



ENTREPRENEUR JOURNEYS

Teaching English to MNC Workforces: GlobalEnglish CEO Deepak Desai

⇒ Wednesday, December 2, 2009

Deepak Desai is the president and chief executive officer of GlobalEnglish Corporation. Deepak has over 20 years of financial and operating experience, most notably with Time Warner. From 1995 to 1999, he served as general manager and CFO for Time Life Asia, managing the children's education, ESL, and direct marketing businesses. He holds a B.S. in commerce from the University of Bombay and an M.B.A. from the Wharton School at the University of Pennsylvania.

SM: Deepak, tell me about yourself. Who are you and where do you come from? Tell us about your journey.

DD: My journey has taken me where I need to be. I am doing what I was meant to do. I was born in India and grew up in Bombay. I came to the United States in the early 1980s and did my MBA. I was always fascinated by the media business, so I went to work for Time Warner. That was the old Time Warner, which was Time magazine. The company changed over time.

SM: What did you do there?

DD: I worked on the financial side. At that time we had a good business, but today it is a difficult business. At that time there was plenty of advertising for print. It was an old, traditional company. After the merger with Warner it became a different company. The Turner and AOL mergers completely changed it.

I spent eight years in New York in various financial positions. The opportunity came for me to go to Asia. The four years I spent in Singapore, I was in the education business. In the United States we had Time Life books as well as some radio business. In Asia it was primarily an education business. It was primarily children's education based on encyclopedias, science, and math books, as well as English books. There was a Time Life series of books about history and geography. They were not textbooks, but they were engaging and educational to children.

We also had English language materials, which consisted of books and CD ROMs. Disney has a similar business in Asia. In Asia, parents love to spend on their children. Math and English are the two skills that are really big. Our model was in some ways an encyclopedia sales model. They were door-to-door sales. That died down in the United States.

From that experience, I understood that English learning was an aspiration business. When people learned English, it would change their lives. It was not just the money that people paid, but the passion and fervor that they had. That was from 1995 through 1999. I left around the time the AOL merger happened.

SM: Why did you leave Time Warner?

DD: I left to go work for a dot-com. I knew that the Internet was going to change everything. Even at Time Warner we were trying to figure out how to take things to the next level. It is much harder for established companies to make that switch.

SM: When you were doing the education business in Asia, were you still doing finance?

DD: I had an operational role and was the general manager. It was fascinating because we had businesses all over Asia and the headquarters did not even know what we were doing. It was about a \$40 million business, and in many ways was like a startup. It was also one of the most profitable businesses Time Warner had.

SM: When you left Time Warner, you said you joined a dot-com. What did that entail?

DD: I became CFO for a company out of Hong Kong that was in the online advertising business. The idea of the company was to take many of the models that we have in the United States and create similar models in Asia. We had joint ventures with DoubleClick, CNet, MarketWatch, and others. We wanted to create local versions of those businesses for Asia Pacific.

The company was listed on NASDAQ, and we had quite a ride for a year and a half. The company was Asia Content. It was one of the companies that crashed. I learned a lot about business models. I learned what works and what does not work. The Internet was always going to be there, but some of our models were ahead of their time. I then met with the founder of GlobalEnglish about nine years ago.

SM: How did you meet the founder?

DD: It was online. They were looking for an executive. I saw the ad online and thought it was perfect for me.

SM: What stage of the business were they in?

DD: They were just starting out and expanding. They had just finished the product and were trying to sell into the different markets. During the dot-com days they were trying to sell into the consumer markets. Reality came in 2001, and they realized that the corporations were already investing in learning systems and that their focus needed to shift.

SM: It was English learning for international corporations?

DD: Yes, and it has been that way ever since.

SM: Tell me about the technology. How do you do it?

DD: It has always been a hosted service. In the old days there were different names; today it is SaaS. It is comprehensive, with 1,200 hours of content. It encompasses all levels, from intermediate to advanced. The website is in 14 languages. If you are in Chinese you will see the instructions in Chinese. It is designed for you to learn by yourself. It is not instructor-led.

Because it is a pure play, bent on the fact that online education would change the way people learn, companies have gone from a traditional model with teachers, and classrooms struggle with it. I can say that it is a compelling model. Language learning is very interesting. Language learning has been transformed by the online environment. There 2 billion people learning English.

SM: Every year?

DD: At any given time. It has been growing significantly. There has never, in the history of mankind, been a language like English. There are more people speaking it on a daily basis whose first language is not English. The only comparable language is Latin during the Roman Empire, when it was a trade language.

