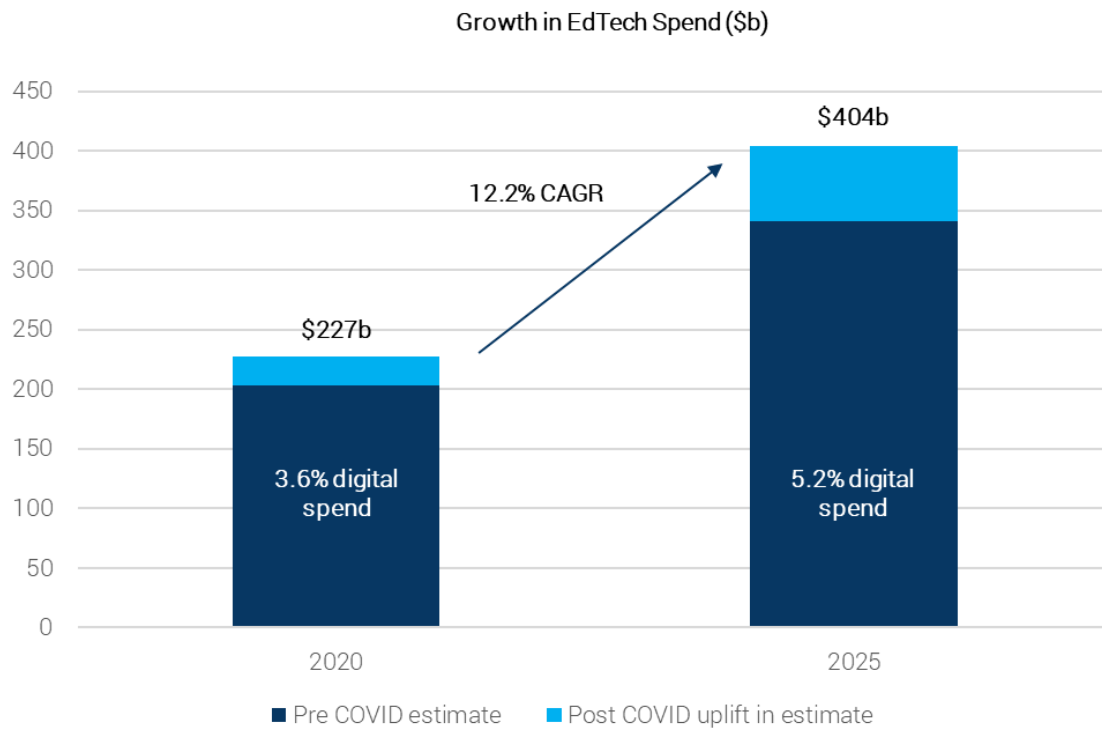
<sup>8</sup> OECD Broadband statistics retrieved from <http://oe.cd/broadband>

<sup>9</sup> The average number of Google searches worldwide for 'online school learning' has increased 5x from pre-pandemic levels. Data retrieved from <https://trends.google.com/trends/?geo=US>

<sup>10</sup> HolonIQ. (2020). Referenced at <https://www.holoniq.com/notes/global-education-technology-market-to-reach-404b-by-2025/>. CAGR is the Cumulative Annual Growth Rate.

<sup>11</sup> Credit Suisse. (2020). *Education Technology. Coronavirus and beyond*

Figure 2: Digital expenditure as a proportion of overall expenditure on global education and training, including the expected uplift from the COVID-19 pandemic (source: HolonIQ)



# The Australian education industry

In Australia, there are approximately 9,400 K-12 schools, which are split among Government (71%), Catholic (18%), and Independent (11%).

For K-12 EdTech companies to thrive, the underlying education sector needs to have strong foundations. The Australian Government provides stability to the education industry through its funding of the Quality Schools Package. The Quality Schools Package aims to improve the educational outcomes of Australian students. In 2020-21 the total Quality Schools funding (capital and recurrent) is \$21.9 billion. This is projected to increase by 7.4% CAGR to \$27.1 billion in 2023-24.<sup>12</sup>

While the funding provided by the Australian Government provides stability to the sector, the Austrade-EduGrowth Australian EdTech Directory defines six capabilities that are driving growth and positioning Australian EdTech as an export market:

- 1) History of thought leadership
- 2) Recognition for international education and qualifications framework
- 3) Use of evidence and data across the education sector
- 4) Comprehensive customer driven adaptable products
- 5) Multicultural and diverse local market ensures products are globally competitive
- 6) Education and employment are strongly connected

## Industry strengths

We believe that the use of evidence and data across the education sector to be the most important capability for the Australian K-12 EdTech sector. Australian educators are rigorous in their use of evidence-driven strategies and they require EdTech products to support the measurement of student outcomes. This focus on evidence provides Australian EdTech companies with a competitive advantage in international markets.

“Australia still has an industrial model of school education that reflects a 20th century aspiration to deliver mass education to all children” - Gonski Review

To further highlight Australia’s evidence focus, the word ‘evidence’ was referenced 191 times in the 2018 Gonski Review ‘Through Growth to Achievement’ and a key recommendation was to establish a national institute that promotes evidence to improve student outcomes.

## Industry weaknesses

However, the Gonski Review found that Australia needs to update its education model and incentivise schools to innovate. They identified issues, including inflexibility in curriculum delivery and reporting tools that only focus on periodic assessment of performance.

Australia needs to urgently address these issues or risk a further decline in academic performance. Since 2000, the average performance in reading, mathematical, and scientific literacy has declined, as per the PISA assessment results.<sup>13</sup>

The PISA 2018 assessment shows an increase in the proportion of low performers by between six to eight percentage points and a decrease in the proportion of high performers by between four to nine percentage points. This suggests that a greater number of students are falling behind while a greater number of high performers are not being adequately challenged.

There is an opportunity for EdTech to help solve this problem and EdTech entrepreneurs across Australia have developed a range of products to support K-12 schools. However, achieving scale with these products is becoming increasingly difficult.

