The Next Hot Ticket in Ed Tech? Micro-Credentials

Companies that carve out sustainable business models as part of those ecosystems are likely to be the next ed tech darlings of the VC world.

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Venture-capitalist investment levels in education technology companies reached an all-time high in 2015 before cooling off in 2016. However, entrepreneurs and VCs looking for the next big thing in learning should take a good hard look at micro-credentialing, which could be the future of American higher education.

Micro-credentials, or “nano-degrees,” are already in place in some sectors. For example, a student seeking work in graphic design could take an intense 12-week course to learn Photoshop and Quark Xpress. Likewise, someone seeking a mid-career switch to marketing could take specific classes (online or in the classroom) to develop expertise in Hubspot or Salesforce.

Already, we see plenty of these kinds of courses on sites like Skillshareor Udacity, and via technology certifications. But the shift I see coming is much bigger. And it has the potential to disrupt the nation's entire higher education market.

Imagine a scenario where an individual with perhaps 20 or 30 micro-credentials becomes much more marketable than someone with the traditional four-year liberal arts degree. That should provide an inkling of what this is all about.

Higher education is ripe for a shakeup.

There is broad agreement in America that our historic approach of educating students by sending them to a four-year university or a two-year community college is no longer a guarantee of success. For starters, the costs are too high. The average price for tuition at a four-year public university has increased nearly fourfold since 1975; today, that average cost stands at $37,640, according to The College Board, Annual Survey of Colleges.

The price of tuition and board at private colleges has also risen dramatically (up 271 percent, to a total cost of $175,684) leading many to question the return on investment for the average degree.
The same is true for many professional degrees, where the return-on-investment question is particularly acute for all but the top graduate programs.

For example, the *New York Times* recently revealed that at Valparaiso University Law School, fewer than 70 percent of the most recent graduating class were employed. Furthermore, many of those who were employed were in jobs not requiring a law license; and only three out of 131 graduates worked in the kinds of large law firms that typically pay generous salaries.

At the same time, earnings for most middle-class Americans have stagnated. All in all, the current disconnect that exists between rapidly rising college fees and falling incomes is unsustainable. Moreover, companies complain that new graduates leave college without the skills they need.

Politicians widely acknowledge that change is needed. Democrat Hillary Clinton wants to make tuition at public colleges and universities free for most Americans. And Republican Donald Trump is expected to announce that he wants college loan availability tied to whether a student is pursuing a degree that increases his or her job prospects.

Parents, students, employers and politicians all agree that the expensive qualifications offered by institutions of higher education today are not working for many Americans. The result has been intense pressure on U.S. colleges to overhaul their programs.

And, here, the answer that many believe will bridge the chasm between schools and employers is a shift to competency-based programs.

In that context, I anticipate that the next step, and ultimately the likely response to the current disconnect, will be a move to micro-credentialing -- courses teaching specific job skills -- and providing interesting opportunities for education tech and venture investors alike.

Early experiments in coding 'bootcamps'

One area where this approach has already taken off successfully is the advent and proliferation of “coding schools” around the country. This year, 91 full-time boot camps will generate almost $200 million in revenue and teach nearly 18,000 students, up from just over 2,000 students in 2013, according to Course Report’s *Market Sizing Report*.

While not inexpensive, boot camps teach coding languages such as Full Stack JavaScript and Ruby on Rails, which are in high demand in the industry. Many such boot camps guarantee job placements, and some partner with large companies, supplying newly minted programmers for corporate intern programs.

The average boot camp lasts 12.9 weeks and costs $11,451. While graduates do not walk away with a degree, they can call themselves computer programmers; and programmers earn a median annual wage of $79,530 -- almost twice the $44,592 that the average American worker earns.

By focusing on specific skills that can be vetted quickly by prospective employers, boot camps address the fundamental disconnect between traditional degree programs and the companies that need to employ new graduates.

A small number of schools are embracing competency-based approaches and realigning course curricula, but these are still early test cases. Harvard, MIT and other EdX partners are offering more bite-sized classes with specific skills attached. Partners of Udacity are delivering nanodegree programs in fields such as Android Basics, Machine Learning Engineer and Senior Web Developer.

Some courses are developed with industry leaders such as Amazon, AT&T and Google, which is perhaps why Udacity offers refunds to students who don't land a job within six months of graduation. It’s an approach that has placed the VC-backed Udacity among the growing number of unicorns (private companies valued at $1 billion or more.)

What’s needed next

To be effective, third parties such as industry associations must formulate the criteria and skills that comprise each credential. Once they are validated, providers can develop appropriate curricula and employers can determine the mix of credentials that each job requires. Finally, industry and educators will speak the same language. Eventually, the traditional degree may become so disaggregated that students will build resumes from coursework and micro-credentials from a variety of providers (university classes, boot camps, MOOCs (massive online open courses), Lynda.com. Pluralsight.com, etc.)

Micro-credential programs will benefit greatly by creating a widely recognized digital badge, backed by third-party validation, making it easier for recruiters to find candidates on sites such as LinkedIn. Already, VC investors have made big bets on the disaggregation of learning content, particularly at the higher education level. The next step is the proliferation of micro-credentialing and the ecosystem that will develop around those qualifications.

And the companies that carve out sustainable business models as part of those ecosystems? They're likely to be the next ed tech darlings of the VC world.