The reason the company is called GlobalEnglish is because it is not American, British or Australian English. English has become global. There are several reasons English has become so dominant. There is the network effect, where hundreds of ministries of education have adopted English as the standard second language for their curriculums. Second, English is an open source language. There are hundreds of thousands of words in its vocabulary, and less than 25% of them have Anglo-Saxon roots.

SM: In the past 20 years English has evolved significantly as a language.

DD: Exactly, and it has evolved in its own manner. There is an academy in France that decides what constitutes a French word. There is no academy that decides what an 'English' word is. It is very much an open source language. We focus on large, multinational corporations. These corporations have due to globalization and technology. The free movement of labor and capital has made corporations evolve.

When corporations used to go abroad, their first step was to establish a marketing office. The second stage was what we called "mini-me's". IBM US was the first company, so IBM France, IBM Japan, etc, were just mini-me's of IBM US. They are completely integrated but self-contained. The third stage was a completely globally integrated enterprise. It does not matter where you are, where customers are, where suppliers are, or where workers are. Companies are organizing themselves along product lines across the world. After 1995, you had email, VoIP, conference calls and technology which enabled global communication. That led to a pain point with the need for a common language.

SM: Of the 2 billion people who are learning English at any given time, what percentage of that is in your target audience of global corporations?

DD: That number is much smaller. There are about 5 to 10 million. That is our target. I have been with the company for seven years. My education, experience, Internet background, and the global aspect of my career makes this the right place for me to be. The key is focus and execution. You can have the greatest opportunity in the world, but if you don't focus you won't get anywhere.

SM: You can't spray and pray, you have to focus. I am very glad to hear you have a corporate market focus because there is somebody who is willing and able to pay. What region did you start getting initial traction with?

DD: We have a very interesting sales model. We are trying to create a global model where none existed before. When I was with TimeWarner, I was a regional executive sitting in Hong Kong. If I wanted to improve the skills of my people, I went to a local vendor. There was no global solution.

At GlobalEnglish we decided to sell globally. We started out with some U.S., German and Japanese companies. We refined it over time. We really focused on offering a globally scalable solution for corporations. IBM is one of our large customers. IBM has users in 59 countries with GlobalEnglish. Our solution is strategic for them. Classrooms do not offer solutions for what they are facing. They are looking for a scalable, standard, measurable solution that can touch thousands of employees worldwide. From a positioning point of view, we have decided that we want to play where we can win. We have created a global solution whereas many of our competitors try to sell locally.

SM: When you deal with an international corporation what is the sales cycle?

DD: The challenge is often like the one we faced with HP who we signed six years ago. We went to them and they told us that everyone in their company already spoke English. That is not true. People sitting in the United States do not feel the pain, because the pain is local. Because of that we often start the sales cycle locally in a non-U.S. site. The objective is to grow it from that site to a global one, which is difficult.

SM: How long is the cycle to move from a local pilot to a global deal?

DD: It can take a couple of years, but once you are established you then have a repeatable business.

SM: When you enter a global corporation on a local pilot program, how big are those deals?

DD: The pilot can be a two to three months for a couple of hundred employees. We are not trying to prove the solution works, because we know it works. We just have to prove that it works for them. We know that if we do it right, we can accomplish that.

SM: What does a 100-person solution cost?

DD: The list price is about \$500 per person, per year. That changes based on volume and length of the deal. Some customers do multiple-year deals. It is a yearly subscription, but typically companies want more time than a year because it is very hard to learn a language in a year.

SM: When you started selling this to corporations, which were your early adopters?

DD: HP, Proctor & Gamble, and Deutsche Telekom. In the United States the challenge was not e-learning. The problem was that companies there felt that all of their employees already spoke English. In Brazil, China, or other parts of the world the opposite was true. They had an obvious need for English education but were very skeptical about the effectiveness of online education.

Over time, we see that as people get more comfortable, the adoption rate changes. It is all about return on investment. We spend a lot of time measuring. When people come into the program they take an assessment. We then measure the amount of time they spend on the service, which pieces they re-take, and their improvement in English skills. What is even more important is their improvement in productivity.

SM: It seems that productivity would be very hard for you to measure.