<sup>12</sup> Data retrieved from 2020-21 Federal Budget Paper No. 3

<sup>13</sup> ACER. (2018). *PISA in Brief: Student Performance*

# Australian K-12 EdTech sector

Australia's EdTech sector comprises over 600 companies that directly employ over 13,000 people, generating revenues of \$2.2 billion annually. There are 240 EdTech companies that target K-12 schools, representing approximately 40% of Australia's EdTech sector.<sup>14</sup>

## K-12 value chain

K-12 EdTech companies offer solutions that align to a particular stage of the K-12 value chain (per Figure 3):

- Administration Systems are used by schools to manage back-office functions such as enrolments, finance and fundraising
- Student Management Systems provide a central platform to manage student engagement, student performance and government reporting
- Content and Learning Management Systems are directly connected to the learning experience, which includes lesson planning, learning objects, and assessments.

As shown in Figure 3, 75% of Australian K-12 EdTech companies provide content and learning management systems. Therefore, this is the part of the value chain that is most competitive among local companies. These companies will need to differentiate themselves to stand out.

## Number of companies

The increase in the number of Australian K-12 EdTech companies over the past five years is noteworthy. As shown in Figure 4, the number of companies has doubled over the period 2014-19.

This hockey-stick growth is evidence that the tailwinds outlined in the K-12 EdTech sector are taking effect in Australia. The question is whether the sector can handle this growth in companies for much longer.

## Stage of maturity

Given the rapid increase in the number of companies it is not surprising that the majority of these companies are either early or late stage start-ups (per Figure 5).

## Internal competition

A snapshot of the Australian K-12 EdTech sector shows that the competitive landscape is changing rapidly. It presents interesting challenges for both established companies and start-ups. Leaders of established companies will need to be across competing products developed by start-ups to assess whether customers prefer these new products. This impacts the projected revenue and market share of the established companies. Additionally, founders of start-ups will face an uphill battle to gain traction in an increasingly crowded market. The barrier to entry in K-12 education is high because selling to schools is usually a lengthy process, which requires relationships to be developed with school decision-makers and adherence to a school's procurement cycle. Start-ups will need to manage the high cost of customer acquisition associated with this process.

## External threats

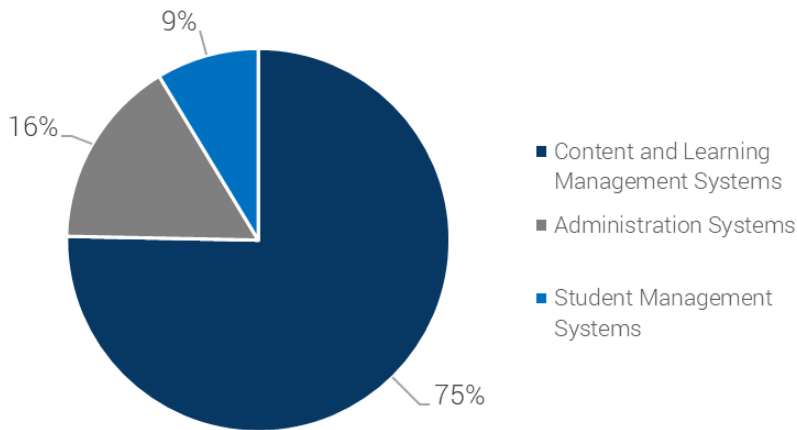
The competitive landscape is also impacted by Big Tech (e.g. Microsoft, Apple, and Google) expanding its reach into the classroom. Google has its G Suite for Education product portfolio that provides tools for collaboration, communication, and creativity.<sup>15</sup> Microsoft acquired Minecraft in 2014 and redesigned the game to include an 'education edition'.

Access to the classroom could well be a strategic move from Big Tech, as children will become accustomed to its ecosystem of products from an earlier age. All Australian K-12 EdTech companies will need to build a defensible position so that external threats can be managed.

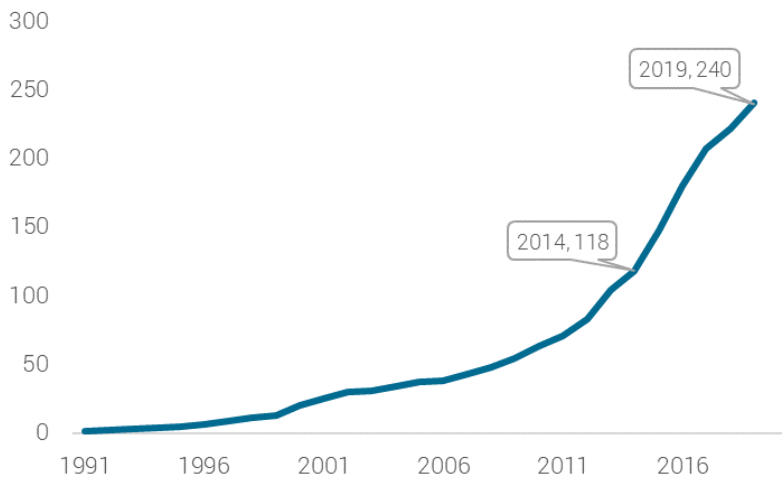
<sup>14</sup> Australian K-12 EdTech Sector statistics provided by EduGrowth. (2020).

