

# Venture capital explodes into the US education market

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The Obama administration's education initiatives have been extraordinarily successful—not as measured by the typical metrics of student achievement, but as tallied on Wall Street by the flow of venture capital.

The amount of private equity entering the education market nearly tripled to \$224 million in 2011, up from roughly \$130 million in 2010.

'Having been in this space, covering it for more than a decade, I've not seen this level of interest or supply of early-stage K-12 businesses in the last decade by any stretch of the imagination,' said Adam J. Newman, an Education Growth Advisors (private equity firm) partner, according to *Education Week*. The 2011 investment level represented the highest transaction value into K-12 education in a decade.

In 2011, more venture capital entered the K-12 market than the higher education sector for the first year since 2006. 'Precollegiate education historically has not been an easy market for venture capitalists to break into,' noted *Education Week*, as 'venture capitalists generally look for high-growth opportunities.'

What accounts for this sharp change in investment environment? Why are high-risk, high-rewards capitalists convinced that so much profit is there for the taking?

The Obama administration has changed the face of education through its The Race to the Top (RTTT) initiative. The resulting rule changes on the state level have ensured a growing incursion of profit-taking throughout the education industry.

States, reeling from massive budget deficits, have enacted 'reform' legislation enabling a growing privatization of kindergarten through high school schooling. Last month, the state of Michigan removed

the limiting cap on charter schools; pending legislation in the state (Senate Bill 619) would end the restrictions on 100 percent online cyber schools. With Education management organizations (EMOs) running most charter schools nationally, many 'non-profit' school districts are controlled by for-profit entities. Michigan is already home to one quarter of the nation's for-profit charter operations.

Other states have done likewise. Illinois lifted a cap on the number of charter schools it allows, and Massachusetts made it easier for students in low-performing schools to switch to charters.

The list of additional jurisdictions that have expanded either their charters, vouchers, cyber charters or made requirements to require online coursework since 2010 include Washington, Oregon, Wisconsin, Idaho, Maine, Tennessee, Virginia, Florida, Utah and Nevada.

Another approach to the same end is awarding credits for 'mastery' of a subject, rather than by students actually attending classes for a set amount of instruction. The Florida Virtual School not only awards credits this way, but the state legislature allocates funding based on these types of credits. Thirty-six states have embraced alternatives to meeting 'seat time' requirements (the Carnegie unit of instruction). Such policies give incentive to online programs and testing companies, aim to reduce expensive remedial students and, most fundamentally, point to a steady reduction in education altogether.

For decades, the for-profits and the right-wing opponents of public education were stymied in their efforts to enact voucher legislation or other mechanisms to take advantage of the education market. But RTTT, under conditions of the systematic defunding of public education, has radically changed the political dynamic.

RTTT aims to dismantle the guaranteed funding programs established during the 1960s such as Title 1, which assisted students in disadvantaged districts, and instead rewards those districts that embrace entrepreneurial models. Districts are rewarded for establishing charters, cyber education and various other ‘reforms’ that involve for-profit businesses.

These structural changes being implemented by the Obama Department of Education are clearly creating an unprecedented market opportunity, with the cost of teaching America’s 77 million K-12 students estimated at \$1.5 trillion annually. These ‘opportunities’ benefit the venture capitalists and Wall Street investors at the direct expense of students, teachers and society at large.

These up-and-coming for-profit firms in the education business include:

- Wireless Generation, a testing and instruction company is widely utilized in low-income communities. In November, Wireless Generation was acquired by News Corp. for an estimated \$360 million, ‘an extraordinary result for the entrepreneurs and investors,’ its news release states.

- The NewSchools Venture Fund is a nonprofit “philanthropic” fund which has transitioned from funding charter school companies to investing in both for-profit and non-profit education organizations in their early stages. It has provided grants to the following for-profit education companies: Better Lesson, MasteryConnect, Junyo, Goalbook, LearnZillion and Engrade. It recently announced the launch of a fund that will provide support to entrepreneurs working to develop education technology tools, applications, content, and services designed to improve opportunities for children from low-income communities.

- Acelero Learning, which starts up new Head Start programs, recently added Philadelphia as a new market, joining Camden, Middlesex, and Monmouth, New Jersey, as well as Clark County, Nevada. Acelero has stated that it has reached such a significant scale it no longer requires any additional capital from investors.

- Revolution Foods, a NewSchools portfolio venture, recently added a number of major new investors, including most prominently Oak Ventures, a premier venture firm with a specialization in food services. Revolution Foods is poised to expand to Houston in the

near future. The addition of top-line investors reflects great optimism in the company’s future and demonstrates that as a company proves its model, ‘impact investors’ can be followed by more traditional investors that enable greater scale.

- NewSchools recently joined Catamount Ventures as Series A funders of Presence TeleCare, a start-up company that delivers services over the Internet to students with special needs. Presence TeleCare uses technology to replace speech therapists, demonstrating, according to their advertisements, ‘the importance of using technology to improve the quality of SPED services and drive down cost.’

Companies like these join already hugely profitable education industry operations. Knowledge Universe is a multinational, billion-dollar firm that includes K-12 Schools, LeapFrog Enterprises, Nobel Learning Communities, Knowledge Learning Corp., a leading operator of daycare centers, and Unext, an online college and graduate business school.

Pearson, another multibillion-dollar holding company, owns Connections Academies, with cyber schools in 21 states and hundreds of other subsidiary companies in publishing, including Penguin, Prentice-Hall and Pearson Scott Foresman, digital instruction, testing and professional instruction.



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