DD: It is very hard to measure. We do surveys where we ask users about their satisfaction, but also about how many hours they have saved after using GlobalEnglish. We have found that 71% of our customers report 1 to 2 hours saved per week due to an improved ability to do their job and communicate. Our goal is not to make you so proficient in English that you are able to read Shakespeare. It is about being productive on the job. A lot of our curriculum has evolved over time to be work-based. It is not just business English. It is the notion that you can go to a learning situation and then come to work and quickly apply it. We had to do it in bite-sized pieces; learn, apply, practice.

One example of that is our writing center. Let's suppose you are going to write an email to somebody and you are not quite sure how the email should be phrased. You can get a relevant template of a typical email from the writing center, and if you like it you can press a button and that email draft will be pulled up in outlook. These are tools that can help you to do your job.

SM: What about spoken English? A lot of countries, including India, are good at written English but are poor at spoken English.

DD: That is why technology is the savior. The 2 billion people learning English have extremely inadequate methods for learning spoken English. That is because the teachers cannot speak and listen. Our service has a lot of speaking and listening interactions. You can record your voice and play it back.

SM: I use the Pimsleur system for French and Spanish. It is actually very good. French is a very difficult language, but the system works well.

DD: It is hard to learn and the reason for that is that every language has so many unique sounds. When you are child, those sounds are embedded within the brain. As an adult it gets hard-wired in there. That is why the L and R are so difficult for the Japanese and Chinese. They have a hard time distinguishing one sound from the other.

SM: As you have been building your business, what are the different geographic dynamics that you have been seeing? A lot of obvious applications are in India with the call centers business, where the accent in spoken English is a challenge. This seems like a perfect application to address that.

DD: We have some customers in India but not for that specific application.

SM: Why have you not gone after that application?

DD: There are solutions that are focused on accent reduction, but that is not our business. We are focused on helping people communicate better. It is not about teaching an American or a British accent. Our service has spoken English. What happens in India is that they have the basics already. They will do a shorter license period of, say, four to six months. We find in India that even though English levels are better than China, as companies are moving toward smaller towns the English levels are not that great. India is one of our largest markets, but it is not as big as China, Brazil, or Mexico.

SM: Why is the company headquartered in Silicon Valley?

DD: We believe is about marrying the greatest technology with the greatest educational philosophy. Silicon Valley is the place for innovation. The exciting part is that we have just reached the first stage of e-learning. The ultimate phase will be when there is a hologram sitting next to you teaching you English. The promise of customized learning is intense.

SM: What level of customization do you do on a per-user basis?

DD: When a user comes to the site, they take an assessment and a goals survey. We create a study plan based on those two interactions.

SM: What is in the test?

DD: It evaluates the basic reading, writing and listening skills. It then gives you a score.

SM: Does it include speaking?

DD: Our placement product does not include speaking. We have a separate test for speaking. The speaking assessment is graded by human teachers because speech recognition is not there for those types of cases. That technology is evolving and getting better every day. Most of the industry has been focused on U.S. accents. It is an order of magnitude more difficult to get a solution that works for more than 100 accents.

SM: How are you going to do that? Do you have a partnership?

DD: We work on that with SRI International. The challenge is that these voice engines have to be trained. It is frustrating to me because although my accent is not all that heavy, I still have problems when I am calling 1-800 numbers and try to get through the voice navigation system. Our biggest audience is non-native speakers speaking to non-native speakers.

SM: What is the ramp of the company?

DD: In the early days it was challenging because there was a long sales cycle and the money was just not there. The past four years have been very good. We have been cash flow positive for the past four years. We are between \$35 million and \$40 million. The growth rate has been higher than 10%.

SM: What is the company's financing strategy?

DD: It is a venture capital-funded company. Mayfield is one of the investor from the beginning. We have raised more than \$40 million. The most recent round was in 2005. We have not done anything since then.

SM: Would more financing make you grow faster, or are you growing at the rate you need to grow?

DD: You can get financing and grow but the question is how do you sustain that and do the right thing? I do not believe in growth for growth itself. It must be sustainable. There are subtle things. Customer acceptance and adoption is important.

We might go into different segments. We started a website a couple of years ago as an experiment called EnglishCafe.com. It is a community site for English learners, and that is in beta. That could take us into a consumer area. We would be deliberate about that.

SM: How many people are learning on GlobalEnglish today?

DD: About 130,000 people. We have a lot of TAM still available. Brick and mortars, traditional classroom providers, are still dominant. There are a few companies online as well. Englishtown is based out of Europe and is a subsidiary of English First, which is a huge brick and mortar business around \$700 million to \$800 million.

SM: What about Rosetta Stone?