<sup>15</sup> [https://edu.google.com/why-google/k-12-solutions/?modal\\_active=none](https://edu.google.com/why-google/k-12-solutions/?modal_active=none)

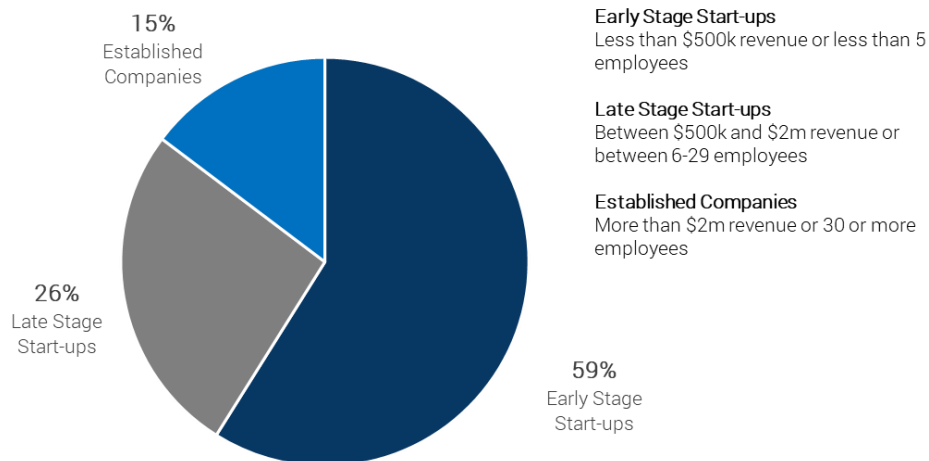
**Figure 3: EdTech companies separated by their primary focus on the K-12 value chain**



**Figure 4: The cumulative number of K-12 EdTech companies over the past thirty years**



**Figure 5: K-12 EdTech companies by stage in their business life-cycle**



# Strategic priorities

The Australian K-12 EdTech sector demonstrates that as markets grow, there is an increase in the number of entrants and greater competition.

There is a primary question that EdTech entrepreneurs now face: how can they win market share during times of rapid growth, greater competition from new entrants, and the maturity of existing players – all whilst creating a sustainable business model?

We analysed this question through extensive interviews with EdTech entrepreneurs and executives, teachers, principals, and school IT managers. We conducted a survey of EdTech entrepreneurs and executives to understand the needs of the sector, as well as a financial analysis of listed EdTech companies across the globe.

Our analysis shows that it will not be enough to rely on great technology to grow K-12 EdTech companies over the medium term. EdTech entrepreneurs will need to focus on the right strategic initiatives to ensure they maintain their current market position whilst setting a precise plan to drive increased value for their EdTech company.

We recommend that EdTech entrepreneurs consider and prioritise these three strategic initiatives:



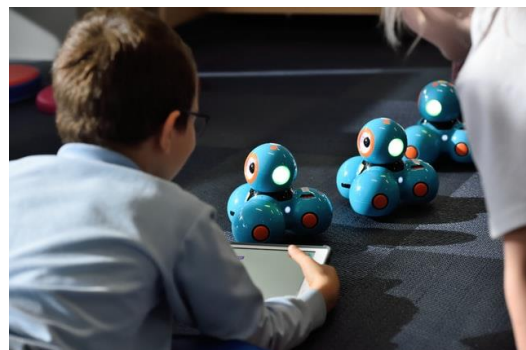
Alongside these internal strategies, there is a case that value could be realised through consolidation across the K-12 EdTech sector. A model of pooling resources between K-12 EdTech companies, driven by the right corporate governance, could make a difference in achieving scale on a global level and create significant company value. The timing for such a consolidation is right now; the market is growing, attention from prospective customers is high, and there is growing interest from the capital markets to fund growth.

## Product efficacy

At a time when EdTech companies face threats on multiple fronts — a sharp increase in new EdTech start-ups and external challenges from Big Tech — the fundamentals will be more important than ever. EdTech entrepreneurs will need to ensure that product quality is top-of-mind and that prospective customers will be able to recognise that quality. Our research shows that 75% of Australian K-12 EdTech companies supply content and learning management products. Many of these products target similar school subjects, creating a crowded market that will require teachers to be effective in their purchasing decisions. Differences in product quality and learning impact will be essential to support these purchasing decisions.

A quality EdTech product needs to be a holistic solution incorporating four components: proprietary technology, data privacy and security, learning analytics, and implementation services to ensure usability as designed. These components need to be combined into a complete solution that speaks to multiple stakeholders: schools, administrators, teachers, parents, students, and in some instances Government departments and agencies. Building such products is not an easy task, however, survey results show that the majority of Australian EdTech companies have well-developed products that meet many of these criteria (per Figure 6).

Constant development of a solution that is balanced across these components will allow K-12 EdTech companies to build a defensible position against Big Tech and enable expansion into export markets.



### Data privacy and security

In our interviews, school administrators expressed concern with how Big Tech leverages data in its business model, with specific comments surrounding data privacy and security. School administrators are unanimous that schools must maintain ownership of student data, understand how it is being used, and know where it is being stored. Specifically, school administrators believe that third parties should not own student data and not move that data offshore without explicit permission. Australian EdTech companies must store data locally and comply with the Australian Privacy Principles (APP) for the management of student data. This will provide a sales advantage when competing head-to-head against Big Tech.

### Learning analytics

Collecting student data in responsible ways enables EdTech products to provide learning analytics. Australian education has been driven by a need for quantitative evidence for many decades. This need for evidence of student learning outcomes is a prerequisite for sales of EdTech products in Australia and now around the globe. Australian EdTech companies that are able to show evidence of learning outcomes and ethical management of data will do well in Australia and in global export markets.

