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Analysis of the Online Education Market in Russia in the Context of the Theory of Economic Dominance

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ABSTRACT

The coronavirus crisis has destroyed the well-established concept of the familiarity of life. One of the few areas that showed stable growth during this period was the online education market, which proved to be an effective alternative to offline education. Using the online education market as an example, the authors study the concentration of online educational projects, based on the theoretical concept of stratification by levels depending on institutional conditions, the situation of the dominance of representatives of one level over another. As one of the main conclusions, the authors highlight the absence of independent Alpha players due to the relatively small size of the market, the presence of unique factors of dominance (IT, ecosystem, support from the state and venture capital companies) and the dependence of the online education market on the expansion of external Alpha empires.

Keywords: online education market; economic dominance theory; institutional rent; Alpha empires

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INTRODUCTION

The online education market has become one of the few that have benefited from the coronavirus pandemic — in this context, the need for new distance education products and technologies has increased enormously. This market is still significantly smaller than other IT-markets and is relatively young, which can ensure its steady growth in the medium term. [1] In 2016, according to EdMarket research,¹ the Russian online-education market was estimated at 20.7 billion rub., representing 1.1% of the total education market; according to the results of 2019, the volume of the market was 38.5 billion rub., with an average annual growth rate of 20%. [2] According to RBK data, as of the Q3 of 2020 total revenue of top-50 companies of the online education market since the beginning of the year amounted to more than 18 billion rub., and at the end of 2020 — about 34 billion rub. (for the Russian market as a whole — 55–60 billion rub.). [3] This growth cannot but be accompanied by significant structural and institutional changes, and the purpose of the article is to assess how deep transformations of the online-education market are taking place and can take place in the near future.

ONLINE-EDUCATION MARKET IN RUSSIA IN 2020–2021

To date, leadership in all segments of the online education market has been retained by professionals who originally did so. The growing interest of major players from adjacent markets in launching their own online educational services, platforms and ecosystems cannot be ignored. It's also worth noting that since the second half of 2018, people with no experience in any educational activity, and not only online, are increasingly entering the online education market. They

mostly replicate existing successful models, occupy underdeveloped niches and compete with marketing budgets.

According to the analyst company HolonIQ, as a result of the coronavirus crisis, the online-education market attracted 8.3 billion dollars in venture capital in the first three quarters of 2020, setting a record in the sector all along. [4] With regard to investment in Russian online-education, according to EdMarket data, total investment as of August 2019 amounted to 34.5 million dollars. Investments in Russian online education for 2017–2019 distributed by segments as follows: 27% — school education, 20% — language education, 20% — additional professional education, 11% — corporate education, 22% — other.

Due to the large state presence in the pre-school segment, the online-format is mainly represented in supplementary education of children only. However, it is worth noting that according to the State Program of the Russian Federation “Development of Education” for 2013–2020, the expansion of the role of the non-State sector in the provision of pre-school and supplementary education for children has been established as one of the areas of educational development. Experts predict that the online share of this segment will be 5.5% in 2021.

The situation is similar in general secondary education. Despite the over-conservative nature not only of the general secondary education system, but also of parents' attitudes towards the online-formats of general education, the situation with coronavirus revealed the vulnerability of the segment to the trend of digitization of educational methods: according to expert forecasts, the penetration of online format into the general secondary education segment in 2021 will reach 1.5% and supplementary education for schoolchildren will reach 6.8%.

The situation in higher and secondary vocational education is due to the lower

¹ Study on the global and Russian online learning market TalentTech, Нетология and EdMarket.

