

A New Cycle in Education: Capital and Demand Become More Selective

The Shifts Defining Budgets, Tech and
Strategic Direction – and Their
Implications for Investors

2026 BACK TO SCHOOL REPORT



Introduction

While the past several years were defined by Covid's impact, emergency funding, and the rapid rise of AI, a different set of choices are now shaping the future of education – what schools will fund, which tools they will keep (or procure) and how those tools will prove value.

Now that the post-pandemic expansion phase has ended, the K-12 categories that can sustain demand are being revealed. Technology procurement is also moving from an access and experimentation mindset to one oriented on evidence, governance and portfolio structure. Across all groups, ROI is becoming a common language throughout the education cycle, whether buyers prioritize district outcomes, student career value or another measure.

Taken together, these shifts point to an evolving market where opportunity will be defined less by broad expansion and more by the ability to address needs, demonstrate measurable value and navigate an increasingly complex environment. The themes that follow examine where these conditions are coming to the fore and what they might mean for investors considering the next generation of education businesses.



The Post-ESSER Funding Reset

Who Holds the Keys to the Budget Now?

Characterizing the end of emergency funding as a universal spending cliff isn't a true picture of what's going on across education. Instead, we are seeing the separation of durable priorities from temporary spending and a clearer identification of what is discretionary versus non-discretionary. Buying and budget-decision making power is shifting in parallel.

One dynamic keeping budget power in flux is the ongoing winddown of the U.S. Department of Education. Funding is planned to be pushed to states via block grants, a shift in how the federal government disburses support to states, at a time where nearly three-quarters of U.S. governorships will be on midterm ballots come November. The prospect of a shift in control of Congress or, in future years, the White House, to the Democratic Party increases uncertainty around the Department of Education. It is unclear how a shift in control might impact the sunset process. These dynamics are one facet of the highly fragmented budget landscape. For solutions providers, fluency in state-level policy, budget dynamics and go-to-market strategy will be crucial.

In the midst of this turbulent backdrop, certain categories are proving their resilience as budget and spending priorities change. Perhaps unsurprisingly, non-discretionary and mission-critical needs like school safety, core instruction, special education and funded mandates are showing strength. We are seeing similar dynamics in mandated or productivity-oriented spending, along with career and technical education (CTE) as skill-based learning continues to rise in importance at the K-12 level. On the latter, demand remains high from both schools and students, which should help to fuel the category's resilience for some time. In contrast, discretionary spending in areas such as professional development for educators and spending on instructional materials, is showing less resilience.

WHY THIS MATTERS TO INVESTORS:

Looking to the future, we believe opportunities are likely to be concentrated in areas serving non-discretionary district needs, funded mandates and embedded operating workflows, as opposed to service providers with broad exposure to K-12 spending.

From Pilots to Procurement

AI is Growing Up

It's no longer a question whether schools will experiment with AI. The question has become which use cases will get budget dollars, integrate with workflows and produce tangible evidence that they're effective in an education setting? In a way, this represents a blend of a market question (what are districts willing to pay for?) with an instructional question (how does AI impact teaching and assessment?).

K-12 districts are maturing in their use of AI. For example, AI governance is catching up to experimentation. The era of "seeing what AI can do" is up as districts are moving toward more concrete use and spend cases. Infrastructure like districtwide AI policies, vetted and approved tool lists, and AI data protections are becoming more common (and, in ways, becoming a prerequisite for scale).

Today, the AI mantra for many districts is "clear ROI." Defensible models can prove their efficacy, as well as learning or operational impact. We are seeing districts investing in AI to address "known challenge" areas such as tutoring, intervention, assessment and teacher productivity – all areas that could benefit from elements of automation and stronger connectivity between disparate systems, and all areas where impact will be clear (if the model does indeed drive it).

WHY THIS MATTERS TO INVESTORS:

In case of K-12 education, the most compelling AI opportunities are those that yield clear, measurable outcomes, and potentially may be embedded in established workflows. Both characteristics are highly appealing to districts.

The EdTech Stack is Graduating from Point Solutions to Platforms

Districts want and need a more manageable technology ecosystem. However, it's not as much a desire for fewer vendors as it is a growing appetite for integration. Products that connect with established systems of record while safely sharing data, merging with existing workflows, lessening administrative burden and demonstrating clear utility have great appeal to school administrators. While a tall order, it also creates a clear consolidation story.