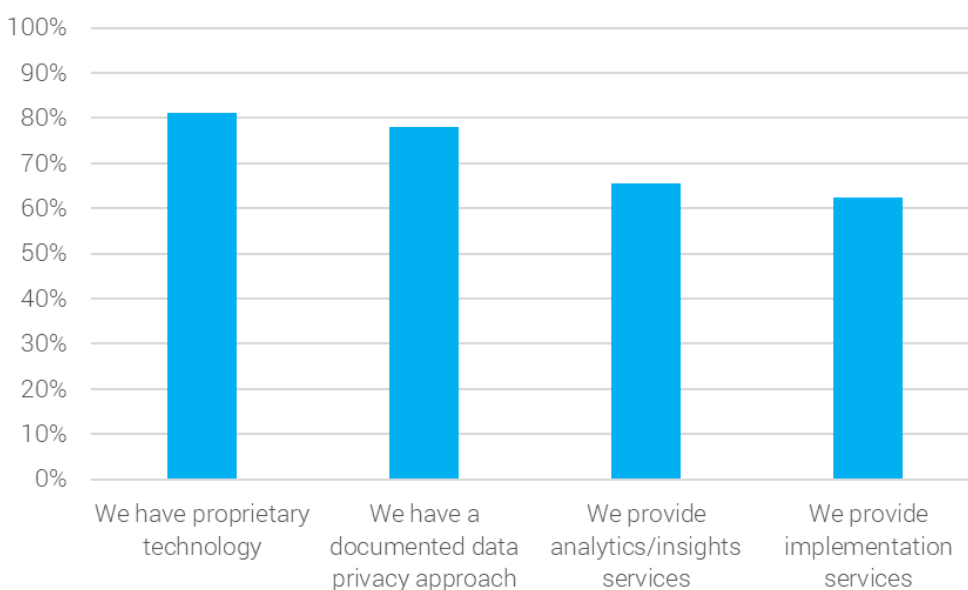
### Direct-to-consumer opportunity

Australian EdTech companies have well-developed products that have been sold predominantly to K-12 schools and school systems. But there is an emerging consumer market evolving in Australia that could match the large B2C education markets in other parts of the world. As we found from our survey, only 26% of Australian EdTech companies currently sell direct-to-consumer and only 10% are prioritising product expansion to grow the business.<sup>16</sup> This suggests that there is an untapped opportunity for companies to expand into this market.

The B2C market in Australia is also worth discussing in light of the COVID-19 pandemic. During the pandemic, Australian K-12 school students learned from home for many months. At this time, parents gained direct insight into their children's learning style and needs, and the challenges teachers face every day in the classroom. This experience, coupled with the social change of real-time education, creates a willingness in parents to search for and acquire supplementary learning products.

The opportunity in the B2C market is compelling because it creates an alternative distribution channel that bypasses the common challenge of selling to schools.

**Figure 6: Percentage of EdTech companies surveyed that have each product quality component**



<sup>16</sup> Refer to the Appendix for the full set of survey results



## Sales Productivity

In our interviews with EdTech entrepreneurs they identified both a challenge and an opportunity in selling to K-12 schools.

### Challenges

By their very nature, K-12 schools are conservative and risk averse when it comes to adopting new practices. This conservatism creates roadblocks for EdTech companies in closing sales. There are challenges in proceeding past gate-keepers to access decision makers and obtaining buy-in within the school to trial new products.

Once connected to the decision maker, EdTech companies face a final sales hurdle in the form of teacher workload. The OECD Teaching and Learning International Survey shows that between 2013 and 2018 Australian teachers experienced the third largest increase in work hours among OECD member countries.<sup>17</sup> Teachers with increased hours have less capacity to trial the multitude of EdTech products in the market.

As EdTech companies need to repeat this sales process primarily on a school-by-school basis, the length of time required to convert a sale is considerable. It is very difficult to overcome these challenges and create an efficient model to acquire new customers.

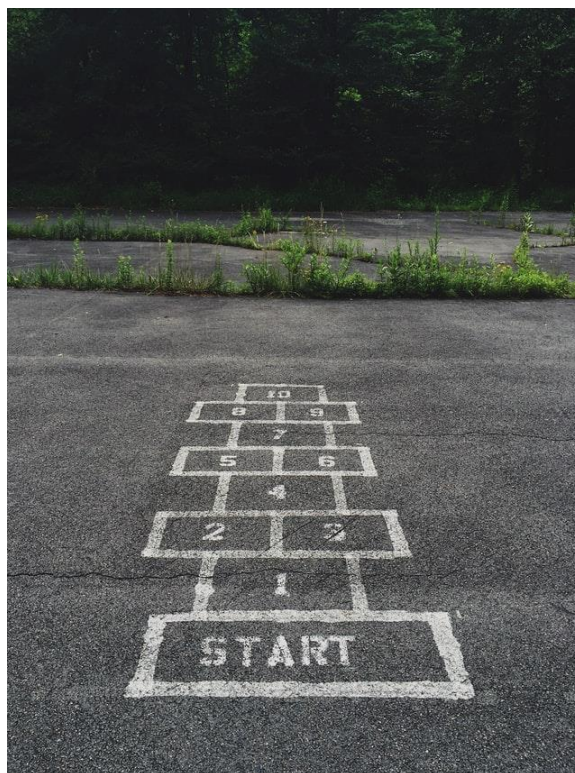
### Opportunities

To break through these barriers, it is crucial to have a sophisticated sales and marketing model, i.e. a model that embraces all of the sales capabilities required to scale a business to the fullest extent.

Our survey results (per Figure 7) indicate that Australian EdTech companies are aware of the need to build a sophisticated model. For example, when asked what area of expertise is most needed to grow their businesses, 47% of respondents required sales and marketing support.

Analysing the sales models in our survey sample show that most use sales technology including CRM software and digital marketing

tools. But less than half have a dedicated sales team, and even less use teachers to support the sales process.



### Sales technology

To combat the challenge of teacher capacity, EdTech companies need to invest in sales tools that make the onboarding process as efficient as possible. For example, self-service features can save time in getting a new customer up and running. That way, teachers have a good first experience that doesn't require them to be experts in any advanced technology.

After a product is implemented, companies need to use tools to monitor the usage of their products. Understanding how customers use the product and how frequently they do so is an important feedback mechanism. Acting on this feedback will help the EdTech company maximise renewals.

The importance of customers actively using EdTech products was highlighted in our survey results, with the majority of respondents identifying 'engagement' as the number one product metric that mattered to the business.

<sup>17</sup> SOS Australia. (2019). *Teacher Workload Has Increased in Australia*

### Dedicated sales team

In our interviews, many EdTech entrepreneurs expressed reluctance to hire sales people. The reasons they cited included the lack of sales talent in the market with education sector knowledge, and the time required to generate a positive return from new sales staff. However, in order to reach the next stage of growth, the EdTech entrepreneur must empower others to sell their products and fill the capability gap of a professional sales function. If sales staff don't have education sector knowledge then a workaround is to use teachers as specialist advisors.