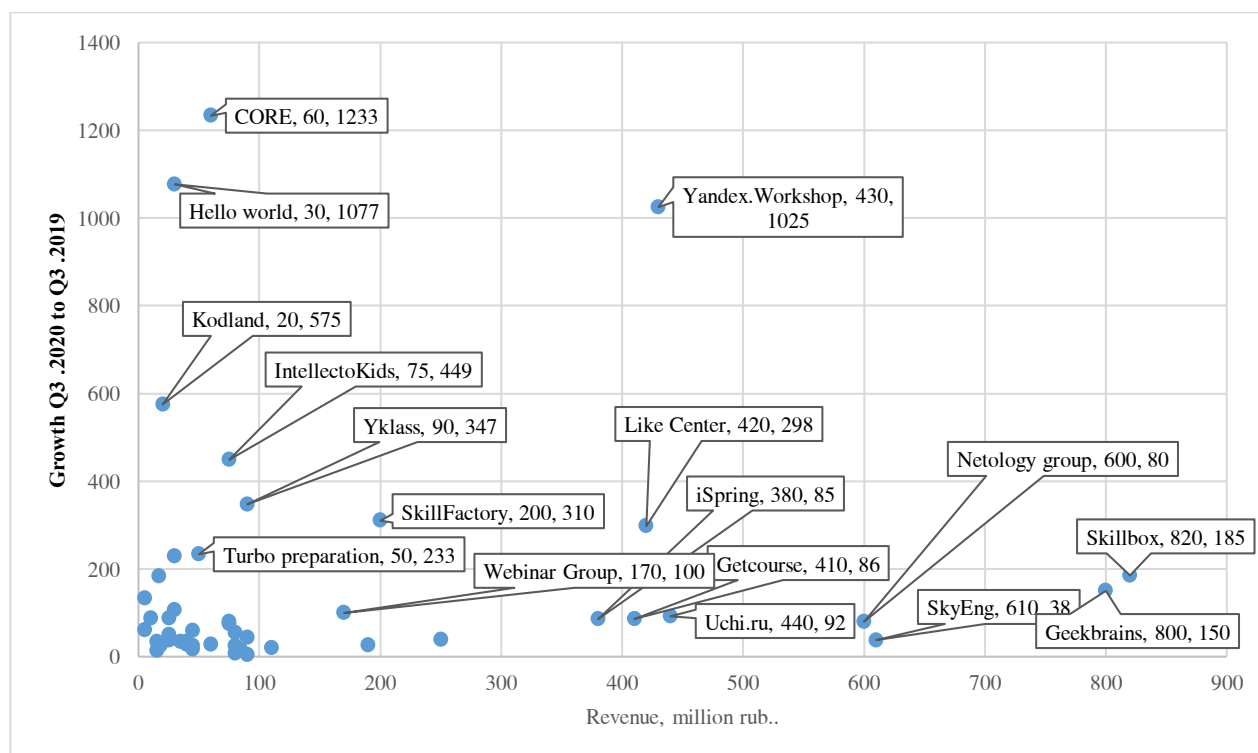


Fig. Comparison of companies in the online education market in Russia in terms of revenue and growth rates

Source: Compiled by the authors based on data from the Talent Tech, Smart Ranking 2020. URL: <https://trends.rbc.ru/trends/education/5fdbadc69a7947b8cfb7d086>.

participation of the State in this segment [5]: EdMarket official statistics for the school year 2015/2016, 59,1% higher education institutions — State universities, 40,9% — private. The share of online training here is projected by experts to be 4.4% in 2021. In the area of additional professional education, the online-format is more widely used than in others, and experts predict that in 2021 it will be 10.9%.

If you look at the distribution of Moscow startups in education, according to EdMarket data, the largest number of them in additional professional education is 45% and school education — 20%. However, since 2016, online-market players are expected to expand into the corporate sector, and according to experts, this is becoming a strategically important growth point for educational online-business.

The statistics provided are not only due to the presence and participation of the State in

each of the segments, but also to sociological factors — the capacity of the recipients of educational content and their attitude to online education. This was particularly evident during the extreme transition to distance learning in the context of the COVID-19 pandemic, which highlighted not only the main problems of face-to-face education (low quality of educational content and imbalance in teaching burden), but also the disorganized nature of the recipients of educational content in time and space in remote setting. [6] Also, the factors that determine loyalty to online-education, can be considered involvement of the educational level and organization in the international community. For example, according to the data of the all-Russian survey of university teachers on the development of a remote format, conducted by the Social Research Laboratory of RANEPa, universities integrated into the international community

have a fairly high level of loyalty to a remote format.

STRUCTURAL AND INSTITUTIONAL TRANSFORMATION OF THE ONLINE-EDUCATION MARKET IN RUSSIA

Economic dominance theory may be chosen as a convenient tool for analysing institutional change, proposed by A. A. Blochin [7] and further developed jointly with I. V. Lomakin-Rumyantsev and S. A. Naumov [8, 9]. It describes how the trends of concentration of business in the Russian economy led to its stratification into three levels with different institutional conditions and domination of the upper levels (alpha-business) over the lower levels (beta- and gamma-business).

The theory is partly a continuation of François Perroux's idea that market players are inherently inequitable and interconnected as enterprises expand and adopt new technologies.[10]

Trends in the stratification of businesses by different institutional levels are characteristic of the entire Russian economy. Examples include online-education.