Product sprawl has very real operating and governance costs. Each additional vendor brings its own implementation, support and renewal costs. As districts weigh these demands, interoperability and proof of value are becoming key procurement gates. Products are more likely to earn a place in districts' tech stacks when they integrate with existing systems and demonstrate clear impact.

This shift is also changing M&A logic. Buyers are beginning to distinguish between truly integrated systems and collections of more loosely related point solutions. The most powerful product combinations may be those that simplify user experiences, connect data across functions and address operational needs without increasing complexity. One example is the maturation of student support platforms. The next generation of these products will be judged not only by what they detect, but how effective they are in helping schools turn fragmented signals into a coordinated response.

WHY THIS MATTERS TO INVESTORS:

Certain categories may have an advantage as districts rationalize their tech stacks, including systems of record, identity and rostering, analytics, procurement and evidence tools, and vertical platforms with true cross-product integration. It will be crucial to diligence whether user engagement, renewals, implementation cost and product overlap. Additionally, buyers should weigh whether a potential combination would create a coherent workflow for customers or simply add another product to an already crowded tech stack.

Post-Secondary is Entering a “Share Shift” Market

Demand for higher education is proving more resilient than the demographic cliff narrative would suggest, but students are allocating their demand differently than in the past. The central investment question isn't whether higher education will disappear – it's which institutions, models and credentials will gain share as today's students place a higher value on cost, time and career outcomes.

The impact of the proverbial enrollment cliff varies depending on institution, credential, student age and academic field. This creates a market where differentiated educational pathways may continue to attract students while less differentiated institutions or providers could come under increased pressure. Those that can demonstrate tangible value to students and connect the educational experience to students' academic, professional and financial goals will be best positioned to compete.

In turn, career outcomes are becoming more than a marketing message for institutions – increasingly, they are driving resource allocation, program design and delivery of student services. Put another way, institutions are aligning their programs and services more directly with student value than ever before.

This shift in approach is also creating opportunity for specialist providers that can fill in certain institutional credibility gaps. Third-party providers are stepping in to support areas where many institutions lack the scale, technology or expertise to build effective solutions internally. Examples include functions like recruitment, retention, analytics, digital delivery and more.

WHY THIS MATTERS TO INVESTORS:

The investible opportunity isn't simply enrollment volume: It's identifying the tools, platforms and partners that are poised to win share as the education market shifts along with student demand. Relevant categories could include enrollment and retention-focused tech, career services, experiential learning, credentialing, and workforce training programs. Investors should also weigh how expected consolidation among higher education institutions could impact growth prospects and customer concentration.

European Perspective

Many of the technology and education dynamics present in the U.S. are also unfolding in Europe, albeit under a different set of market conditions. Europe's distinct regulatory framework shapes diligence, product design and cross-border combinations.

European schools and institutions are adopting AI and digital learning under a more formal regulatory environment that places greater emphasis on data privacy, transparency and responsible governance. These requirements can increase complexity in product development or market entry. At the same time, they can also help distinguish providers who have invested in regulatory readiness via strong compliance architecture, data governance capabilities and other factors.

At the same time, Europe is a fragmented market for EdTech. Many businesses tend to be concentrated in a single country or small handful of nations. This fragmentation could fuel consolidation. Providers pursuing increased scale, cross-expansion or strategic combinations could become increasingly important.



WHY THIS MATTERS TO INVESTORS:

Regulation can increase costs and deal execution risks, but it can also create a competitive moat by generating barriers to entry. Providers with strong compliance and data governance capabilities will be well-positioned. Looking ahead, it will be crucial to consider not only a company's growth potential, but also its ability to navigate multiple regulatory environments and integrate businesses across borders.

Connect with Our Team

Since 2004, Baird's Knowledge Solutions team of dedicated investment banking and institutional equity research professionals have been actively covering the sector.

Today, our coverage spans the education lifecycle – from early childhood education to professional training and compliance – and reflects experience across a wide range of business models including traditional and online schools, digital content / assessments, professional skills development / CE and workflow software-based enterprise solutions.

We welcome the opportunity to discuss these themes and how Baird's Knowledge Solutions team can assist your business growth and strategic objectives.

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