

## EDUCATION

# How to make money teaching English for free



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VOX

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They want our oil, copper, culture and technology. But there's something else the Chinese badly want: our language. Why? Simple: They can earn more if they can speak English.

So entrepreneur Michael Kraft wants to give it to them – for free. How is he going to make money? Advertising. Education as media. Can it work? As far as speculations go – and be aware, it's a speculation – this one is fascinating.

Mr. Kraft is the chief executive of **Lingo Media**. He knows from selling. In 2000, having never produced a textbook in his life, he managed to convince the Chinese Education Ministry's publishing arm to give him a contract to supply English as a second language textbooks to two-thirds of students from Grades 3 to 6.

Lingo Media is still doing that, which provides the TSX Venture-listed company with a small stream of cash flow. But despite the huge numbers – Lingo and its Chinese printer produce 45 million textbooks a year – the money isn't huge because the books sell for about a buck and Lingo gets a small royalty off that for the content.

So Mr. Kraft has cast his eye on a bigger idea: **Speak2Me.cn**, an interactive website that teaches users spoken English. Chinese ESL, with its rote learning efficiency, is fine for

written language, but speech, particularly the vernacular or "street" English, is another issue. It's hard for them to learn (just as it's hard for us to learn Chinese), and the teachers are, Mr. Kraft says, often poor speakers in their own right. Having been to the country a couple of times, I can attest to that.

Hence **Speak2Me**, which is based on technology Mr. Kraft acquired from a company in Taiwan. The website uses an avatar – an animated character – that speaks directly to the user, who answers into a microphone. Speech recognition software assesses the quality of the speech. If it's not clear enough, or just wrong, the user has to try again.

Does it work? I spent a few hours in Lingo Media's offices in Toronto recently, during which time I got to see the site in action, with a native Chinese speaker (with admittedly good spoken English) at the helm. It seems to work pretty well. And the numbers back it up. Launched in beta-testing mode 2½ months ago, **Speak2Me.cn** has more than 150,000 registered users, putting it on pace to blow past the 600,000 forecast for fiscal 2008. To improve the "stickiness" of the site and attract new users, Mr. Kraft's team has built it on a social networking foundation, similar to Facebook, which drives new users to the site at no cost.

User growth and stickiness are crucial, because, as mentioned, the site is free to use. Lingo Media hopes to sell advertising to earn revenue. How does that work? For example, a lesson in ordering a coffee is "set" in a Starbucks, rather than a generic coffee joint. Starbucks pays for this privilege because it wants to tap into the hundreds of millions of Chinese it might turn into



Michael Kraft's teaching English to Chinese on **Speak2Me.cn**. TORY ZIMMERMAN FOR THE GLOBE AND MAIL



coffee drinkers. The user can be either the customer or the server.

The site was developed with input from a couple of international ad agencies and big brand advertisers, although no contracts have been signed as of yet.

Will there be demand for this? Most likely. The ESL market in China was worth \$2.3-billion (U.S.) in 2006, according to government statistics. There are a quarter of a billion people trying to learn English. And McKinsey & Co. reported a couple of years ago that less than 10 per cent of China's job candidates would be suitable for work in a foreign company, mainly because of poor spoken English. Other statistics show that the better your grasp of the language, the bigger your salary premium.

If you have doubts about demand, look at New Oriental Education, an operator of ESL schools in China that went public two years ago and now has a market capitalization of \$2.5-billion (U.S.) with revenue of less than a 10th of that. So yes, the demand is there.

But will they use the website? The Chinese Internet population is 225 million and growing fast. IAC/Interactive, the U.S. new media incubator, did some research that shows pretty convincingly that the Chinese love their Web, especially their cyberspace alter egos. A Chinese version of Facebook signed up six million users in 18 months. And, although it's early days yet, **Speak2Me**'s numbers look good, although the company has no data on churn or stickiness – how often the users vis-

it, how long they stay and how long before they stop coming. Advertisers will be as interested in that as in how many sign up.

It's a risk: I've met native Chinese in Canada who work in white-collar jobs but aren't very motivated to learn English because it's so hard, even though it would help their careers. Will they give up easily if they live in China? The churn rate will measure that. Making learning enjoyable, which is the plan and which is the secret to New Oriental's success, will keep churn down.

Another risk is competition. **Lingo Media** figures it has an 18-month head start on anyone trying to copy the model, should it prove successful. It also says its relationship with the government will help (Mr. Kraft plans to expand **Speak2Me** to a fee-based, custom-made program for big customers who want to train their staff). Still, the barriers to entry are not high. Building it to critical mass quickly and selling it off to a bigger player could mitigate that risk.

As for valuation, the market cap now is about \$20-million (Canadian). There's about half a million dollars of free cash flow from the textbooks, but **Speak2Me** will need about \$10-million more, eventually. Regardless, if Lingo Media can eventually earn the \$9 per user a year it envisages and hit 18 million users, which it projects for 2012, you can rest assured that the market cap will be a very big multiple of where it is today.

To repeat, this is a speculation, like prospecting for minerals. But it's interesting, the need is real and the management team is impressive. Apply your own reasoning to it and be aware that the stock is very illiquid, so don't rush out and buy it indiscriminately.