### Teachers as advisors

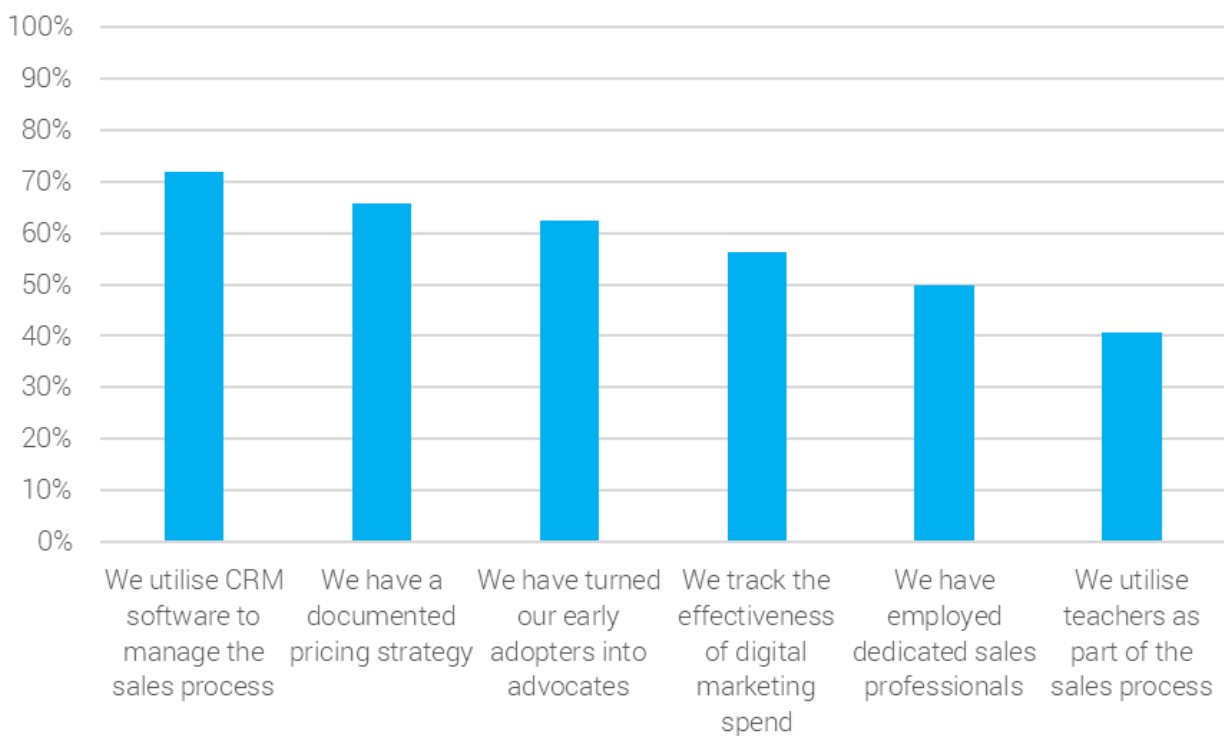
Within K-12 Schools, teachers play a valuable role in supporting sales and marketing processes of successful EdTech companies. Many established companies use teachers on

advisory boards, in product development and design, or as strategic consultants that provide insights into school needs. Using teachers in the sales process also helps entrepreneurs bypass the gate-keepers within schools and work directly with the decision makers. Including teachers in the sales process should be a goal of every EdTech company regardless of its size.

### Competitive advantage

It is important to note that whilst all EdTech companies face these challenges in the sales function, it is a significant advantage over the competition when they are solved. EdTech companies will be able to grow their business at a faster rate than competitors who are still grappling with these challenges. This is because those winning companies will have developed a repeatable model that can scale efficiently into new markets.

**Figure 7: Percentage of EdTech companies surveyed that have each sales capability**

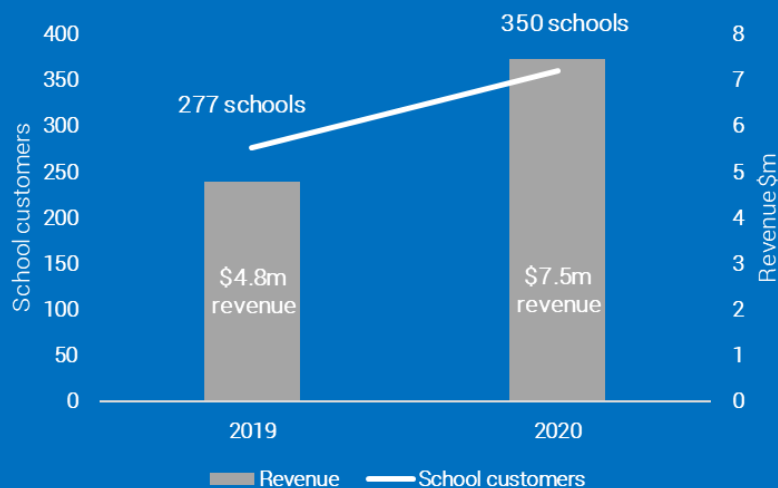


## ReadCloud Limited (ASX: RCL)

ReadCloud provides eReading software for curriculum aligned eBooks to Australian schools. The software gives the ability for students and teachers to share notes, questions, and weblinks directly inside the eBook. It is one of the few Australian EdTech companies that is on the ASX, having listed in 2018.

ReadCloud is an example of an Australian EdTech company that is focused on driving performance through its product and sales strategy.

**Figure 8: ReadCloud revenue and school customers FY19 vs FY20**



### Product Strategy

From the FY20 results presentation, we observed how ReadCloud is continuously improving its product. New platform features use analytics to provide teachers with insights on which pages students are spending the most time reading or which words students are looking up in the dictionary. This helps teachers direct their focus toward the areas where students need support. Another example is how comments added to an eBook by a teacher or student can be shared with the class in real-time, promoting social collaboration.

