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UNACADEMY – A Falling Star or A Sun above Horizon?

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With starting of YouTube channel named 'unacademy' by Gaurav Munjal in 2010, of what it has achieved or became must be a dream to a student of engineering in Mumbai. With roping in Roman Saini and Hemesh Singh in 2013 and 2015 respectively. The channel registered itself as an Edtech company in 2015 called "*Sorting Hat Technologies*". And after that they never looked back. From uploading a tutorial video on Youtube back in 2010 to being the sponsor of the IPL in 2022, these people have seen it all and build it all. Unacademy is the flag bearer of Edtech companies, which came up as an effective and efficient alternative to the traditional classroom teaching. It paved the way for educators to disseminate knowledge at a large scale and provided students a platform to learn from home digitally. But it surely was not an easy path.

What helped them was- turn of events that happened like it was destined to happen. The India's demography situation helped them like- the average age of India is increasing year on year and the youth is getting educated and need a stable secure job. Now what is more secure job than government job in India? Right! On the other hand there was 4G revolution going on in India, which made the access to the internet a lot cheaper than before. These three factors combined, formed the very basis of market for the Edtech companies. The market included both educators and student. The educator needed the platform to use his skills to earn money. And students and aspirant needed the best of teacher and material at their disposal without attending or going to the classroom.

After 2015, the company started collaborating with all sorts of teachers who were available on YouTube with a significant amount of subscribers. They started acquiring them by paying them two months' salary and perks they were not used to, which were enough to lure them into their agreements. Educators also saw the plus side of getting more users by using Unacademy's platform. But they already provided their pre-recorded lectures and materials to the company after which they hardly needed the teachers. On the other hand they used aggressive strategies in marketing to acquire more customers. Now to provide the perks to employees and incur the "*Customer Acquisition Cost*" the company needed more capital for which they got some investors. As of now the list of investors includes names like- US private equity firm "General Atlantic", social networking giant "Facebook", "Nexus Ventures", "Blume Ventures", Flipkart CEO "Kalyan Krishnamurthy", SoftBank, Tiger Global Management, Dragoneer Investment Group, etc.

The company was on full swing and was acquiring a major share of the market both the customers and the competitors. The company went on to acquire companies like Kreatryx, founded in 2014 by Ankit Goyal, acquired WiFiStudy founded in 2013 by Dinesh Godara, Delhi NCR-based NeoStencil, PrepLadder, Coursavy, and CodeChef. These acquisitions led the company to gain more share in other fields also. The company is behaving according to the "smiths and jones effect" a concept of development economics where in there is some part of the society wants to earn not less than "jones" and there is other part of society which wants to earn as much as "smiths". Here the "smith" is BYJU's and Unacademy is following the same path to be with it.

2019- 2020 the pandemic period was a boon to all the Edtech companies. All these companies saw a major gain in their business activity. Everyone was working from home. The teachers were teaching from home and students were learning at home. Everything was going good until it became very clear that the outcome of the online classes were not up to the mark and there was disinterest in the minds of people regarding the classes. On the other hand due to the magnification of the activities the various operating cost started to rise in the run of capturing the larger share. For example the "Customer acquisition cost" which was 20-25% in 2017 increased to 70-80% presently which means the profit share is getting squeezed with passing time.

Now, this is the major cause for Unacademy to get all the hatred that it is facing. The market value of company as of August 2021 stands at $3.4 Billion. Sorting Hat owns and operates Unacademy, a digital education platform comprising a mobile app, a web portal and a YouTube channel. The company claims to have more than 3, 50, 000 paying subscribers, and 40 Million users. Besides this the company's revenue shows increasing numbers on year on year basis. For FY21, the start-up recorded a 6 times increase in revenue from INR 65 Cr in FY2020 to INR 398 Cr in FY2021. But it also reported a 4.5 times increase in its expenses to INR 452 Cr in FY2020 to INR 2030. Net loss increased from INR 258 CR in FY2020 to INR 1537 CR in FY2021. The following graph shows it more clearly:-