DD: They are not focused on English the same way that we are, but they are a language company that focuses on the institutional and corporate market as well. They are trying to move from CD ROM to online and become more international. They are public and have more than \$200 million in revenues, but 95% of their business is in the United States. A large play is Pearson, which sells textbooks for the English language-learning market. They are working aggressively to get into different models.

SM: What do your sales channels look like?

DD: We have a complex global sales model with a worldwide direct sales force. We have people on the ground everywhere. The lead salesperson is wherever the headquarters of the company is.

SM: You must receive tremendous adoption by the Chinese companies.

DD: Some, but the majority of our business comes from multinationals. Third-world multinationals are a growing portion of our business. Asian companies do not necessarily view training the same way as Western companies. The real reason our sales work is because of the culture our company has.

SM: Tell me more about that.

DD: I believe that this is what I was meant to do. The passion that I have is shared by many people in the company. We have to give people more than just a business opportunity to believe in. The culture is one of teamwork and that is magnified by the global nature of the company. We created compensation systems for the sales force that is complex in many ways but simple in the fact that everyone earns more money if we meet strategic objectives as a team.

SM: How do you manage the incentive structure?

DD: We are very clear about what the goals and incentives are. If there is someone in Brazil participating in a global deal, they get compensated based on their participation. Knowing that everybody plays an important role helps everyone focus on getting the pie bigger so everyone gets a bigger piece. Nobody can be short sighted thinking "this is about my commission for this deal." It is about relationship selling over time. People who stay with the company for many years benefit even more.

SM: What is your attrition rate?

DD: It is very low. It is less than 2%. It is important for people to know that while the company is growing and has opportunities, that they will be treated fairly in that process. If somebody is working for IBM the customer is looking for them to be on the same page if they are in Japan, Korea, or anywhere else. Customers do not want to know about internal issues. That is even truer for a small company like ours. I spend a lot of time on the road talking to employees. We have made a lot of deals because of our ability to give great service to customers, and we can do that because we have fantastically loyal employees.

SM: I find it interesting that your market is not a cutthroat environment. The European companies are focused on Europe.

DD: They do compete with us in some parts in Asia, Brazil, and Mexico. They are truly global. Yes, the competition is there, but the challenge for us is not from online competitors. The competition is from the classroom. From a positioning point of view, because we are focused on the global scale we sometimes ignore local, smaller, deals.

I tell our team that we have to change the rules of the game, and tomorrow we have to change to stay ahead of the game. There will be other competitors. Rosetta Stone is not there yet but they have the capability.

SM: They could also be an acquirer. Do you get feelers for acquisition yet?

DD: All the time. Our goal is to figure out what the right time for that is. We have created something unique in a particular segment of the market. When the time is right we can go down that path.

SM: Mayfield must be getting itchy. They have been in this deal for a while.

DD: Yeah, but we have other investors also. Mayfield is not the most significant investor. Investment Group of Santa Barbara is the main investor now.

SM: Is that an angel group?

DD: They use their own money. The goal for them is much more of a long-term commitment. Reece Duca is the chairman and leads that group. He has been an investor all his life and focuses on education technology. He was the founder of The Learning Company.

SM: So you are not at the beck and call of the VCs?

DD: No. We have that luxury.

SM: You are placed well. English is the language of the business world. That is the reality, like it or not.

DD: I am blessed with the opportunity. It is an amazing opportunity. The world is going to change and we get to be a key part of that. English will connect people like never before. If we can help connect people, that is an amazing opportunity. We have hired great people in the past year, and people are just understanding what online learning is going to do. The second largest industry after health care is education.

I have a son who is a high school senior. I see how he gets frustrated because teachers are teaching to others in the class. To see what technology can do to customize the experience and make it right for you is incredible.

SM: There are some roadblocks. Teachers' unions do not like online education. There is the fear of teachers being replaced, and teachers feel threatened if their role appears to be decentralized.

DD: In India, we found that with all the hiring in the IT services and call centers, teachers had to do cultural and language training. It was getting too difficult for them. We met with the teachers and explained that we made their lives easier. It becomes a partnership. The drudgery can be done online.

SM: One good thing about your business model is that you focus on corporations. It is much easier to get a corporation to adopt an online learning module because they already do online training. Schools put up a much more challenging fight. Companies in that market have to find niches such as Advanced Placement students or disadvantaged students. Nobody in that market has hit the central jackpot.

DD: Universities are the same way. It is much easier on our side.

SM: Very good. Thank you for your time.