In our interview with Josh Fisher, Chief Product Officer, he said “learning analytics enables teachers to focus on teaching that matters. Historically these tools were not at our disposal to provide timely and accurate data points on student performance. Gaining insight into student behaviour using technology as an enabler not only supports teachers, but also students and school communities more broadly”.

ReadCloud also recognises the importance of data privacy to its product strategy, stating on its website that “all data is stored securely on

Australian based servers utilising the most advanced level of encryption protocols”.

### Sales strategy

ReadCloud uses both a direct sales approach with in-house sales professionals and a reseller approach with partners that provide booklist services.

ReadCloud has dedicated sales and business development managers to sell directly to target schools. It is noted in the FY20 results presentation that direct sales efforts were focused on targeting larger schools not only because they act as reference customers but also because they require a similar onboarding process to smaller schools, thereby improving operational efficiency.

The reseller channel enables ReadCloud to sell its products to schools who already have a trusted relationship with a local supplier of textbooks. As such, the resellers help ReadCloud accelerate its customer acquisition and expand its geographic footprint.

## Regional Expansion

Successful Australian EdTech companies are exporters – 68% are currently selling overseas and 97% plan to sell overseas within the next three years. Europe and North America are the favoured destinations, followed by Oceania and South East Asia (per Figure 9).

### Export capability

EdTech companies of all sizes are exporting around the world, including many in the start-up phase. Through EdTech entrepreneur interviews, we heard stories of how start-ups achieved export sales. One EdTech company shared how teachers using their product in an Australian school expatriated offshore and advocated for the use of the product in their new school. Numerous EdTech companies shared that they regularly received international enquiries and were able to service them once the connections between the education systems were confirmed. These examples show that Australian EdTech companies have the capability to scale offshore early in the business life cycle.

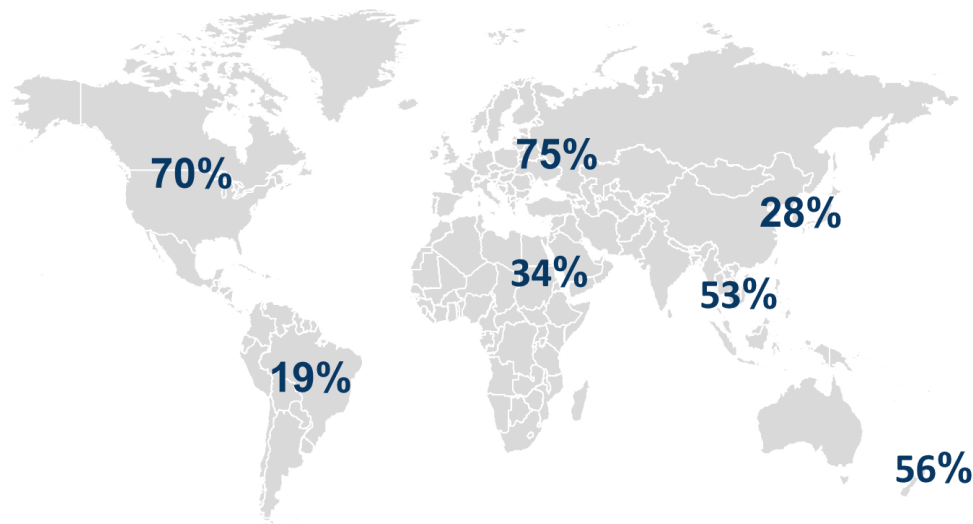
This export focus is confirmed with 35% of survey respondents ranking expanding internationally as the priority growth option. However, Australian EdTech entrepreneurs will need to be deliberate about their export market strategy. Following every opportunity offshore, without detailed strategic planning can risk distracting the company from building valuable foundations in Australia.

Deciding which markets to enter is an important part of strategic planning. In making these decisions, EdTech leaders should consider the:

- **Customer profile** – Who is a typical customer in this market? How price sensitive are they? What expectations do they have on customer support?
- **Competitive landscape** – Who are the local competitors? How are their products differentiated? Will companies from other countries enter this market?
- **Market potential** – How advanced are the schools in technology adoption? How are governments, corporates, and schools working together on the digital agenda? How will the regulatory landscape impact the business?
- **Go-to-market approach** – Will it be more effective to take a bottom-up approach (e.g. start at the teacher level) or a top-down approach (e.g. start at the state/district level)? Are there options to use resellers or distributors?
- **Resources required** – What product development will be required? How many people will be needed to support this market? What ongoing operational expenses are to be expected?

Developing this plan should culminate in an understanding of the expected revenues and costs of entering each new market. EdTech entrepreneurs can then make an informed decision supported by the funding requirements and potential return of that investment.

**Figure 9: Percentage of EdTech companies surveyed that plan to export into each region**



# The case for consolidation

Overlaying these strategic priorities is the potential for a consolidation or roll-up of EdTech companies. A roll-up is a strategy of combining small companies in the same industry to form a larger company. Historically, this strategy is effective when there are synergies through economies of scale or opportunities only available to companies with ample resources. The industry characteristics that support this strategy include fragmented markets with no or few dominant players – similar to the current state of the Australian K-12 EdTech sector.

To assess whether a roll-up strategy will be effective, we need to consider the potential costs and benefits of this strategy. For the purpose of this business case we will refer to the consolidated company as “Roll-up Co”.

**Figure 10: Benefits of a roll-up strategy**



### Improve sales productivity

A roll-up strategy would alleviate many of the issues of selling to schools. In particular, the time and costs associated with selling on a school-by-school basis.

Roll-up Co could aggregate its relationships in schools to create a much larger customer base for each product in the portfolio. For example, one EdTech company may have a footprint in Victoria, whilst another company may have a footprint in NSW. Roll-up Co would take

advantage of this geographic spread and create cross-selling opportunities.