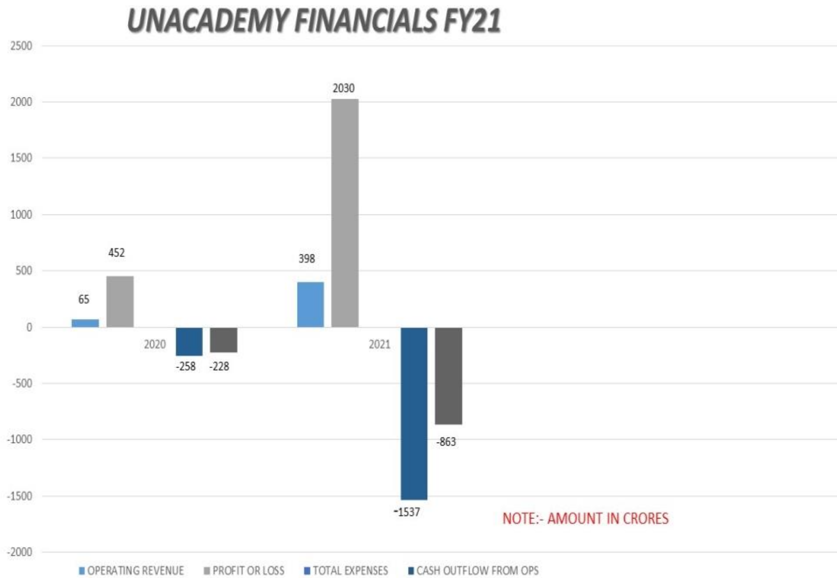

Figure 6.1: Financials of Unacademy, 2021

In terms of expenses, Unacademy spent the most (37%) on employee benefits costs at or INR 748 Cr. Besides this, the company paid INR 541 CR for educator payment. This gives fair idea to the management to curtail its cost and so does the cost cutting decisions are justified.

The situation can be fairly understood by looking at the following diagram:-

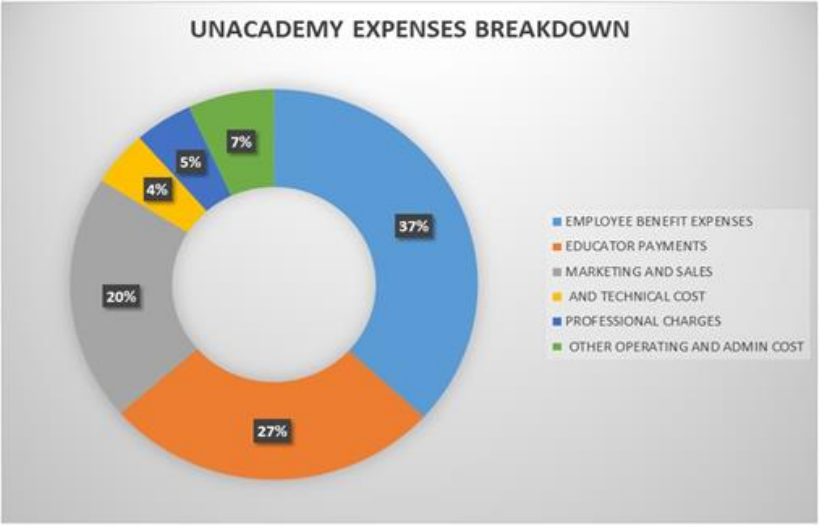

Figure 6.2: Unacademy Expenses Breakdown

Apart from this you can get a fair estimate of marketing expense it incurs as of 2020 it paid 222 crore rupees for IPL sponsorship. Such huge costs led the company to post losses for past few years. Now the company's head Mr. Gaurav Munjal has decided to cut down costs by doing moral policing and lowering perks *(like no Business class travel , no dedicated drivers for upper class executive and no complimentary food)* and employment opportunities by laying off people. He will be shutting down the Global Test Prep.

He also announced through twitter to not to bid for Sponsorship of IPL. The company is taking all the heat from educators and employees for taking such measures in order to break the streak of losses.

Besides all that is happening which indicates that the company is going through a crises, the leadership is strong and the investors are also positive. Which can be seen by the announcement made by the head – the company would go for Initial Public Offering in coming 2 years to turn the cash flow positive. The whole Edtech sector is taking the hit its not Unacademy alone, the major factor responsible for it, is the - opening up of lockdown and people again going to the traditional classroom teaching. The people are fed up of online learning because at times they are more distracted due to constant use of phone which results in lack of interest in learning. There is always a phase of maturity in every business cycle the companies which rose to power are ebbing now. Let the dust settle and see what it looks like. The future of the company seems bright as it have a good amount of market share and user base too, the company needs to restructure the finances and work policy more extensively to create a stable and nurturing environment for all parties to the business. The company has core emotion in the market through which it can create a lot of profit. By respecting the educator's emotions it can be further enhanced.

QUESTIONS:

1. Will cost cutting assist in generating better revenue? Discuss.
2. How will Unacademy maintain the satisfaction of its employees?
3. How can Unacademy sustain for longer span?

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