Turn to Talent Tech, Smart Ranking for 2020 to identify and compare the main players of online-education market in Russia. As a base for analysis take companies that, along with positive returns, showed growth in the Q3 of 2020 compared to the Q3 of 2019 (see *figure*).

Starting from the idea of economic dominance theory, to describe the segmentation of the online-education market, it is necessary to identify the factors that determine the differences in institutional conditions. In order to solve this problem, we will get acquainted with the stories of some companies which have appeared in the top rating and shown in the *figure* in the lower right zone.

The Skillbox education platform was launched in 2016. At the beginning of

2019 Mail.Ru Group acquired 3% of the company, after a month increased the share to 10.33%, and already at the end of 2019 it had a controlling interest — 60,33%, which according to the annual report of Mail.Ru Group cost it 1,6 billion rub.

SkyEng Language School was founded in 2012, with an initial investment of 400 thous. rub., then — 300 thous. dollars. In 2013, the school also launched its own education platform, which cost it 500 thous. dollars, in 2016 — mobile application and TV series language learning service. In 2017, SkyEng entered the USA and Latin America markets and opened two new areas of activity in Russia. In 2018, the school is attracting investment from Baring Vostok foundations, and since then has been actively launching new services and entering new markets.

Netology Group company was formed in 2014 by merging the project “Netology” and the start-up “Foxford”. In the same year the company became a resident of Skolkovo, and venture fund of the InVenture Partners invests in it in two rounds totalling 1.6 million dollars. In 2015, the company received a 2.1 million dollars additional investment from Buran Venture Capital and InVenture Partners. In 2017, Buran Venture Capital and InVenture Partners withdrew as shareholders of the company, and 40% bought “Severgroups”.

The Getcourse platform started as an educational project that needed investment, and paid off only two years later, in 2017, when the boom in educational online-project began.

Thus, the essence of institutional rents in the online education market of the companies represented in the *figure* can be expressed by several factors:

1. *Mergers and Acquisitions*. Promising projects and startups in the online-education market are often bought in whole or in part by major corporations, giving them additional investment and access to donor-company capabilities and resources.



Table

Bundle of companies in the online education market by Alpha empires

Alpha-Empire Mail.Ru Group	Alpha-Empire TalentTech	Alpha-Empire Yandex	"Clean" alpha
SkillBox, Geekbrains, Uchi.ru, SkillFactory, Tetricka, Algorithmics	Netology-group	Yandex.Workshop	SkyEng, Getcourse, iSpring, Maximum Education, Webinar Group

Source: Compiled by the authors based on data from official companies' websites.

2. *Platform*. Unique educational platforms attract investors and become a competitive, often critical, advantage for users.

3. *Support*. Educational projects and platforms in areas of strategic importance to the State are supported by venture capital investments.

ALPHA-, BETA-, GAMMA-, AND ALPHA-EMPIRES IN RUSSIAN ONLINE-EDUCATION

The largest companies with a strong platform solution and support from the state and/or venture investors constitute the alpha business group (in the *figure* are located in the lower right zone). They are characterized by high revenues and stable growth rates. They are well placed to further strengthen their market position through organic development, the absorption of smaller companies with unique performance, the development of product lines and the broadening of the customer base.

The group "beta" are large companies which either avoid direct competition with the "alpha" or lose the market in the course of the competition for customers. They also have strong platform solutions, but attracting investment is more expensive (in the *figure* clearly define the location of the companies of the group "beta" is problematic, among

them can be attributed to the companies of the top left and a number of companies of the lower left zone, except for the cluster area — companies of the group "gamma").

Gamma-companies are those that operate in the market, replicating successful alpha- and beta- company models. To survive in this group, they have to work on a unique proposal and customize the conditions (figure on bottom left — low-income, low-growth cluster).

B.A. Vertograd proposes to distinguish also "alpha-empires" — combining of all three types of companies (or their distribution among influential alpha-leaders) into integrated systems to obtain synergistic effects. [11] Members of the alpha-empire may operate in one ecosystem, on one technology platform or within established codes and regulations, — this will be their advantage over other market participants (see *figure*).