Further, with an expanded product suite, Roll-up Co ensures that it is selling the right products to the right schools. Account managers could work with teachers to understand their needs and identify the best suited product in the portfolio. For time-poor teachers, this is a much-needed efficiency. For EdTech companies, this should reduce the cost of customer acquisition.

### Guard against external threats

A roll-up strategy would provide better protection for Australian EdTech companies from Big Tech and international EdTech companies. This is because Roll-up Co can increase the barriers to entry for these external threats.

Roll-up Co could do this by diversifying its product suite across the K-12 value chain. For example, Roll-up Co could integrate administration, student management, and learning management systems to create a streamlined experience for schools. The school benefits by managing the data from these systems in one place. Roll-up Co benefits by embedding its products across a school so that switching costs for the school are increased and disruption risks from external threats are mitigated.

### Sell enterprise level solutions

A roll-up strategy would enable Australian EdTech companies to quickly get to a scale needed to take advantage of large sales opportunities both domestically and internationally.

Roll-up Co would have the resources at its disposal to tender for contracts with government or school groups that generate significant revenue, often locking in income for multiple years. These contracts can also create an efficient entry point into new markets outside of Australia. After Roll-up Co has gained entry into a new market, it could expand its reach by selling the other products in its portfolio.

### Compete for the best talent

A larger EdTech company would be able to compete on an equal footing with other large companies for the best talent in the market.

Skilled labour is essential to scale a business. Global competition for developers, technical architects, product designers, and sales professionals is high. EdTech companies need to be able to offer attractive salary, benefits, career paths, and engaging work to attract the best talent.

Roll-up Co would be able to hire the best talent in the market as people would be attracted to the development opportunities in a fast-growing company with local scale and global ambitions.

### Executing the roll-up strategy

Reviewing these benefits shows that the characteristics for consolidation are present. The question then becomes, how can an EdTech entrepreneur execute a roll-up strategy?

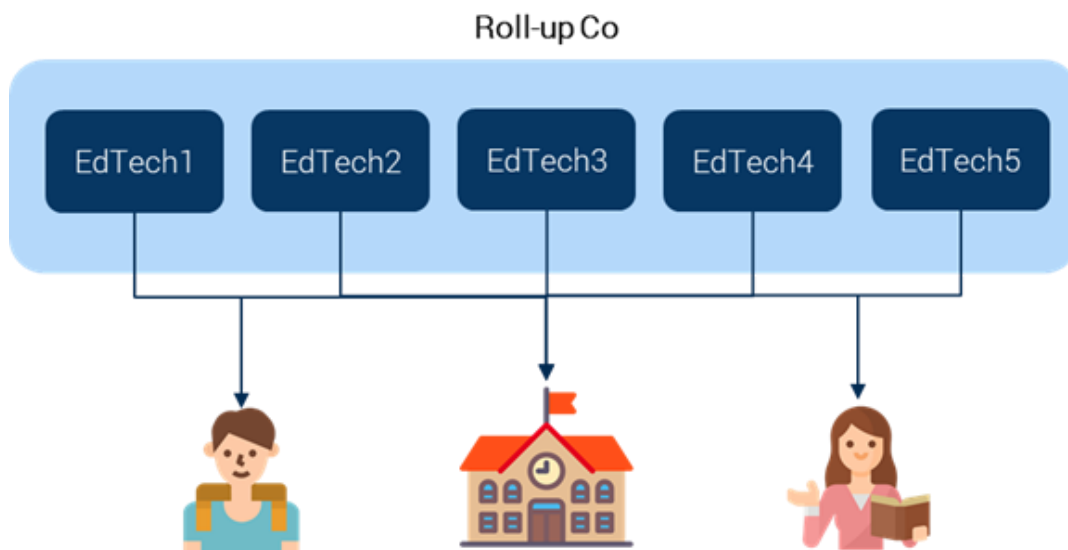
Leaders of established companies should look for opportunities to acquire or partner with complimentary companies that would enable these benefits. Synergies can be created with companies that have a complementary customer base or products that can be easily integrated

with the existing portfolio. The focus needs to be on combining separate entities that together offer more in terms of product, support, efficiency, competitive advantage, and ultimately, greater company value.

EdTech entrepreneurs of companies at the start-up stage will need to focus on building value first, so that their company is an attractive target for larger EdTech companies at the appropriate time they seek to exit. To build value, EdTech entrepreneurs should focus on identifying and growing the valuable assets in their company, such as proprietary technology, customer relationships, a library of content, or a database of teacher contacts.

Our EdTech entrepreneur interviews suggest that in the early stages of a company's life there is some confusion on where the true value of the company actually resides. There is often an implied trade-off between growth and profit margins. Strategically analysing where the value resides is essential to ensuring the operations are focused on the correct area and that costs are managed to demonstrate the company's pathway to profit.

**Figure 11: A Roll-up Co benefits from a coordinated go-to-market approach that provides greater access to consumers and markets**



# The way forward

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The Australian K-12 EdTech sector is primed for considerable value creation. Capturing this opportunity will require EdTech entrepreneurs to act fast on their strategic roadmap.

A successful strategic roadmap requires independent input to ensure an EdTech entrepreneur creates value within their EdTech company. Using professional advisors is essential to challenge assumptions, test hypotheses with stakeholders, and define a strategic plan that is focused on value creation. This helps EdTech entrepreneurs reach consensus on the things that need to be done first to achieve great results.

## **Actions for established companies:**

- Identify and fill capability gaps in sales and marketing, finance, and product development
- Develop a plan for new market opportunities, in areas including direct-to-consumer products, overseas markets, and value chain integrations
- Identify financial partners that can de-risk expansion strategies
- Develop a disciplined approach to finding, evaluating, and integrating acquisition targets as part of a roll-up strategy.

## **Actions for start-ups:**

- Improve the components of product quality: proprietary technology, data privacy, analytics, and product implementation
- Fill capability gaps to improve sales productivity and reduce the cost of customer acquisition
- Develop a plan for international expansion, focusing on the expected revenues and costs required to do so
- Identify and grow the valuable assets in the business, such as intellectual property and customer data.

## APPENDIX



# Survey methodology and results

## Methodology

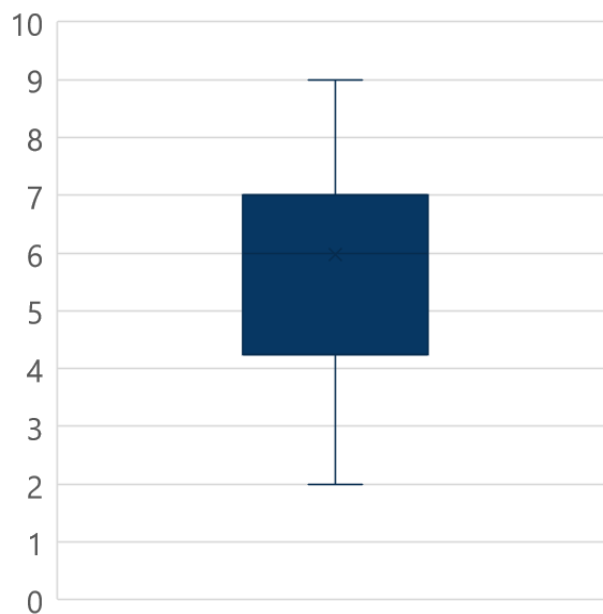
Our survey of EdTech entrepreneurs and executives aimed to identify the needs of the Australian K-12 EdTech sector. It is estimated that Australia has 240 K-12 EdTech companies, giving the sample size of 32 respondents a 13.3% coverage. Graphs from the survey that weren't included in the body of this report are outlined below.

## Results

### Technology adoption

We asked the respondents to provide their opinion on the current level of technology adoption in K-12 schools by giving a rating from one to ten. The majority of respondents rated the level of technology adoption between a four and a seven out of ten. The highest score was a nine and the lowest score was a two.

**Figure 12: Rating out of 10 for the current level of technology adoption in K-12 schools**

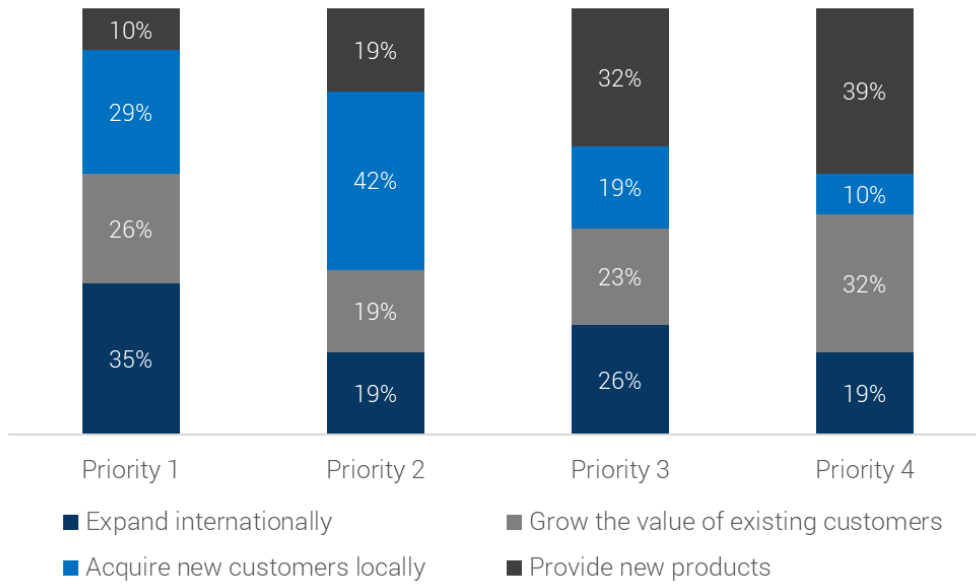


We then asked respondents to state how they expect the level of technology adoption to change over the next five years. Over 90% of respondents are either expecting adoption levels to increase or significantly increase. No respondents are expecting a decrease in adoption rates.

### Growth strategy

We asked respondents to rank their growth strategies from most important to least important in terms of the impact that growth strategy will have on revenue over the next five years. The top ranked growth strategies were expanding internationally and acquiring new customers locally. The lowest ranked priority was to provide new products.

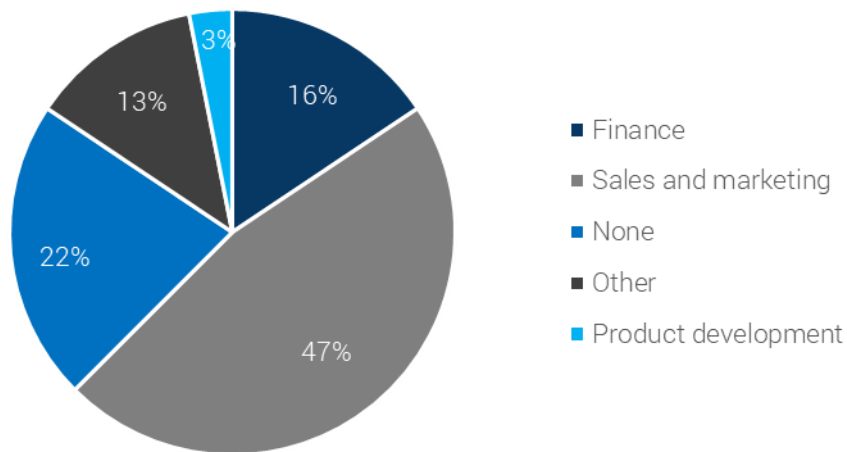
**Figure 13: Growth strategies ranked from most important to least important**



**Capability gaps**

In the context of the growth strategy that the respondent prioritised, we asked what capability gaps existed in the business to execute that strategy. The greatest capability gap is in the sales and marketing function, with 47% of respondents needing this type of expertise. Product development and finance came in second and third with 22% and 16% respectively.

**Figure 14: Capability gaps to execute the growth strategy by function**



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