In the Russian online-education market there are three major alpha empires belonging to Mail.Ru Group, Yandex and TalentTech. For example, 6 companies ranked by Smart Ranking are members of the alpha-empire Mail.Ru Group, because they are wholly (Geekbrains) or partly (Skillbox — 70%, Uchi.ru — 25%, SkillFactory — 18%) owned by an Internet-giant. [12] The listed companies occupy significant shares in certain segments



of the Russian online-education market, which allowed them to be classified as beta-level companies before joining the common ecosystem. This alpha-empire also includes gamma-firms: Tetricka and Algorithmics (Mail.Ru Group owned 45% and 11.7% respectively), occupying school niches in information technology and programming.

The Yandex alpha-empire includes all companies with the “Yandex” or “Y” console as well as the School of Data Analysis, the School of Managers and Flow. Most of Yandex’s projects are more in the gamma level, as they occupy separate niches of the online-education market. For example, Flow — part of a larger Y. Workshop — is a platform for learning English.

TalentTech’s third alpha empire includes Netology-groups, which includes an online school to prepare for Primary State Examination, Unified State Examination and “Foxford” olympics, Netology — is a platform of online-courses for adults, EdMarket (distance learning) and “Digital education”.

Thus, it can be noted that IT-factor is prevalent in the Russian market of online education, since all alpha-empires are controlled by IT-holding. Moreover, non-alpha-empire players are also partners of major companies in computer software development (Maximum Education) or have subsidiaries in this area (SkyEng). Due to the high degree of influence of the sphere of information technology — the companies participating in the market of online-education services have tendencies to explosive growth and quickly move from one level to another.

For companies at the “gamma” level in the online-education market two development scenarios are available: 1) form a unique trade offer, attract “smart” investments and escape into the segment of “beta” or even join the alpha-empire (through partnership or absorption); 2)

develop your customer base and settle for the current level of earnings and profits, staying forever in the group “gamma”.

The first development scenario, for example, took advantage of the former “gamma” SkillBox, attracting investment and experience of Mail.ru, ensuring its explosive growth. The second scenario was chosen by Uniweb, beginning its history with universities and providing online training programs. Over time, the company has been able to develop its product into a platform where machine learning can provide the necessary courses to train the company’s employees. By focusing only on a specific segment, the company avoids direct competition but cannot sustain rapid growth.

Mirapolis on its platform enables HR-services to manage the entire process of human capital development, including the implementation of online-learning. Antiphishing focused on training people to counteract digital attacks. The company thus occupied a narrow niche, becoming the only player in it, but it is the narrowness of this niche that prevents the company from leaving the gamma- segment. The goal of the beta- and gamma-level companies may well be to capitalize and invest, as well as to sell to a major market player — “alpha” or alpha-empire. It is not possible to track such a strategy because of the opacity of the market: there is little published information on loss. For example, according to Interfax, Coursera’s net loss in January-March 2021 was 21.1% of revenue, in the same period 26.6% of revenues were generated in 2020, while in the Q1 of 2021 revenues increased by 64% and registrations by 5 million.

CONCLUSION

Analysis of the online-education market in Russia generally confirms the basic ideas of the theory of economic dominance: market segmentation exists, with alpha-leaders taking



advantage of opportunities to access the less expensive resources and infrastructure of alpha-empires to gain dominant positions in online-learning. For these reasons, market forecasting needs to take into account the institutional changes taking place in the market.

The distinctive features of the online-education market are:

- First, the dominance of either alpha-empire units or companies integrated with alpha-companies in other markets. This may indicate that for small industry-sized micro-vertical markets the emergence of independent “alpha” is problematic or impossible at all, since market size does not allow for sufficient market power comparable to the alpha-leaders of larger markets.

- Second, there is a near absence of beta-players, which is generally not the case in the education market (the use of economic

dominance theory is justified for the analysis of the higher education market) [13].

- Third, the ability of gamma players in the online-education market to develop depends to a large extent on their relationships with alpha-players and access to their institutional resources. The market, however, is not as definite as its relative youth, as well as opportunities of entry of alpha-players from other markets and development of “beta” and “gamma” through integration with profile “alpha”, including — from the venture market.

It is also interesting to highlight the example of Mail.Ru, which is actually represented on the market by several gamma- and beta-satellites, each of which acts under its own brand and competes with “related” companies. It may be that this alpha-empire approach, through the creation of several competing units/projects, is optimal for fast-growing new markets.

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A.V. Govorova — analysis of alpha empires.

I.P. Suslova — analysis of the online education market.

S.V. Shchelokova — analysis of alpha, beta, gamma companies.

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